

2003 Joint Committee on Audit

CAFR

03hr_JC-Au_Misc_pt23a through 231



Fiscal Year 2002 Summary Financial Information

This report summarizes certain information presented in the State of Wisconsin's Fiscal Year 2002 *Comprehensive Annual Financial Report (CAFR)*. The financial statements presented in the CAFR are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) prescribes GAAP for state and local governments nation-wide.

The investment community represents the primary users of the CAFR. GAAP-based financial statements are also required to be submitted to the federal government as a condition of receiving federal financial assistance.

Implementation of New Standards

The Fiscal Year 2002 CAFR reflects comprehensive changes in state and local government financial reporting, based upon the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 became effective for the State's fiscal year ended June 30, 2002.

The new financial reporting rules require information in addition to the historical "fund" accounting approach. For example, the new standard requires that the CAFR provide financial information from a total government perspective using the accrual method of accounting in a manner similar to financial statements prepared by the private sector. In addition, the CAFR now provides information about the State's public infrastructure assets – such as roads and bridges. It also presents an introductory narrative section – the Management Discussion and Analysis (MD&A), that summarizes and analyzes the State's financial performance. This new approach assists those interested in the "big picture."

Contents of this Summary Report

Government-wide Financial Information

Pages 2 through 7 summarize information presented in Wisconsin's Fiscal Year 2002 CAFR's government-wide financial statements. These statements present a broad view of the overall State operations and provide both current and noncurrent information about the State's financial status. Information regarding the government-wide financial statements include:

- Management discussion and analysis (MD&A) requirements – *Page 2*
- Statement of net assets – *Page 3*
- Statement of activities – *Pages 4 and 5*
- Capital assets/infrastructure – *Page 6*
- Long-term liabilities – *Page 7*

GAAP General Fund Financial Information*

The information on pages 8 through 10 summarizes activity of Wisconsin's GAAP General Fund – the State's chief operating fund. Highlights of the GAAP General Fund's activity include:

- Balance sheet – *Page 8*
- Operating statement – *Page 9*
- Budgetary to GAAP fund balance reconciliation – *Page 10*

* The GAAP General Fund is one of three major governmental funds. Financial statements for governmental, proprietary and fiduciary funds are located in the 2002 CAFR starting on Pages 34, 38, and 46, respectively. Financial statements for individual nonmajor funds start on Page 136, following the notes to the financial statements.

The State's CAFR may be viewed at <http://www.doa.state.wi.us/debf>

Management's Discussion and Analysis (MD&A)

The MD&A provides a brief, objective and easily readable analysis of the government's financial activities based on currently known facts. The GASB prescribes that eight elements must be included in the MD&A, if applicable to the government. However, because the MD&A is required supplementary information, discussions contained therein must be limited to these required elements. The MD&A requirements, along with examples of the contents, are provided below:

Management Discussion and Analysis (MD&A) Requirements and Examples

| Requirement | Example |
|--|--|
| 1. Purpose of the basic financial statements and how they interrelate. | <ul style="list-style-type: none"> Pages 18 and 19 of the 2002 CAFR describe the contents of the basic financial statements, differentiating between the <i>government-wide</i> and the <i>fund</i> statements. |
| 2. Condensed government-wide financial information (both governmental and business-type activities) | <ul style="list-style-type: none"> Pages 20 and 21 present condensed government-wide financial information from the <i>statement of net assets</i> and the <i>statement of activities</i>. |
| 3. Analysis of government's overall financial position and results of operations. This assists users in assessing whether/why the government's financial position has improved or deteriorated as a result of the year's operations. | <ul style="list-style-type: none"> Pages 20 and 21 highlight elements of the government-wide <i>net assets</i> and <i>changes in net assets</i>. For example, the State's total net assets were \$13.8 billion as of June 30, 2002, while the "unrestricted" net assets were \$(3.1) billion as of that date. <p>As noted on Page 17 of the MD&A, Fiscal Year 2002 represents the first year in which the State was required to implement the provisions of GASB Statement No. 34. Therefore, the discussion and analysis found in the 2002 CAFR provides few comparisons with the previous year. Future reports are required to include extensive comparisons.</p> |
| 4. Analysis of balances and transactions of the government's individual funds. This includes discussions of significant changes in fund balances and the factors contributing to the changes. | <ul style="list-style-type: none"> Page 23 discusses factors contributing to changes in the State's General Fund. For example, major reasons for the decrease in the General Fund's June 30, 2002 total fund balance include: <ul style="list-style-type: none"> a reduction in individual income tax revenues from previous years, an increase in expenditures that relate to the general equalization assistance to schools districts, and an increase in expenditures of the Medical Assistance program. Page 24 notes other individual funds that reflected significant changes in 2002, including the Tobacco Settlement Endowment Fund, the Unemployment Insurance Reserve Fund and the Health Insurance Fund. |
| 5. Analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the government's General Fund. | <ul style="list-style-type: none"> Pages 23 and 24 present General Fund budgetary variations, including a discussion of the decrease in the budgetary-based General Fund, primarily due to a planned spend down of the General Fund surplus and a shortfall in tax revenue of \$189.5 million. |
| 6. Description of government's capital assets and long-term debt activity. | <ul style="list-style-type: none"> Page 25 presents a narrative and schedule of the State's capital assets as of June 30, 2002, and commitments for capital expenditures. For example, Wisconsin's capital assets, net of depreciation, totaled \$15.7 billion as of June 30, 2002. Pages 25 and 26 discuss the State's debt administration, highlighting the following: <ul style="list-style-type: none"> The State's outstanding general obligation and revenue bonds and notes totaled \$5.8 billion as of June 30, 2002. The State's fixed bonds credit rating as of June 30, 2002 was Aa3 from Moody's Investors Services, AA- from Standard and Poor's Corporation, and AA from Fitch Investors Service, L.P. |
| 7. Government's infrastructure assets (roads, bridges, and buildings considered an ancillary part of roads), if the government uses the modified approach for reporting infrastructure. | <ul style="list-style-type: none"> Page 26 discusses the State's infrastructure as of June 30, 2002, including the following: <ul style="list-style-type: none"> The State owned 11,200 miles of roads and 4,900 bridges valued at \$9.2 billion as of June 30, 2002. Given the State's policy to ensure at least 85 percent of the State-owned roads and bridges are in good or fair condition, 95.4 percent of the roads and 92.4 percent of bridges were in good or fair condition in 2002, consistent with the State's policy. |
| 8. Currently known facts, decisions or conditions that are expected to have a material effect on financial position or results of operations. | <ul style="list-style-type: none"> Page 27 discusses actual economic factors impacting the State's economy during Fiscal Year 2002, such as employment, personal income, property value changes and inflation. For example, the total value of real property increased 7.5% in 2002. |

Government-wide – Statement of Net Assets

This statement is located on Page 31 of the 2002 CAFR.

The Statement of Net Assets reports all assets owned by or available to the State and the liabilities owed at the end of the fiscal year. It is similar to the "balance sheet" used in the private sector.

