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State of Wisconsin

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

(Continued)

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

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

State of Wisconsin

**Balance Sheet
Proprietary Funds
June 30, 2002**

(In Thousands)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 17,168	\$ 244,688	\$ 145,974
Investments	77,094	31,035	-
Receivables (net of estimated uncollectible accounts):			
Loans Receivable	-	66,490	20,241
Other Receivables	10,696	330	4,860
Due from Other Funds	14	253	8
Due from Component Units	14	-	-
Interfund Receivables	-	-	-
Due from Other Governments	-	5,825	-
Inventories	1	-	-
Prepaid Items	6	4	47
Capital Leases Receivable - Component Units	-	-	-
Deferred Charges	-	-	101
Other Assets	-	-	-
Total Current Assets	104,994	350,624	171,232
Noncurrent Assets:			
Investments	483,813	101,405	-
Receivables (net of estimated uncollectible accounts):			
Loans Receivable	-	1,014,933	614,413
Prepaid Items	-	-	-
Advances to Other Funds	-	-	-
Restricted and Limited Use Assets:			
Cash and Cash Equivalents	-	58,903	4,759
Deferred Charges	-	2,889	4,759
Capital Assets (net of accumulated depreciation)	16	1	134
Other Assets	-	-	563
Total Noncurrent Assets	483,830	1,178,031	619,869
Total Assets	\$ 588,823	\$ 1,528,655	\$ 791,101
Liabilities and Fund Equity			
Current Liabilities:			
Accounts Payable and Other Accrued Liabilities	\$ 390	\$ 82	\$ 7,951
Due to Other Funds	21	1,645	1,283
Due to Component Units	-	-	-
Interfund Payables	-	-	-
Due to Other Governments	-	-	-
Tax and Other Deposits	-	-	2
Advances from Other Funds	-	-	-
Deferred Revenue	1,644	-	124
Interest Payable	-	2,982	6,823
Short Term Notes Payable	-	-	-
Current Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	54,330	-	-
Compensated Absences	8	65	98
Capital Leases	-	-	-
General Obligation Bonds Payable	-	-	29,520
Revenue Bonds and Notes Payable	-	35,410	-
Total Current Liabilities	56,392	40,183	45,803
Noncurrent Liabilities:			
Accounts Payable and Other Accrued Liabilities	-	-	-
Due to Other Governments	-	2,673	-
Tax and Other Deposits	-	-	-
Deferred Revenue	-	-	194
Noncurrent Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	525,811	-	-
Compensated Absences	16	26	144
Capital Leases	-	-	-
General Obligation Bonds Payable	-	-	668,349
Revenue Bonds and Notes Payable	-	624,041	-
Total Noncurrent Liabilities	525,827	626,740	668,687
Total Liabilities	582,219	666,923	714,489
Fund Equity:			
Invested in Capital Assets, Net of Related Debt	-	-	134
Restricted for Unemployment Compensation	-	-	-
Restricted for Environmental Improvement	-	829,343	-
Restricted for Expendable Trusts	-	-	-
Restricted for Nonexpendable Trusts	-	-	-
Restricted for Future Benefits	6,604	-	-
Restricted for Market Value Adjustments	-	-	-
Restricted for Other Purposes	-	-	-
Unrestricted	-	32,388	76,477
Total Fund Equity	6,604	861,732	76,611
Total Liabilities and Fund Equity	\$ 588,823	\$ 1,528,655	\$ 791,101