The Statement of Net Assets is prepared using an *economic resources* measurement focus, *accrual* basis of accounting.

Governmental activities are reported separate from business-type activities. The latter consists of all State enterprise funds, including the University of Wisconsin System.

Component Units include four legally separate activities:
 -- Wisconsin Housing and Economic Development Authority
 -- University of Wisconsin Hospitals and Clinics Authority
 -- Badger Tobacco Asset Securitization Corporation
 -- Wisconsin Health Care Liability Insurance Plan.

State of Wisconsin Statement of Net Assets June 30, 2002

(in thousands)

| | Primary Government | | | Component Units |
|---|-------------------------|--------------------------|----------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Totals | |
| 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 | 2,308,596 | 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) |

Depreciable capital assets include land improvements, buildings, and machinery and equipment.

Nondepreciable capital assets include land, construction in progress and infrastructure (roads and bridges).

The "modified approach" is used for reporting infrastructure.

See Page 7 of this summary report for detail of the long-term liabilities.

Invested in capital assets, net of related debt, consists of capital assets reduced by accumulated depreciation and the outstanding principal of related debt.

Restricted net assets are reported when constraints placed on net assets are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions.

Unrestricted net assets consist of total net assets less the amount invested in capital assets (net of related debt) and less restricted net assets.

Unrestricted net assets may be used at the State's discretion but often have limitations on use based on State statutes.

Factors contributing to negative unrestricted net assets include long-term liabilities that are incurred to finance such items as current expenditures (such as repairs) and grants to local governments.

Government-wide Statement of Activities

- The Statement of Activities identifies the net cost of various functions of Wisconsin government.
- Expenses are presented first, with program revenues subsequently deducted to arrive at net (expenses)/revenues. Program revenues are produced by or provided externally for use in a particular function and, thereby, reduce the net expense to the public of that function.
- General revenues (such as taxes) and changes in net assets are ultimately presented at the bottom of the statement.

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

| Functions/Programs | Expenses | Program Revenues | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | 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 |

Governmental activities are reported separately from business-type activities. This is to avoid inappropriate comparisons between the net costs of business-type activities (which are intended to recover a significant portion of their cost from customers) and governmental activities (which are not intended to recover their costs directly from customers).

Any special and extraordinary items are shown separately. Extraordinary items are revenues or expenses that are both unusual in nature and infrequent in occurrence. Special items are either unusual in nature or infrequent in occurrence and are also under the control of management.

| | |
|---|-------|
| 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, Contributions, Special Items and Transfers | |
| Change in Net Assets | |
| Net Assets - Beginning | |
| Net Assets - Ending | |

This statement is located on Pages 32 and 33 of the 2002 CAFR.

The Statement of Activities is prepared using an *economic resources* measurement focus, *accrual* basis of accounting.

(In Thousands)

Net (Expense) Revenue and Changes in Net Assets

| Primary Government | | | Component Units |
|-------------------------|--------------------------|----------------------|---------------------|
| Governmental Activities | Business-Type Activities | Total | |
| \$ (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) |

The amounts of "net assets - ending" agree with the amounts reported as "total net assets" on the Statement of Net Assets on Page 3 of this summary report.

Capital Assets/Infrastructure

Capital Assets

Capital assets of the primary government of the State include land, buildings, machinery and equipment, and infrastructure (e.g., roads and bridges). Capital assets at June 30, 2002 totaled \$15.7 billion as follows:

| State of Wisconsin Capital Assets, Net of Depreciation, as of June 30, 2002 (in millions) | | | |
|---|----------------------------|-----------------------------|-----------------------------|
| | Governmental Activities | Business-type Activities | Total Primary Government |
| 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 |

Infrastructure

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.

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.

Note: Capital assets related to governmental funds are *not* reported in the fund statements (Page 34 of 2002 CAFR), since those statements reflect the *current financial resources* measurement focus, *modified accrual* basis of accounting. However such assets are included in the **governmental activities** column in the government-wide statements.

Capital assets of **business-type activities** (enterprise funds) are reported in both the fund statements (Page 38) and the government-wide statements (Page 31), since both sets of statements reflect the *economic resources* measurement focus, *accrual* basis of accounting.

Long-term Liabilities of the State of Wisconsin

Total Long-term Liabilities. Long-term obligations of the primary government of the State totaled \$7.9 billion as of June 30, 2002. These obligations, which are reported as long-term liabilities on the **government-wide** statement of net assets, consisted of the following:

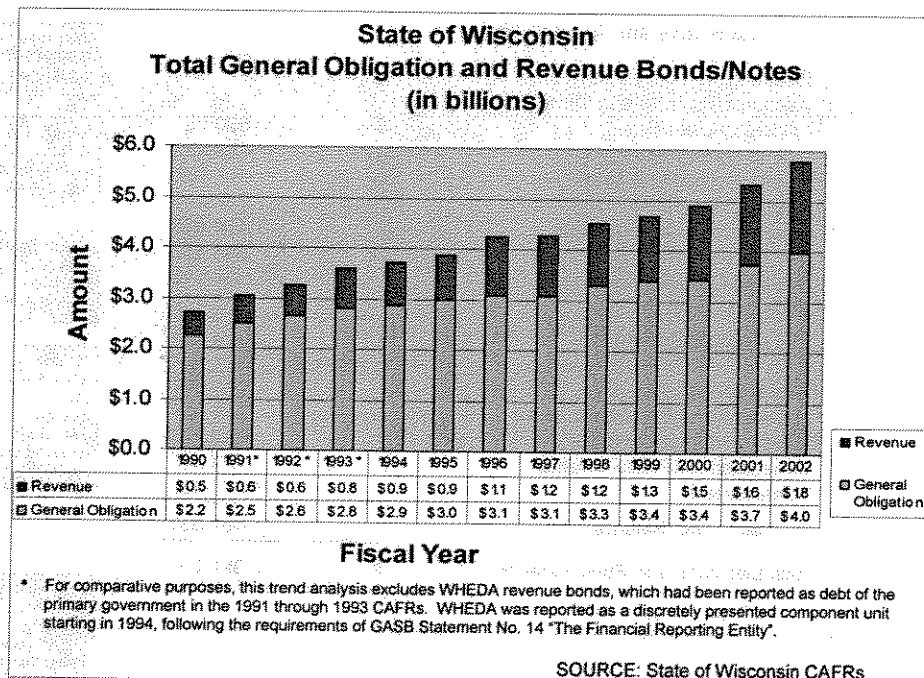
| State Of Wisconsin — Long-term Liabilities as of June 30, 2002 (in millions) | | | |
|---|----------------------------|-----------------------------|-----------------------------|
| | Governmental Activities | Business-type Activities | Total Primary Government |
| General Obligation Bonds | \$ 2,962.6 | \$ 996.2 | \$ 3,958.8 |
| Revenue Bonds | 1,165.1 | 659.5 | 1,824.6 |
| Future Benefits and Loss Liability | 111.8 | 1,077.5 | 1,189.3 |
| Capital Leases/Installment Contracts | 21.9 | 37.8 | 59.7 |
| Compensated Absences | 91.0 | 77.4 | 168.4 |
| Employer Pension Related Debt Costs | 707.0 | - | 707.0 |
| Claims and Judgments | 2.0 | - | 2.0 |
| Totals | \$ 5,061.4 | \$ 2,848.4 | \$ 7,909.8 |

The total amounts of long-term liabilities are reported on Page 31 of the 2002 CAFR, broken down into the current and noncurrent portions. A detail by type of liability (similar to that provided above) is reported in the notes to the financial statements on Page 83 of the 2002 CAFR.

The "Employer Pension-Related Debt Costs" liability represents the amount of the State's unfunded liability for prior service costs.

This "Future Benefits and Loss Liability" relates to various insurance programs administered by the Office of the Commissioner of Insurance and the Department of Employee Trust Funds.

Total Long-term Bonds and Notes Payable. General obligation bonds/notes payable and revenue bonds payable of the primary government totaled \$4.0 and \$1.8 billion as of June 30, 2002, respectively. The trend of bonds and notes payable outstanding at year end is presented below:



Note: Long-term liabilities related to governmental funds are *not* reported in the fund statements (Page 34 of 2002 CAFR), since those statements reflect the *current financial resources* measurement focus, *modified accrual* basis of accounting. However such liabilities are included in the **governmental activities** column in the government-wide statements.

Long-term liabilities of **business-type activities** (enterprise funds) are reported in both the fund statements (Page 38) and the government-wide statements (Page 31), since both sets of statements reflect the *economic resources* measurement focus, *accrual* basis of accounting.

GAAP General Fund Financial Statements

Balance Sheet

The fund structure of the GAAP General Fund differs from that of the budgetary General Fund. For example, the GAAP General Fund excludes activity of the University of Wisconsin System.

| State of Wisconsin General Fund Balance Sheet June 30, 2002 | | (In Thousands) |
|--|-----------|--------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ | 9,342 |
| Investments | | 883 |
| Receivables (net of estimated uncollectible accounts): | | |
| Taxes | | 1,115,043 |
| Loans to Local Governments | | 16,947 |
| Other Receivables | | 172,495 |
| Due from Other Funds | | 760,935 |
| Due from Component Units | | 7 |
| Due from Other Governments | | 557,678 |
| Inventories | | 12,474 |
| Prepaid Items | | 345,401 |
| Restricted Assets: | | |
| Investments | | 3 |
| Total Assets | \$ | 2,991,209 |
| Liabilities and Fund Balance | | |
| Liabilities: | | |
| Accounts Payable and Other | \$ | 570,727 |
| Accrued Liabilities | | 132,483 |
| Due to Other Funds | | 798 |
| Due to Component Units | | 757,440 |
| Interfund Payables | | 1,489,696 |
| Due to Other Governments | | 888,537 |
| Tax Refunds Payable | | 30,413 |
| Tax and Other Deposits | | 605,449 |
| Deferred Revenue | | 4,475,542 |
| Total Liabilities | | 4,475,542 |
| Fund Balance: | | |
| Reserved for Encumbrances | | 186,554 |
| Reserved for Inventories | | 12,474 |
| Reserved for Prepaid Items | | 193,967 |
| Unreserved | | (1,877,328) |
| Total Fund Balance | | (1,484,333) |
| Total Liabilities and Fund Balance | \$ | 2,991,209 |

This statement is located on Page 34 of the 2002 CAFR.

"Cash and Cash Equivalents" represent cash items such as contingent funds, petty cash funds and cash held in off-system bank accounts. The liability account "Interfund Payables", shown below, reports the cash overdraft as of fiscal year end.

"Prepaid Items" reflect payments for costs applicable to future accounting periods. For example, this account includes \$239.1 million advanced through the community aids reporting system.

"Interfund Payables" represent moneys borrowed from other funds to cover cash overdrafts.

"Due to Other Governments" includes an \$846.9 million accrual for shared revenue and state property tax credit programs.

A significant portion of "Tax Refunds Payable" relates to tax refunds on *current* year (January-June 2002) individual income.

"Deferred Revenues" relate to revenues received prior to the period to which they apply. For example, this account includes \$151.5 million of utility taxes received before fiscal year-end but applicable to a subsequent year.

Page 10 of this summary report presents a reconciliation between the budgetary based and the GAAP based General Fund total "Fund balance" as of June 30, 2002.

Note: Governmental funds (including the GAAP General Fund) report financial activity using the *current financial resources* measurement focus, *modified accrual* basis of accounting. Therefore, noncurrent assets such as buildings and equipment and noncurrent liabilities such as bonds payable are not reported on the balance sheet.

GAAP General Fund Financial Statements

Operating Statement

| State of Wisconsin General Fund | | This statement is located on Page 36 of the 2002 CAFR |
|---|-----------------------|--|
| Statement of Revenues, Expenditures, and Changes in Fund Balance | | |
| For the Fiscal Year Ended June 30, 2002 | | |
| | (In Thousands) | |
| Revenues: | | |
| Taxes | \$ 9,970,736 | "Intergovernmental" revenues consist primarily of federal financial assistance |
| Intergovernmental | 4,730,673 | |
| Licenses and Permits | 219,286 | |
| Charges for Goods and Services | 191,771 | |
| Investment and Interest Income | 7,166 | |
| Fines and Forfeitures | 28,246 | |
| Gifts and Donations | 27,308 | |
| Other Revenues: | | |
| Intergovernmental Transfer | 969,886 | "Intergovernmental Transfer" represents the "IGT" program revenues. |
| Tobacco Settlement | 156,215 | |
| Other | 147,418 | |
| Total Revenues | 16,448,706 | |
| Expenditures: | | |
| Current Operating: | | |
| Commerce | 168,947 | The "Education" function includes aid to school districts. |
| Education | 5,372,975 | |
| Transportation | 5,032 | |
| Environmental Resources | 120,027 | The "Human Relations and Resources" function includes programs of the departments of Health and Family Services, Workforce Development and Corrections. |
| Human Relations and Resources | 7,732,733 | |
| General Executive | 386,783 | |
| Judicial | 102,736 | |
| Legislative | 61,989 | |
| Tax Relief and Other General Expenditures | 804,558 | "Intergovernmental" expenditures relate to the municipal and county shared revenue program. |
| Intergovernmental | 1,095,991 | |
| Capital Outlay | 29,974 | |
| Total Expenditures | 15,881,746 | |
| Excess of Revenues Over (Under) Expenditures | 566,960 | Of these "Transfers In", \$992.4 million represents a transfer in from the Tobacco Settlement Endowment Fund. |
| Other Financing Sources (Uses): | | |
| Transfers In | 1,122,764 | Of these "Transfers Out", \$981.7 million represents GPR transfers out to the University of Wisconsin System and \$606.4 million transfers out to the Medical Assistance Trust Fund. |
| Transfers Out | (1,893,081) | |
| Transfers to Component Units | (176) | |
| Installment Purchase Acquisitions | 41 | |
| Capital Leases Acquisitions | 4,669 | |
| Total Other Financing Sources (Uses) | (765,782) | |
| Net Change in Fund Balance | (198,822) | |
| Fund Balance, Beginning of Year | (1,285,537) | |
| Increase (Decrease) in Reserve for Inventories | 26 | |
| Fund Balance, End of Year | \$ (1,484,333) | |

The revenues and expenditures reported in this GAAP based statement are not comparable to those reported in the budgetary basis General Fund operating statement. The GAAP basis statement excludes certain activities reported in separate GAAP funds. Further, it reflects various additional accruals to revenue and expenditure accounts.