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

Business-type Activities					Governmental Activities - Internal Services Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals		
\$ 486,701	\$ 1,463,986	\$ 554,025	\$ 2,912,543	\$	40,989
1,062	-	16,507	125,697	-	-
25,856	-	8,433	123,020	-	-
61,406	134,421	31,724	243,437	-	624
41,063	418	12,843	54,598	-	37,874
1,968	-	-	1,982	-	112
-	-	5,795	5,795	-	-
75,294	9,288	3,483	93,890	-	73
28,190	-	7,496	35,887	-	8,216
21,313	-	82,371	103,741	-	10,278
25,772	-	-	25,772	-	-
2,668	-	-	2,769	-	1
-	130	-	130	-	-
771,293	1,608,242	722,676	3,729,081		98,166
286,043	-	212,909	1,084,171		-
152,094	-	62,862	1,844,203		-
-	-	-	-		18,879
-	-	-	-		3,008
-	-	-	58,903		-
-	-	710	8,357		752
2,804,799	-	146,702	2,951,652		318,333
-	-	9,305	9,868		-
3,242,936	-	432,488	5,957,154		340,972
\$ 4,014,229	\$ 1,608,242	\$ 1,155,164	\$ 9,686,215	\$	439,138
\$ 140,595	\$ 14,810	\$ 53,735	\$ 217,563	\$	22,645
45,869	2,496	46,307	97,621		10,781
1,775	-	-	1,775		-
-	-	6,196	6,196		45,405
18,792	4,718	36	23,546		176
1,590	-	199	1,791		-
1,000	-	-	1,000		-
106,036	-	65,877	173,680		2,373
2,362	-	214	12,382		1,687
15,572	-	1,958	17,530		53,021
-	-	71,000	125,330		-
42,121	-	3,131	45,422		1,003
4,184	-	239	4,423		3,092
13,616	-	70	43,206		8,345
-	-	-	35,410		-
393,511	22,024	248,962	806,876		148,728
-	-	115,037	115,037		13,394
-	-	-	2,673		-
-	-	12,532	12,532		-
-	-	-	194		5,558
-	-	426,327	952,138		111,822
28,039	-	3,788	31,994		1,172
31,957	-	1,399	33,356		3,165
260,698	-	23,984	953,031		151,535
-	-	-	624,041		-
320,694	-	583,049	2,724,997		286,647
714,205	22,024	832,011	3,531,872		435,375
2,513,464	-	113,327	2,626,925		52,766
-	1,586,218	-	1,586,218		-
-	-	-	829,343		-
185,734	-	-	185,734		-
112,382	-	-	112,382		-
-	-	28,147	34,751		-
-	-	7,169	7,169		-
219,612	-	63,610	283,222		-
268,832	-	110,901	488,598		(49,002)
3,300,024	1,586,218	323,153	6,154,343		3,763
\$ 4,014,229	\$ 1,608,242	\$ 1,155,164	\$ 9,686,215	\$	439,138
Total Fund Equity Reported Above			\$ 6,154,343		
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds			(5,050)		
Net Assets of Business-type Activities			\$ 6,149,293		

State of Wisconsin

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

(In Thousands)

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

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

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

Total Net Change in Fund Equity Reported Above \$ (185,089)

Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds 1,716

Change in Net Assets of Business-Type Activities \$ (183,373)

State of Wisconsin

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

(In Thousands)

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

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

(Continued)

State of Wisconsin

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

(In Thousands)

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

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

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

State of Wisconsin

Statement of Fiduciary Net Assets

June 30, 2002

(In Thousands)

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

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

State of Wisconsin

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

(In Thousands)

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

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

Notes To The Financial Statements

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Notes To The Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

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

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

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

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

Badger Tobacco Asset Securitization Corporation
10 East Doty Street, Suite 800
Madison, WI 53703

Blended Component Units

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

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

Discrete Component Units

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

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

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

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

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

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

The Affiliation Agreement requires the Hospital to continue to support the educational, research and clinical activities of the University of Wisconsin-Madison, which are administered by the Hospital. Under the terms of a Lease Agreement, the Hospital leases facilities, which were occupied by the Hospital as of June 29, 1996 (see Note 12A to the financial statements). Under a Conveyance Agreement, certain assets and liabilities related to the Hospital were identified and transferred to the Hospital effective July 1, 1996. Subject to the Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts for the continuation of services in support of programs and operations.

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

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

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

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

Related Organizations

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

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

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

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

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

Other Organizations Not Included in the Reporting Entity

State Fair Park Exposition Center, Inc. - In October 2000, The State Fair Park Exposition Center, Inc. (SFPEC) was organized, by the State of Wisconsin, State Fair Park, as a nonstock, not-for-profit corporation under the Internal Revenue Code 501(c)(3). Authorization for the SFPEC's organization is found under Chapter 42, Wis. Stats. The SFPEC has broad general powers that include approving the sale, lease, or purchase of any real

estate and obtaining financing through loans or other methods. The board of the SFPEC includes the chairperson of the State Fair Park Board, and three members appointed by the SFPEC's Board.

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

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

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

The State reports the following major funds:

Major Governmental Funds

- *General Fund* - the primary operating fund of the State, accounts for all financial transactions except those required to be accounted for in another fund.
- *Transportation Fund* - accounts for the proceeds from motor fuel taxes, vehicle registrations, licensing fees, and federal and local governments which are used to supply and support safe, efficient and effective transportation in Wisconsin.
- *Tobacco Settlement Endowment Fund* - accounts for all of the proceeds from the sale of the State's right to receive payments under the Attorneys General Master Tobacco Settlement of November 23, 1998, and all investment earnings on the proceeds.