This reconciliation is located on Page 129 of the 2002 CAFR. Starting in 2002, this reconciliation is considered "Required Supplementary Information". In previous CAFRs it was reported in Note 2 to the financial statements.

Budgetary-GAAP Reporting Reconciliation – General Fund

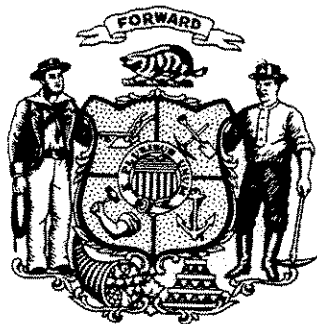
Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2002 is presented below (in thousands):

| | General Fund | Tobacco Settlement Endowment Fund |
|---|---------------|-----------------------------------|
| Fund balance June 30, 2002 (budgetary basis – budgetary fund structure) | | |
| As reported on the budgetary comparison schedule | \$ 74,638 | \$ 595,155 |
| Reclassifications: | | |
| To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference) | 506,279 | -- |
| To reclassify activities reported in another GAAP fund type (perspective differences): | (241,401) | |
| Fund balance June 30, 2002 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end) | 339,516 | 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) | -- |
| 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 | -- |
| Fund balance June 30, 2002 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements | \$(1,484,333) | \$ 283,794 |

The Tobacco Endowment Settlement Fund is included above to reflect the relationship with the General Fund.

STATE OF WISCONSIN

COMPREHENSIVE ANNUAL FINANCIAL REPORT



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

This document is available on the Department of Administration homepage
on the World Wide Web: <http://www.doa.state.wi.us/debf>

DOA-6082P (R12/02)


**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2002**

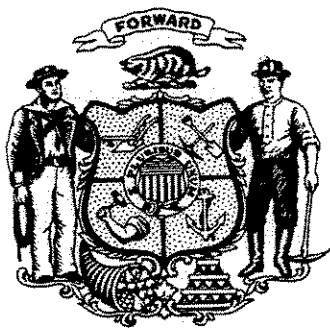
Table of Contents

| | Page |
|--|--------|
| INTRODUCTORY SECTION | 2 |
| Letter of Transmittal..... | 10 |
| GFOA Certificate of Achievement..... | 11 |
| Organizational Chart..... | 12 |
| Principal State Officials..... | |
| FINANCIAL SECTION | 14 |
| Auditor's Report..... | 17 |
| Management's Discussion and Analysis..... | |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | 31 |
| Statement of Net Assets..... | 32 |
| Statement of Activities..... | |
| Fund Financial Statements: | |
| Governmental Funds | 34 |
| Balance Sheet..... | 36 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances..... | |
| Proprietary Funds: | 38 |
| Balance Sheet..... | 40 |
| Statement of Revenues, Expenses, and Changes in Fund Equity..... | 42 |
| Statement of Cash Flows..... | |
| Fiduciary Funds: | 46 |
| Statement of Fiduciary Net Assets..... | 47 |
| Statement of Changes in Fiduciary Net Assets..... | 48 |
| Notes to the Financial Statements Index..... | 50 |
| Notes to the Financial Statements..... | |
| Required Supplementary Information: | |
| Infrastructure Assets Reported Using the Modified Approach..... | 125 |
| Budgetary Comparison Schedule - General and Major Special Revenue Funds..... | 126 |
| Notes to Required Supplemental Information - Budgetary Information..... | 129 |
| Supplementary Information: | |
| Nonmajor Governmental Funds: | 136 |
| Combining Balance Sheet..... | 144 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... | 152 |
| Budgetary Comparison Schedule Nonmajor Budgeted Governmental Funds..... | |
| Nonmajor Enterprise Funds: | 160 |
| Combining Balance Sheet..... | 164 |
| Combining Statement of Revenues, Expenses, and Changes in Fund Equity..... | 168 |
| Combining Statement of Cash Flows..... | |
| Internal Service Funds: | 178 |
| Combining Balance Sheet..... | 180 |
| Combining Statement of Revenues, Expenses, and Changes in Fund Equity..... | 182 |
| Combining Statement of Cash Flows..... | |
| Fiduciary Funds: | 190 |
| Combining Statement of Fiduciary Net Assets - Pension and Other Employee Benefit Trust Funds..... | |
| Combining Statement of Changes in Fiduciary Net Assets - Pension and Other Employee Benefit Trust Funds..... | 192 |
| Combining Statement of Fiduciary Net Assets - Investment Trust Funds..... | 194 |
| Combining Statement of Changes in Fiduciary Net Assets - Investment Trust Funds..... | 195 |
| Combining Statement of Fiduciary Net Assets - Private-Purpose Trust Funds..... | 196 |
| Combining Statement of Changes in Fiduciary Net Assets - Private-Purpose Trust Funds..... | 197 |
| Combining Statement of Fiduciary Net Assets - Agency Funds..... | 198 |
| Combining Statement of Changes in Assets and Liabilities - Agency Funds..... | 199 |

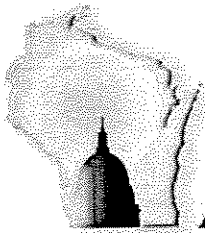
Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2002