Major Enterprise Funds

- *Patients Compensation Fund* - accounts for the program to provide excess medical malpractice insurance for Wisconsin health care providers. The revenues to finance this insurance are primarily derived from assessments against health care providers.
- *Environmental Improvement Fund* - accounts for financial resources generated and used for clean water projects. Federal capitalization grants, interest earnings, revenue bond proceeds, and general obligation bond proceeds are its primary revenue sources.

- *Veterans Mortgage Loan Repayment Fund* – accounts for the issuance and administration of veterans' first mortgage loans. Revenues are primarily derived from bond proceeds, mortgage payments, and investment income.
- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration. In addition, the balance sheet of this fund includes the accounts of the Wisconsin State Colleges Building Corporation.
- *Unemployment Insurance Reserve Fund* – accounts for unemployment contributions made by employers, federal program receipts, benefit payment recoveries and unemployment benefits paid to laid off workers in the State.

In addition, the State reports the following fund types:

Governmental Funds

- *Special Revenue Funds* – account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes. Examples include the Conservation Fund and the Petroleum Inspection Fund.
- *Debt Service Funds* – account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- *Capital Projects Funds* – account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds)
- *Permanent Funds* – account for resources that are legally restricted to the extent that only earnings and not principal, may be used for purposes that support the State's programs.

Proprietary Funds

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

Fiduciary Funds

- *Pension (And Other Employee Benefit) Trust Funds* – account for the Wisconsin Retirement System as well as other employee benefit programs including accumulated sick leave, employee reimbursement accounts, life insurance and deferred compensation.
- *Investment Trust Funds* – account for the local government investment pool managed by the State Treasurer and the Milwaukee Retirement System.
- *Private-purpose Trust Funds* – account for escheated property held by the State for private individuals, State-sponsored college savings programs, and the special death benefit program for the former Milwaukee Teacher Retirement fund.
- *Agency Funds* – account for assets held by the State for inmates and residents of state facilities, deposits of bank and insurance companies doing business in the state, assets of liquidated insurance companies to insure payments to claimants, and the collection and disbursement of court-ordered support payments.

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

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

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

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

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

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

E. Assets, Liabilities, and Net Assets/Equity

1. Cash and Cash Equivalents

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

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

2. Investments

Primary Government

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

and various trust indentures (see Note 5 to the financial statements).

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

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

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

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

Component Units

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

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

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

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

3. Mortgage and Other Loans

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

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

4. Forestation State Tax

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

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

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

5. Interfund Assets/Liabilities

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

Long-term interfund loans are classified as "Advances to Other Funds" and "Advances from Other Funds." Advances to Other

Funds, as reported in the governmental fund financial statements, are offset with a fund balance reserve to indicate that they are neither available for appropriation nor expendable available financial resources.

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

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

6. Inventories and Prepaid Items

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

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

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

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

7. Capital Assets

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

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

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

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

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

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

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

8. Restricted and Limited Use Assets

Proprietary Fund and component unit assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions, and donor specifications

have been reported as Restricted and Limited Use Assets. These assets are classified into two categories: Cash and Cash Equivalents, and Investments.

9. Local Assistance Aids

Municipal and County Shared Revenue Program

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

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

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

State Property Tax Credit Program

At June 30, 2002, the State was liable to various taxing jurisdictions for property tax credits paid through the State Property Tax Credit Program. Under the program, payments to local taxing jurisdictions provide property tax relief directly to taxpayers in the form of State credits on individual property tax bills. State statutes require that payment to local taxing jurisdictions be made during July. Although the property tax credit is calculated on the property tax levy for school purposes, the State's July payment is paid to an administering municipality who treats the payment the same as other tax collections and distributes the collections to the various tax levying jurisdictions (e.g., cities; towns; villages; school districts; technical colleges).

The school portion of the property tax credit liability represents the amount of the July payment earned over the school districts' previous fiscal year ended June 30. Since the entire school districts' portion of the July payment occurs within the State's fiscal year, 100 percent of the July payment relating to the school taxing jurisdictions' levy is reported as a liability at June 30, 2002.

The general government portion of the property tax credit liability represents the amount of the July payment prorated over the portion of the local governments' calendar year which is within the State's fiscal year. The result is that 50 percent of the July

payment based on the general government taxing jurisdictions' levy is reported as a liability at June 30, 2002.

The aggregated State Property Tax Credit Program liability of \$354.0 million is reported in the General Fund as Due to Other Governments.

Lottery Property Tax Credit Program

The Lottery Property Tax Credit provides direct property tax relief to taxpayers in the form of State Credits on property tax bills. Under the program, owners of property used as a primary residence receive a tax credit equal to the school property tax on a portion of the dwelling's value.