| STATISTICAL SECTION: | Page |
|---|------|
| Revenues by Source and Expenditures by Function - Governmental Fund Types..... | 202 |
| Assessed and Equalized Value of Taxable Property..... | 204 |
| State Forestation Tax..... | 204 |
| Legal Debt Margin..... | 205 |
| Ratio of Net General Obligation Bonded Debt and Notes to Assessed Value and Net General Obligation Bonded Debt and Notes Per Capita..... | 206 |
| Ratio of Annual Debt Service for General Bonded Debt to Total Governmental Expenditures..... | 206 |
| Department of Transportation Revenue Bond Coverage..... | 207 |
| Higher Education Revenue Bonds - Health Education Assistance Loans..... | 207 |
| Wisconsin Housing and Economic Development Authority Revenue Bonds - Home Ownership Revenue Bonds..... | 208 |
| Wisconsin Housing and Economic Development Authority Revenue Bonds - Housing Revenue Bonds..... | 208 |
| Wisconsin Housing and Economic Development Authority Revenue Bonds - Housing Rehabilitation and Home Improvement Revenue Bonds..... | 209 |
| Wisconsin Housing and Economic Development Authority Revenue Bonds - Business Development Revenue Bonds..... | 209 |
| Wisconsin Housing and Economic Development Authority Revenue Bonds - Single Family Drawdown Revenue Bonds..... | 210 |
| Environmental Improvement Fund Bonds..... | 210 |
| Petroleum Inspection Fee Revenue Obligations Debt Service Coverage..... | 211 |
| Local Government Property Insurance Fund Ten-Year Claims Development Information..... | 212 |
| Health Insurance Risk Pool Ten-Year Claims Development Information..... | 214 |
| Income Continuation Insurance Risk Pool Ten-Year Claims Development Information..... | 215 |
| Duty Disability Insurance Risk Pool Ten-Year Claims Development Information..... | 216 |
| Long-term Disability Insurance Risk Pool Ten-Year Claims Development Information..... | 217 |
| Bank Deposits..... | 218 |
| Unemployment Data..... | 218 |
| Personal Income..... | 219 |
| Disposable Personal Income..... | 219 |
| Kindergarten through Grade 12 Enrollment Statistics..... | 220 |
| State of Wisconsin's Largest Employers..... | 221 |
| Employment Trends in Wisconsin..... | 222 |
| Estimated Production Workers in Manufacturing - Hours and Earnings Annual Average..... | 222 |
| Estimated Employees in Wisconsin on Nonagricultural Payrolls..... | 223 |
| Total New Housing Units Authorized in Permit-issuing Places..... | 223 |
| How Wisconsin Ranks Among the States in Agriculture..... | 224 |
| Miscellaneous Data..... | 225 |
| Acknowledgments..... | 226 |

 printed on recycled paper



INTRODUCTORY SECTION



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

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 Comprehensive Annual Financial Report (CAFR) for the State of Wisconsin for the fiscal year ended June 30, 2002. This report is prepared by the Department of Administration, Division of Executive Budget and Finance, State Controller's Office, which is responsible for both the accuracy of the data and the completeness and fairness of its presentation, including disclosures. We believe that the information presented is accurate in all material respects and reported in a manner designed to show the financial position and operating results of the State.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). To report the State's financial activity, the State's budgetary funds are grouped into the fund types required by GAAP. The State's 57 budgetary funds are expanded and have been displayed into the 89 individual GAAP funds, and four discrete component units. The major change has been to reclassify certain activities from the budgetary General Fund and present them in proprietary and fiduciary fund types more appropriate for the financial reporting of transactions related to commercial and trust activities. Note 1-C to the financial statements includes a more detailed discussion of the generic GAAP fund types.

Wisconsin's 2002 Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section, which provides information on the general contents of the report, contains this letter of transmittal, a list of State officials and an organizational chart of State government. The Financial Section is composed of the auditor's report, Management Discussion and Analysis, the basic financial statements, required supplementary information and the combining financial statements. The Statistical Section provides various financial, economic and demographic data about the State, generally on a multi-year basis.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the auditor's report.

PROFILE OF GOVERNMENT

The financial statements present information on the financial position and operations of State government as a single comprehensive reporting entity. The various agencies, departments, boards, commissions and accounts of the State that constitute the State reporting entity are included in this report in accordance with criteria established by the GASB. The reporting entity consists of all the funds of the primary government (the State of Wisconsin), as well as its component units which are legally separate organizations for which the State is financially accountable. Discretely presented component units

include 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. Blended component units, which are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State, include the Wisconsin Public Broadcasting Foundation, Inc.

The State provides a full range of services that include education, health and social services, transportation, law, justice, public safety, recreation and resources development, public improvements and general administrative services. The costs associated with these services are presented within the financial statements in detail and summary form.

Internal Controls

The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

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

The State Constitution provides that no money shall be paid out of the Treasury except as appropriated by law. The Statutes require that the Secretary of Administration must approve all payments, and then forward such requests to the State Treasurer for signature. The Department of Administration exercises detail allotment control over all agency appropriations and approval authority over all encumbrances.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. In addition, the State's biennial budget is developed according to the statutorily required fund structure that differs extensively from the fund structure used in the financial statements.

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. Article VIII of the Wisconsin Constitution and Wis. Stat. Sec. 18.05 limits the amount of 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. The total general obligation debt outstanding for the State as of June 30, 2002 was \$3.9 billion.

In addition, 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 totaled \$1.8 billion outstanding at fiscal year-end.

Cash Management

The State of Wisconsin Investment Board is responsible for investing in cash resources of the State. On a daily basis, excess cash from all funds is pooled and invested through a variety of investment vehicles. Interest income earned on these investments is allocated to the various funds based on their average daily cash balances. The total amount of investments in the State Investment Fund at June 30, 2002 was \$5.9 billion.

Risk Management

The State's risk management program, encompassing all State agencies, began in 1974 within the Department of Administration. Statutory responsibilities and authority include, but are not limited to:

- Protecting the State's assets from catastrophic loss;
- Emphasizing loss reduction;
- Identifying and evaluating exposures to loss;
- Recommending changes in procedures and programs to eliminate or reduce existing exposures;
- Arranging appropriate insurance for the transfer of risk of loss; and
- Approving all insurance purchases.

Currently, the State is essentially self-insured, through its risk management program, against major losses to which it is exposed. The Risk Management Fund, an internal service fund, services most claims for risk of loss, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. Additional disclosures on the State's risk management activities are provided in Note 17.

Pension Trust Funds

The Wisconsin Retirement System (WRS), consisting of the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust is administered by the Department of Employee Trust Funds. The WRS provides coverage to all eligible employees of the State of Wisconsin and other participating local units of government.

The most current actuarial valuations of the pension plan indicated that the WRS was funded at 96.5 percent of liabilities for the 514,143 participants of the WRS. The State's contribution represents 29.6 percent of total contributions required of all participating entities.

ECONOMIC CONDITION AND OUTLOOK

In calendar year 2001, the Wisconsin economy reflected the national recession.

After averaging 2 percent growth annually from 1991 to 2000, Wisconsin's employment growth halted in 2001. Non-farm employment declined 6,000 jobs or -0.2 percent from 2000. Nationally, employment showed a marginal gain of +0.2 percent. Wisconsin unemployment averaged 4.5 percent of the labor force compared to 4.8 percent nationally. Both national and Wisconsin unemployment increased steadily over the course of the year. Wisconsin's job losses were concentrated in manufacturing, down -4.5 percent, and construction, down -1.4 percent.

Personal income growth weakened with the employment losses. Personal income growth slowed throughout 2001. For 2001, income growth averaged 3.4 percent compared to 6.3 percent in 2000. Wisconsin's income growth fared somewhat better than national income growth, 3.4 percent versus 3.3 percent. Wisconsin per capita income increased 2.8 percent compared to 2.4 percent nationally.

In 2002, Wisconsin emerged from the recession ahead of the rest of the country.

Employment began increasing again in March. Strong growth in services, finance and construction have more than offset losses in manufacturing and utilities. By October, Wisconsin non-farm employment was 0.8 percent ahead of a year ago. Wisconsin ranks 6th in employment growth for October 2002 over October 2001. Nationally, employment was down -0.6 percent. Wisconsin's unemployment rate peaked in February at 5.8 percent but has decreased steadily to 4.9 percent in October compared to 5.7 percent nationally.