The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2002 property tax bills, the State made this payment in March 2002.

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

State Aid for Exempt Computers

The Aid for Exempt Computers compensates local governments for tax base lost due to the property tax exemption for computers, software and related equipment. Aid payments are calculated using a procedure that results in an aid amount equal to the amount of taxes that would be paid if the property were taxable. Payments to local governments are made on the first Monday in May.

A portion of the May payment distributed to the general government taxing jurisdictions, Tax Incremental Districts, and special districts applies to their fiscal period ending December 31. Therefore, part of the May distribution represents an expense to the State in Fiscal Year 2002, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals \$21.8 million at June 30, 2002.

10. Long-term Debt Obligations

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

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

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

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

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

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

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

11. Compensated Absences

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

Annual Leave

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

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

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

Sick Leave

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

12. Deferred Revenue

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

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

13. Self-Insurance

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

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

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

Fund Balance Reserves

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

Restricted Net Assets/Fund Equity

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

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

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

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

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations (3)	Total Amount for Statement of Net Assets
Assets:					
Cash and Cash Equivalents	\$ 2,075,338	\$ -	\$ 40,989	\$ -	\$ 2,116,327
Investments	155,378	-	-	-	155,378
Receivables:					
Taxes	1,231,117	-	-	(1,231,117)	-
Loans to Local Governments	237,228	-	-	(237,228)	-
Other Receivables	203,290	896	808	2,178,621	2,383,615
Due from Other Funds	865,733	-	40,881	(906,614)	-
Due from Component Units	7	-	-	(7)	-
Interfund Receivables	410	-	-	(410)	-
Due from Other Governments	669,000	-	-	(669,000)	-
Internal Balances	-	-	5,051	32,369	37,420
Inventories	36,598	3,267	8,216	-	48,080
Prepaid Items	359,447	-	29,156	-	388,603
Advances to Other Funds	3,000	-	-	(3,000)	-
Other Assets	332	-	-	-	332
Restricted Assets:					
Cash and Cash Equivalents	30,444	-	-	-	30,444
Investments	3	-	-	-	3
Deferred Charges	-	27,791	754	-	28,545
Depreciable Capital Assets	-	1,234,431	318,333	-	1,552,765
Infrastructure	-	9,205,713	-	-	9,205,713
Other Non-depreciable Capital Assets	-	2,039,406	-	-	2,039,406
Total Assets	\$ 5,867,323	\$ 12,511,505	\$ 444,189	\$ (836,386)	\$ 17,986,631
Liabilities:					
Accounts Payable and Other Accrued Liabilities	\$ 963,412	\$ -	\$ 43,660	\$ 3,342,969	\$ 4,350,040
Due to Other Funds	838,416	-	56,166	(894,602)	-
Due to Component Units	798	-	-	(798)	-
Interfund Payables	763,645	-	-	(763,645)	-
Due to Other Governments	1,566,662	-	-	(1,566,662)	-
Tax Refunds Payable	893,737	-	-	(893,737)	-
Tax and Other Deposits	37,389	-	-	-	37,389
Deferred Revenue	623,543	(284,618)	2,373	-	341,298
Interest Payable	31,029	23,874	-	(54,903)	-
Advances from Other Funds	5,008	-	-	(5,008)	-
Short Term Notes Payable	491,170	-	53,021	-	544,191
Long-term Liabilities:					
Short-term Portion	-	249,201	12,440	49,655	311,296
Long-term Portion	-	4,482,402	267,694	-	4,750,096
General Obligations Bonds Payable	100	-	-	(100)	-
Revenue Bonds and Notes Payable	49,555	-	-	(49,555)	-
Total Liabilities	6,264,463	4,470,859	435,375	(836,386)	10,334,311
Fund Balances/Net Assets	(397,140)	8,040,646	8,814	-	7,652,320
Total Liabilities and Fund Balances/Net Assets	\$ 5,867,323	\$ 12,511,505	\$ 444,189	\$ (836,386)	\$ 17,986,631

- (1) Long-term asset and liability differences arise because governmental funds focus only on short-term financing (that is, resources that will be available to pay for current period expenditures). In contrast, the Statement of Net Assets has a long-term economic focus and reports on all capital and financial resources.
- (2) The adjustment for internal service funds reflects the reclassification of these funds for the government-wide statement. The assets and liabilities of these funds are reported as proprietary activities on the fund statements, but are included as governmental activities on the Statement of Net Assets
- (3) Various reclassifications are necessary due to the differing level of detail needed on each of the statements. Eliminations are done on the Statement of Net Assets to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government. The net residual amounts due between governmental and business-type activities are shown as internal balances.