The Wisconsin recovery is also reflected in income growth. Income growth has begun accelerating. From 2.0 percent at the end of 2001, income growth had increased to 3.3 percent by second quarter 2002. Nationally, income growth was 2.7 percent.

Wisconsin's property values were insulated from the recession. Real property values increased significantly in 2001 and 2002. Total values increased 9.2 percent in 2001 and 7.5 percent 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.

Despite the recession, Wisconsin has matched or exceeded the nation's economic performance in recent years.

- Wisconsin's unemployment rate remains well below the national rate.
- Since the 2000 census, the state's population growth has been the second highest for Midwest states as people relocate to Wisconsin.
- At 91.5 percent of population, Wisconsin has the second highest health insurance coverage rate in the country.
- Wisconsin has the eleventh lowest poverty rate.
- Wisconsin's median household income, \$46,734 for 1999 to 2001 is the fourteenth highest in the country, 9.0 percent above the national average.

Looking ahead, Wisconsin's recovery should outpace the national recovery. With the manufacturing job losses reaching bottom, employment expanding in services, finance and utilities, total nonfarm employment should increase by 1.4 percent. Nationally the nonfarm employment is expected to increase only 0.9 percent.

The expansion of employment should strengthen Wisconsin's personal income growth. Total personal income is expected to grow by 3.9 percent to reach \$169.9 billion in 2003.

MAJOR INITIATIVES

Economic Development. In 2002, the State continued its efforts to expand existing businesses and attract new business to Wisconsin. Major tools used in these efforts are the Wisconsin Development Fund, the Enterprise Development Zone program and the new Technology Development Zone program. The State awarded \$10 million during Fiscal Year 2002 from the Wisconsin Development Fund, primarily through the major economic development program, customized labor training grants and technology development grants and loans. The Wisconsin Development Fund also provided 293 entrepreneurial training grants to assist in small business development. Since its creation in Fiscal Year 1996, the Enterprise Development Zone program has awarded more than \$118 million in tax credits and is expected to create 16,291 new jobs, retain over 18,442 jobs, and generate private investments of approximately \$1.73 billion. The State provided \$12.4 million to Enterprise Development Zones in Fiscal Year 2002. Through its newest program, the State designated eight Technology Development Zones that are eligible to receive up to \$40 million in tax credits.

The State also offers a variety of programs that target minority business development and community-based economic development. Additional economic development funding was provided in Fiscal Year 2002, through the use of Native American gaming compact revenue for grants and loans to Native American and other businesses affected by gaming operations. Also, \$1 million was made available for the Tech Star initiative, which awards grants to academic institutions in southeastern Wisconsin for research on emerging technologies promoting industrial and economic development.

The new Technology Development Zones and Tech Star initiative continue Wisconsin's commitment to help startup businesses, especially in the areas of information technology and biotechnology. Established in 1999, the Certified Capital Companies program (CAPCO) is designed to provide incentives to increase the availability of venture capital for small, high-growth Wisconsin-based companies. The State has certified \$50 million, or \$16.6 million each, of certified capital investments in three companies. To date, these companies, or CAPCOs, have invested in 14 Wisconsin companies. Another \$50 million for investment in venture capital firms has been allocated by the State of Wisconsin Investment Board. These funds support startup businesses with an emphasis on biotechnology, medical devices and biomedical information technology.

In addition, the State continues to offer residents and visitors many opportunities to enjoy Wisconsin's abundant natural, historical and cultural resources. In Fiscal Year 2002, the State expended over \$10.9 million to market Wisconsin as a national and international tourism destination, assisting a tourism industry that pumped over \$11.4 billion into Wisconsin's economy (a 70 percent increase since 1995) and directly or indirectly supports approximately 283,000 jobs.

Transportation. The State continued to make significant investments in transportation infrastructure through expansion in highway capacity and reconstruction of existing highways and bridges. In 2002, almost 996 miles of State Trunk Highway (STH) and local highways were improved and 375 deficient state and local bridges were rehabilitated or replaced. Also, in 2002 the State contributed \$108 million to continue preliminary work on the southeast Wisconsin freeway reconstruction project. In all, more than \$633 million in construction projects on STH and local road systems was contracted through the Wisconsin Department of Transportation.

Wisconsin also distributes State transportation user fee revenues to local governments for transportation infrastructure improvements and transit operating assistance. In Fiscal Year 2002, \$514 million was transferred to local governments for these purposes.

Environment. Wisconsin's Warren Knowles-Gaylord Nelson Stewardship Program and its successor, the Warren Knowles-Gaylord Nelson Stewardship 2000 Program, underscore the State's role as a national leader in environmental preservation and enhancement. The original Stewardship Program committed \$250 million through the sale of general obligation bonds and the use of federal grant monies for various resource development and land protection activities, including acquisition of State park lands, protection of urban rivers and assistance to local parks. The Stewardship 2000 Program commits \$572 million over 10 years through the sale of general obligation bonds to continue the State's efforts to protect and enhance Wisconsin's abundant natural resources. To date, the Stewardship and Stewardship 2000 programs have expended \$338.9 million on environmental preservation and improvement of recreational activities, including the acquisition of the Governor Tommy G. Thompson and Capital Springs Centennial State Parks and the Peshtigo River State Forest, all three of which will open in the fall of 2003.

In addition to land acquisition through the Stewardship programs, Wisconsin's efforts to protect and enhance its natural resources include partnerships with individual landowners. In November 2001, the State entered into an agreement with the U.S. Department of Agriculture for the authority to enroll up to 100,000 acres of Wisconsin farmland in the Conservation Reserve Enhancement Program. The federal government will provide up to \$200 million for the program, which will be matched by the State with up to \$40 million from the sale of general obligation bonds. Landowners participating in the program receive an up-front payment from the State and annual payments from the federal government to install and

maintain riparian buffers, wetlands and other practices that reduce polluted runoff or, in certain areas, improve habitat for grassland birds. Landowners may receive a larger up-front payment if they transfer to the State an easement to permanently maintain the practices. Through Fiscal Year 2002, Wisconsin has enrolled nearly 500 participants and made payments of \$638,800. The federal government has paid landowners \$1,198,800.

The first instance of chronic wasting disease in Wisconsin was discovered in February 2002, which led to the passage of 2001 Wisconsin Act 108. The act provided the Department of Natural Resources \$4 million for broad testing and management of the disease. The department has mapped the State into various regions and has identified testing targets in order to learn more about the disease, map and stop its spread, and manage the deer herd to ensure successful deer hunts for generations to come. The state's comprehensive effort will make it the national expert in chronic wasting disease.

Wisconsin's Environmental Improvement Fund program provides financial assistance to municipalities for the planning, design and construction of pollution abatement facilities – primarily for wastewater treatment. Most communities applying for assistance receive subsidized loans, although some are eligible for partial grants through a hardship component of the program. Funding is provided from a State-matched federal capitalization grant authorized through the Water Quality Act, and through State revenue and general obligation bonds. In Fiscal Year 2002, the Environmental Improvement Fund made awards to municipalities amounting to \$284.4 million, bringing the total amount of loans and grants awarded by the program to \$1.8 billion since its inception in 1991.

The Petroleum Environmental Cleanup Fund Award program (PECFA) assists owners of leaking petroleum storage tanks with environmental remediation costs and has provided \$1.162 billion for cleanups at 9,883 locations since 1988. Program changes made to address claim payment backlogs and improve site closure methodologies continue to increase program efficiency and the number of site closures while protecting the environment and public health.

In addition to the PECFA program, Wisconsin has made a strong effort to reclaim contaminated properties, or brownfields. In Fiscal Year 2002, the brownfields site assessment grant program provided \$1.7 million to 37 local governments to jump-start investigation and redevelopment of brownfield sites. After three rounds of applications, 103 grants totaling \$3.15 million have been awarded. The Land Recycling Loan Program provides financial assistance to local governments for the investigation and remediation of contaminated properties. At the end of Fiscal Year 2002, the program had entered into \$6.89 million of financial assistance agreements. Additionally, Wisconsin invested over \$8.11 million for investigation and clean up of 84 contaminated sites that had no known, viable responsible party.

Wisconsin has historically been a national leader in recycling. Since its inception as one of the nation's first and foremost programs in support of community recycling, over \$319.1 million has been provided to municipalities to help defray the cost of operating effective recycling programs. In addition, the State has provided funds for innovative recycling and waste reduction projects, including \$1.9 million for the new Recycling Efficiency Incentive Grants program. The program rewards municipalities for efficiencies achieved through consolidation of and cooperative agreements between local recycling services.

Human Resources. Fiscal Year 2002 was the fifth year for Wisconsin's welfare reform program called Wisconsin Works or W-2, which officially began on September 1, 1997. This program, the culmination of welfare reform efforts that began fifteen years ago, replaced welfare checks with the opportunity to earn a living. The welfare caseload has continued its steep decline from over 71,000 in June of 1995 to just over 38,000 in June of 1997 to just over 12,600 cases in June of 2002. The Wisconsin Shares program provides assistance to help W-2 participants and low-income working families pay for childcare. Since the inception of the W-2 program, funding for childcare subsidies has increased by over 280 percent, from \$70 million in FY98 to \$266 million in FY02. In June 2002, the Wisconsin Shares program served over 49,458 children in 28,117 families.

The Family Care pilot continued in Fiscal Year 2002. Begun in Fiscal Year 2000, Family Care is Wisconsin's innovation redesign of the long-term care system. There are currently nine resource centers and five care management organizations in operation.

In Fiscal Year 2002, the Department of Health and Family Services also prepared for the implementation of SeniorCare, Wisconsin's new prescription drug assistance programs for the elderly. Applications were accepted beginning in July 2002.

Criminal penalties statutes were overhauled in Fiscal Year 2002 to revise felony classifications to more accurately reflect the crime committed. The changes will improve the criminal justice system and help the state avoid millions of dollars in increased incarceration costs.

Education. The State continued its commitment, initiated in Fiscal Year 1997, to fund two-thirds of partial school costs (costs paid either by local property taxes or state aids and credits). State aids and tax credits applied to support 2001-2002 school year costs totaled \$5.1 billion. As part of this state aid commitment, funding for the SAGE program, which provides grants to school districts to lower class size in grades Kindergarten through 3, increased by 29 percent in Fiscal Year 2002, from \$58.8 million in Fiscal Year 2001 to \$75.9 million in Fiscal Year 2002. This allowed 560 individual schools in 237 school districts to lower class sizes in the 2001-2002 school year. Over 25 percent of Wisconsin's schools participate in the SAGE program.

There were also increases in participation in the Milwaukee Parental Choice Program (MPCP) and the Milwaukee Charter School Program (MCSP). The MPCP, which provides state funding to allow low-income families to send their children to private schools, experienced enrollment growth in the 2001-2002 school year. Continuing the expansion which resulted from the State Supreme Court ruling that allowed sectarian schools to participate, enrollment in choice schools increased from 9,628 students in the 2000-2001 school year to 10,882 students in 2001-2002, an increase of 13.0 percent. The MCSP, which authorizes the City of Milwaukee, the University of Wisconsin - Milwaukee and the Milwaukee Area Technical College to establish charter elementary and secondary schools in Milwaukee, saw the opening of the Milwaukee Urban League Academy of Business and Economics in 2001, the program's seventh school. Overall enrollment in the schools increased from 1,590 in the 1999-2000 school year to 2,098 in 2001-02, an increase of 32 percent.

As part of the 2001-2003 biennial budget, the Building Commission was granted authority for up to \$158.5 million in general fund supported borrowing for the University of Wisconsin—Madison's BioStar initiative. Over the next eight years, BioStar will provide \$317 million in state and private funds to build new research laboratories in the biological sciences that will keep the Madison campus at the forefront of biological research and education. In December 2001, the Building Commission took its first action under this provision, releasing \$18 million in general fund supported borrowing to construct an addition to the biotechnology building.

The University of Wisconsin System also received authority under the 2001-2003 biennial budget act to create new faculty and academic staff positions from base funds without prior legislative approval. This will provide the System with more flexibility to meet staffing pressures caused by increasing enrollments. In Fiscal Year 2002, the System used this authority to create 89 new positions.

OTHER INFORMATION

Independent Audit

In compliance with Wis. Stat. Sec. 13.94 (1)(c), the State Legislative Audit Bureau has performed an examination of the State's general purpose financial statements. The examination was made in

accordance with generally accepted auditing standards. Their report is contained in the Financial Section which follows.

Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a "Certificate of Achievement for Excellence in Financial Reporting" to the State of Wisconsin for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

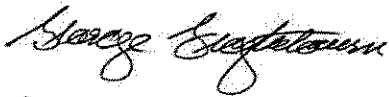
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the sixth year the State of Wisconsin has received this award. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

ACKNOWLEDGMENTS

We wish to express our appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial managers and accountants of the State agencies and component units, along with staff within the State Controller's Office.