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

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

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

- (1) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," while government-wide statements report revenues when earned. Long-term expense differences arise because governmental funds report operating expenses (including interest) using the modified accrual basis of accounting, while government-wide statements report using the accrual basis of accounting.
- (2) Capital-related adjustments consist of the difference between proceeds for the sales of capital assets and the gain or loss from the sales of capital assets, and from the difference between capital outlay expenditures recorded in the governmental funds and depreciation expense recorded in the government-wide statements.
- (3) The adjustment for internal service funds reflects the elimination of these funds from the government-wide statement, which is accomplished by charging/refunding additional amounts to participating governmental activities to completely offset the internal service funds' cost for the year.

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

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

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

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

NOTE 3. BUDGETARY CONTROL

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

While budgetary control for the reported funds is maintained at the appropriation level as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

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

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

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

NOTE 5. DEPOSITS AND INVESTMENTS

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

A. Deposits**Primary Government**

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

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

At June 30, 2002, the carrying amount of the primary government deposits was \$704.9 million and the bank balance was \$178.3 million. Of the bank amount, excluding a bank overdraft of \$46.4 million in two bank accounts that are covered by compensating balances in other accounts,

- \$10.1 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name, and
- \$214.6 million was uncollateralized and uninsured.

The State's unemployment compensation program had \$1,485.7 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

Petty cash and contingent accounts authorized under Wis. Stat. Sec 20.920, which are held by agencies and reported as Cash and Cash Equivalents in the amount of \$197 thousand, are not included in the carrying amount nor bank balance of deposits in this note because these are neither deposits nor investments.

Component Units

At June 30, 2002, the carrying amount of the component units' deposits was \$8.5 million and the bank balance was \$9.2 million. Of the bank amount, \$1.5 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name and \$7.7 million was uncollateralized and uninsured.

B. Investments

Primary Government

State Investment Fund

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

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

Valuation of Securities

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

Pool Earnings and Pool Shares

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

Derivative Financial Instruments

As of June 30, 2002, the only derivative financial instrument held by the State Investment Fund was a restructured interest rate swap. Each swap transaction involves the exchange of interest rate payment obligations without the exchange of underlying principal amounts. The notional amounts used to express the volume of these transactions do not represent the amounts subject to risk, but represent the amount on which both parties calculate interest rate obligations. The settlement of the interest rate exchange occurs at predetermined dates, with the net difference between the interest paid and interest received reflected as an increase in income. Entering into interest rate swap agreements subjects the investor to the possibility of financial loss in the event of adverse changes in market rates or nonperformance by the counterparty to the swap agreement. Selecting creditworthy counterparties mitigates credit risks arising from derivative transactions.

Restructured Investments - During fiscal year 1995, the State of Wisconsin Investment Board became aware of the existence of market exposure in certain swap agreements and structured bonds which could impair the earnings of the fund.

The State of Wisconsin Investment Board entered into agreements with two counterparties which resulted in the counterparties' assumption of all future market risk associated with ten swap agreements and two structured bonds. At the time of the agreement the counterparties assigned a market value to these investments of negative \$95.3 million. Within this restructuring, one swap agreement requires periodic payments over a period of ten years, while the other agreement requires periodic payment of the loss over a period of five years. Interest costs associated with the periodic payment of the loss over time is estimated to be \$24.8 million. Future period earnings will be charged as payments are made.

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

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

Deposits

The State Investment Fund holds certificates of deposit at various Wisconsin banks as part of the Wisconsin Certificate of Deposit Program implemented in July 1987. As of June 30, 2002, the fair value of these certificates of deposit was \$396.8 million.

Approximately \$379.1 million are Category 1 risk level deposits which are insured by the FDIC, the Wisconsin State Deposit Guarantee Fund and Financial Securities Assurance Corporation insurance. The remaining \$17.7 million are considered Category 3 uncollateralized deposits.

Investments

The following table presents investments held by the State Investment Fund categorized in accordance with GASB Statement No. 3 requirements to indicate the level of risk assumed by the fund at year-end:

At June 30, 2002, the State Investment Fund's investments are as follows (in millions):

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

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

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

Other Funds Managed by the Board

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

Governmental

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

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

Business-Type

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

Fiduciary

Pension Trust Fund - This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS) (see Note 13 to the financial statements). At June 30, 2002, the Pension Trust Fund held \$53,114.2 million of investments consisting of bonds, stocks, limited partnerships, real estate, mortgages and other investments valued at fair value in accordance with Wis. Stat. Sec. 25.17(14). In addition, \$634.6 million of investments are included in the fund's cash and cash equivalents.

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

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

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

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

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

Securities Lending Transactions – State statutes and State of Wisconsin Investment Board (SWIB) policies permit the use of investments to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines which are designed to insure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

Securities on loan at June 30, 2002 are presented as unclassified in the preceding schedule of custodial risk.

At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires them to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

The majority of securities loans can be terminated on demand, although the average term of the loans is approximately one week. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short term investments with a weighted average maturity of 25 days.

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

Derivative Financial Instruments

As of June 30, 2002, the State of Wisconsin Investment Board (SWIB) utilized various derivative financial instruments, including forward contracts, futures contracts, collateralized mortgage obligations and principal only strips in the pension trust fund. All financial derivative instruments are reported at fair value, regardless of whether the instruments are held for trading or nontrading purposes. The instruments are marked to market monthly, with valuation changes recognized in income.

Foreign Currency Forwards and Options - The State of Wisconsin Investment Board's derivative trading activities primarily involve

forward contracts and foreign currency options. Generally, foreign currency forwards and options are held to hedge foreign exchange risk. Market risk is generally controlled by holding substantially offsetting purchase and sell positions. At June 30, 2002 the fair value of foreign currency forward contracts assets totaled \$1.4 billion, while the liabilities totaled \$1.4 billion.

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

Futures Contracts – One of the outside investment managers uses futures contracts to manage exposure to the stock market. Upon entering into a futures contract, the outside manager is required to deposit with the broker, in SWIB's name, an amount of U.S. government obligations in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily with gains and losses being recognized. The variation margin is settled daily until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation. Losses may arise from the changes in the value of the underlying instrument, illiquidity in the secondary market for the contracts, or if the counterparties do not perform under the terms of the contract. Futures contracts are valued each day at the settlement price established by the board of trade or exchange on which they are traded. As of June 30, 2002, futures with a face value of \$3.2 million were held. These futures are set to expire in September 2002.

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

Principal Only Strips – Securities that derive cash flow from the payment of principal on underlying debt securities. SWIB holds several principal only strips for yield enhancing purposes. The underlying securities are United States Treasury obligations, therefore the credit risk is low. On the other hand, principal only strips are more volatile in terms of pricing, and thus the market risk is higher than traditional United States Treasury obligations. As of June 30, 2002, four principal only strips valued at \$491.0 million were held.

Unfunded Capital Commitments

Partnership agreements generally set a limit on the total dollar amount that limited partners must commit to funding when entering the partnership. Over the life of the partnership, the general partner will request capital contributions totaling the agreed upon limit. As of June 30, 2002, unfunded capital commitments totaled \$1.4 billion.

Other State Agencies and Funds

The following funds also make investments following pertinent State statutes and policy provisions as set out by the appropriate governing boards or bond resolutions:

Governmental

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

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

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

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

The Wisconsin Public Broadcasting Foundation Fund - The fund's investments at June 30, 2002, were \$4.7 million, which consists of \$3.6 million of various investments and \$1.1 million of money market funds which are reported as cash equivalents. All investments meet Category 1 risk criteria.

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

Business-Type

Environmental Improvement Fund - The fund's aggregate investments at June 30, 2002, were \$168.1 million, of which \$35.7 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of \$132.4 million consist of government and agency holdings and satisfy Category 1 risk criteria.

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

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

Fiduciary

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

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

At June 30, 2002, the State has approximately \$269.2 million of securities which it holds for banks and insurance companies. These assets are held for the period of time specified by statute and then returned to their owner. The assets are presented in the *Bank and Insurance Company Deposits Fund* as "Other Assets". All investments meet risk Category 1.

Unclaimed property, usually in the form of stocks, bank accounts, insurance proceeds, utility deposits and uncashed checks, are transferred periodically to the *Unclaimed Property Program Fund*. The \$11.8 million securities, presented as "Other Assets" on the financial statements, include \$10.8 million of various investments which meet risk Category 1 and \$1.0 million of mutual funds which meet Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling \$1,095.6 million at June 30, 2002, are in the form of equity, bond and money market mutual funds, insured savings accounts and investment contracts with insurance companies.

The following table presents investments of the Other State Agencies and Funds at June 30, 2002, categorized in accordance with the requirements of GASB Statement No. 3.

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

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

Component Units

Wisconsin Housing and Economic Development Authority (Authority) - The Authority is required by statute to invest at least 50 percent of its General Fund funds in obligations of the State, of the United States, or of agencies or instrumentalities of the United States, or obligations the principal and interest of which are guaranteed by the United States, or agencies or instrumentalities of the United States. Each bond resolution specifies what constitutes a permitted investment and such investments may include obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper; bankers acceptances; and repurchase agreements and investment agreements.