Sincerely,



George Lightbourn
Secretary



William J. Raftery, CPA
State Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

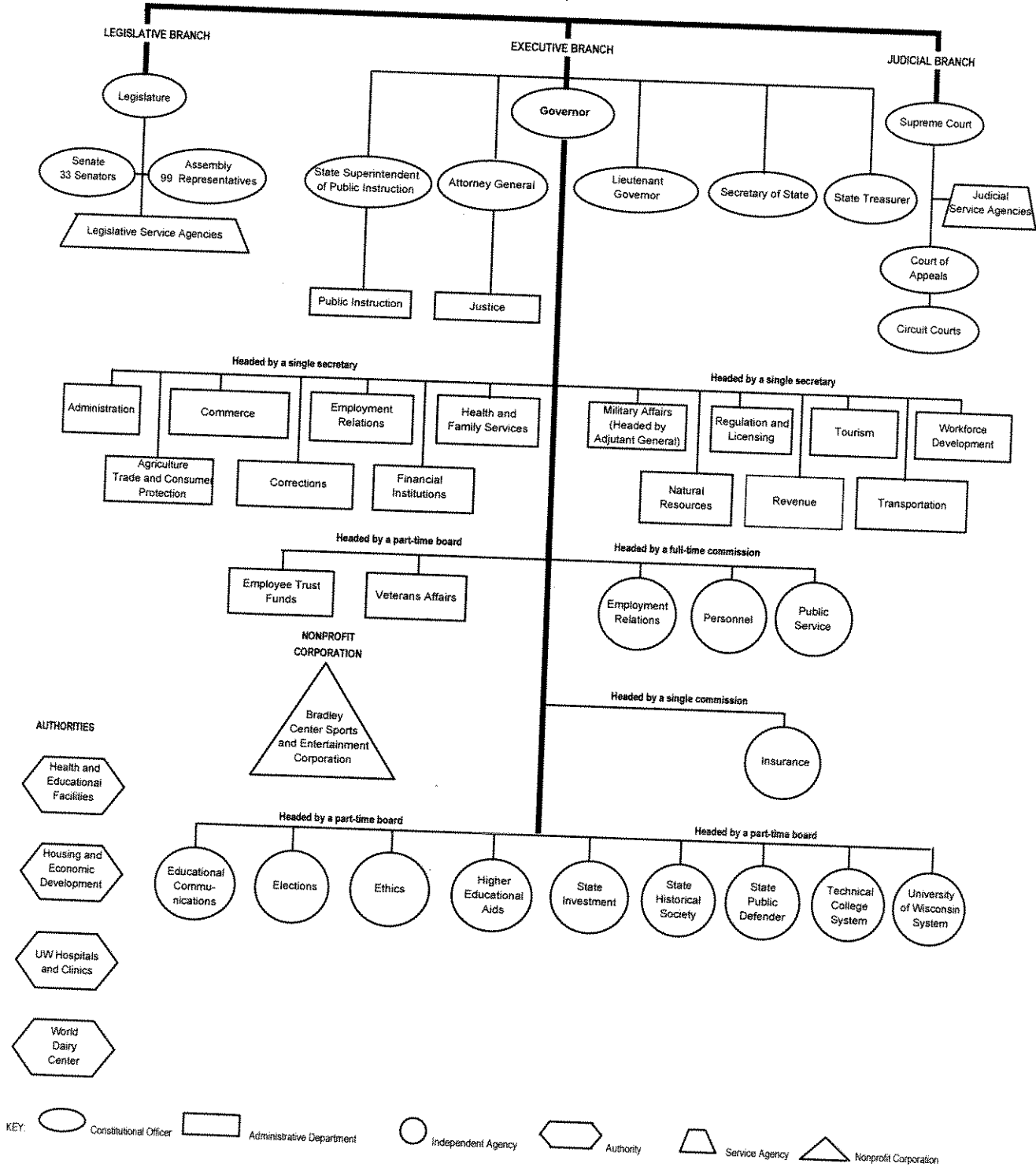


Timothy A. Drew
President

Jeffrey L. Essler
Executive Director

Organizational Chart

WISCONSIN STATE GOVERNMENT ORGANIZATION
January 2001



Principal State Officials

As of June 30, 2002:

EXECUTIVE

Scott McCallum
Governor

Margaret A. Farrow
Lieutenant Governor

Douglas J. LaFollette
Secretary of State

Jack C. Voight
State Treasurer

James E. Doyle
Attorney General

Elizabeth Burmaster
State Superintendent of Public Instruction

LEGISLATIVE

Fred Risser
President of the State Senate

Scott Jensen
Speaker of the Assembly

JUDICIAL

Shirley S. Abrahamson
Chief Justice of the Supreme Court

FINANCIAL SECTION



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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively constitute the State's basic financial statements. The combining statements and schedules in the supplementary information section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the State of Wisconsin. The combining statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

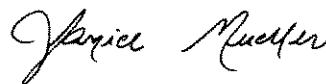
The introductory section and the statistical section listed in the table of contents have not been subjected to the auditing procedures applied within the audit of the basic financial statements and, accordingly, we express no opinion on them.

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.

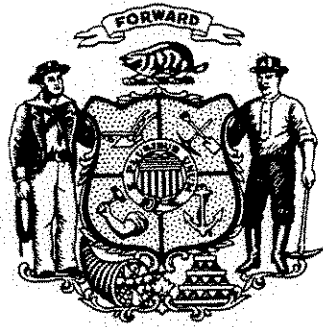
LEGISLATIVE AUDIT BUREAU

December 13, 2002

by



Janice Mueller
State Auditor



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.

| | 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: <ul style="list-style-type: none"> • General • Transportation • Bond Security and Redemption • Capital Improvement • Common School | The activities the State operates similar to private business. Examples of proprietary funds include: <ul style="list-style-type: none"> • Enterprise funds: <ul style="list-style-type: none"> -- Patients Compensation -- Environmental Improvement -- University of Wisconsin System -- Lottery • Internal service funds: <ul style="list-style-type: none"> -- 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: <ul style="list-style-type: none"> • Wisconsin Retirement System • Local Government Pooled Investment • Unclaimed Property |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenses and changes in fund equity • Statement of cash flows | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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.

| | 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)

| | <u>Net Cost of Services</u> |
|---------------------------------------|-----------------------------|
| 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 | <u>\$ 11,975.2</u> |

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.

| | 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.

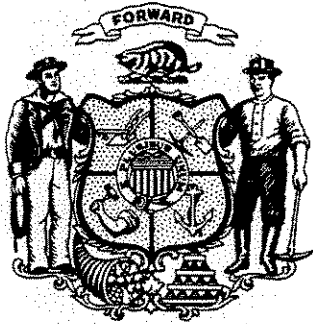
Inflation in Wisconsin has been modest. As measured by the Milwaukee-Racine CSA consumer price index, inflation in 2001 dropped to 1.6% from a year earlier. In the first half of 2002, inflation has dropped to 0.6%.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

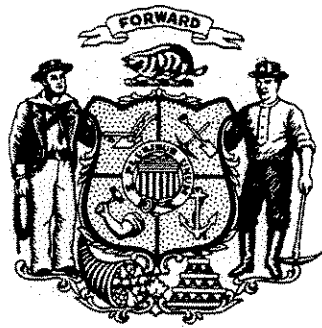
This financial report is designed to provide Wisconsin's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions about this report or requests for additional financial information 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.

* * * *



Basic Financial Statements



State of Wisconsin

Statement of Net Assets

June 30, 2002

(In Thousands)

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Totals | |
| 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.

State of Wisconsin

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

| Functions/Programs | Expenses | Program Revenues | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | 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 | | | |
|--|---|---------------|--------------------|
| Governmental Activities | Primary Government 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) |

State of Wisconsin

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)

State of Wisconsin

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) | <u>\$ 7,652,320</u> |

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: | | | | | 969,886 |
| 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)