The Authority's aggregate investments at June 30, 2002, were \$863.2 million of which \$160.6 million are reported as cash equivalents consisting of repurchase agreements, commercial paper, money market funds, and short-term investment agreements. The Authority's investments except for uncollateralized investment agreements of \$146.8 million are a Category 1 level of risk. The Authority's investments in uncollateralized investment agreements are a Category 3 level of risk.

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

The Authority is also authorized to invest its funds in the State Investment Fund. The Authority has established a Master Repurchase Agreement with its banking institutions to govern the

purchase of repurchase agreements. This agreement requires the institution to take possession of collateral having a market value of at least 103 percent of the cost of the repurchase agreement. The underlying collateral must be maintained at this level at all times.

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

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

value of the investment securities loaned was \$37.6 million as of June 30, 2002, and the fair value of the collateral received was \$38.2 million as of June 30, 2002. The Authority may request the bank to terminate any loan of securities for any reason at any time.

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

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

Wisconsin Health Care Liability Insurance Plan - The investments of the Wisconsin Health Care Liability Insurance Plan at December 31, 2001 were \$114.8 million, of which \$18.3 million are reported as cash equivalents. All investments meet the Category 2 risk level.

University of Wisconsin Hospital and Clinics Authority - The University of Wisconsin Hospitals and Clinics Authority (the Hospital) aggregate investments of \$173.9 million consist of \$139.8 million of restricted and limited use investments and \$34.1 million of unrestricted investments.

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

debt retirement, or donors. Unrestricted investments consist of stocks, bonds, international equities and other securities.

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

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

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

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

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

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

C. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling \$145.4 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year	Amount
2003	\$ 16,635
2004	16,750
2005	16,868
2006	16,992
2007	17,118
Thereafter	<u>119,068</u>
Total future value	203,431
Less: Present value adjustment	<u>(72,306)</u>
Present value of payments	<u>\$ 131,125</u>

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

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

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

B. Net Revenues

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

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

NOTE 7. CAPITAL ASSETS**Primary Government**

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

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

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

Depreciation Expense

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

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

Construction in Progress

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

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

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

Component Units

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

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

NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

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

University of Wisconsin System investment policies and guidelines for the Long Term Fund and Intermediate Term Fund are governed and authorized by the Board of Regents. The approved assets allocation policy for the Long Term Fund sets a

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

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

The book value of Endowments under control of the University of Wisconsin System was \$295.7 million as of June 30, 2002 compared to a book value of \$287.5 million as of June 30, 2001. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments since realized gains and losses are based on the difference between the selling price and the acquisition cost of the asset. Therefore, when assets are reported at fair value much of the realized gain or loss may have already been included in prior years as part of the overall change in the fair value of investments.

At June 30, 2002, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	\$ 127.2
Realized Gains – Undistributed	168.5
Book Value	295.7
Unrealized Net Gains/Losses - Undistributed	2.4
Fair Value	\$ 298.1

On June 30, 2002, the portfolio at market contained 65.9 percent in stocks, 30.0 percent in fixed income obligations, and 4.1 percent in short-term investments. The total return on the principal long-term portfolio including capital appreciation was (6.1) percent. The total return on the principal intermediate-term portfolio including capital appreciation was 6.7 percent. External investment counsel was furnished for funds representing 99.6 percent of market-value principal as of June 30, 2002.

**NOTE 9. INTERFUND RECEIVABLES,
PAYABLES AND TRANSFERS**

Interfund balances as of or for the year ended June 30, 2002 consist of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds	\$ 988,216
Due to Other Funds	\$ 988,216

Due from/to Other Funds represent short-term interfund accounts receivable and payable. The totals of Due from/to Other Funds at June 30, 2002 by individual fund were as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General	\$ 760,935	\$ 132,483
Special Revenue:		
Transportation	32,414	36,997
Tobacco Settlement		
Endowment	—	542,361
Conservation	15,059	18,022
Wisconsin Health		
Education Loan		
Repayment	—	7
Medical Assistance Trust	221	54,043
Work Injury Supplemental		
Benefit	3	—
Tobacco Control	11,585	8,104
Uninsured Employers	3	—
Utility Public Benefits	5,992	1,410
Mediation	4	5
Agricultural Chemical		
Cleanup	87	—
Agrichemical Management	97	215
Agricultural Producer		
Security	252	26
Employee Trust Funds		
Administration	8,893	991
Petroleum Inspection	12,071	4,600
Environmental	8,043	4,782
Dry Cleaner		
Environmental Response	1	34
Recycling	5,790	939
Information Technology		
Investment	—	58
Universal Service	11	2,586
Wisconsin Public		
Broadcasting Foundation	—	419
Children's Trust	7	7

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Capital Projects:		
Building Trust	1,414	310
Energy Efficiency	—	11
Capital Improvement	1,673	2,638
Transportation Revenue		
Bonds	9	27,208
Debt Service:		
Bond Security and		
Redemption	1	—
Transportation Revenue		
Bonds	—	9
Permanent Funds:		
Common School	1,158	80
Normal School	—	6
Historical Society	8	66
Enterprise:		
Patients Compensation	14	21
Environmental		
Improvement	253	1,645
Veterans Mortgage Loan		
Repayment	8	1,283
University of Wisconsin		
System	41,063	45,869
Unemployment Insurance		
Reserve	418	2,496
State Fair Park	—	2,505
Homes for Veterans	32	1,782
Mendota Mental		
Health Institute	4,420	4,674
Winnebago Mental		
Health Institute	745	3,925
Northern Developmental		
Disabilities Center	108	3,783
Central Developmental		
Disabilities Center	92	4,667
Southern Developmental		
Disabilities Center	2,044	3,741
Institutional Farm		
Operations	29	49
Correctional Canteen		
Operations	1	66
Lottery	2,239	11,472
Health Insurance Risk		
Sharing Plan	1,381	3,364
Local Government		
Property Insurance	—	2
State Life Insurance	—	37
Income Continuation		
Insurance	408	95

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Duty Disability	--	143
Long-term Disability Insurance	--	60
Health Insurance	139	5,708
Veterans Trust	1,203	233
Internal Service:		
Technology Services	22,372	6,759
Fleet Services	2,808	282
Financial Services	272	535
Facilities Operations and Maintenance	9,341	2,191
Risk Management	199	588
Badger State Industries	2,881	427
Pension and Other Employee Benefit Trust Funds:		
Wisconsin Retirement System	28,589	32,022
Accumulated Sick Leave	--	107
Employee Reimbursement Accounts	297	39
Life Insurance	15	154
Deferred Compensation	--	53
Investment Trust:		
Local Government Pooled Investment	--	52
Private-Purpose Trust:		
Unclaimed Property Program	--	9
Tuition Trust	39	40
College Savings Program Trust	--	256
Agency:		
Inmate and Resident Support Collection Trust	563	217
	509	8,448
Total	\$ 988,216	\$ 988,216

B. Due to/from Component Units

Receivables and payables between funds and component units at June 30, 2002 were as follows (in thousands):

Fund/Component Unit	Due from Component Units/Primary	Due to Component Units/Primary
	Government	Government
Primary Government:		
General Fund	\$ 7	\$ 798
Enterprise:		
Patients Compensation	14	--
University of Wisconsin System	1,968	1,775
Internal Service:		
Technology Services	49	--
Fleet Services	59	--
Badger State Industries	4	--
Component Unit:		
Wisconsin Housing and Economic Development Authority	176	19
Wisconsin Health Care Liability Insurance Plan	--	14
University of Wisconsin Hospitals and Clinics Authority	2,397	2,068
Badger Tobacco Asset Securitization Corporation	423	--
	<u>5,097</u>	<u>4,674</u>
Reporting period difference (primary government and component unit have June 30 and May 31 fiscal year ends, respectively)	--	423
Total	\$ 5,097	\$ 5,097

C. Interfund Receivables/Payables

Interfund Receivables	\$ 815,246
Interfund Payables	\$ 815,246

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2002 by individual fund were as follows (in thousands):

Fund	Interfund Receivables	Interfund Payables
General	\$ --	\$ 757,440
Special Revenue:		
Transportation	410	--
Employee Trust Funds:		
Administration	--	5,795
Capital Projects:		
Transportation Revenue		
Bonds	--	410
Enterprise:		
Central Developmental		
Disabilities Center	--	1,780
Southern Developmental		
Disabilities Center	--	332
Institutional Farm		
Operations	--	4,084
Health Insurance	5,795	
Internal Service:		
Fleet Services	--	45,405
Investment Trust:		
Local Government Pooled		
Investment	809,041	--
Total	\$ 815,246	\$ 815,246

D. Advances to/from Other Funds

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2002 by individual fund were as follows (in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
Special Revenue:		
Agrichemical		
Management	\$ 2,000	\$ --
Agricultural Producers		
Security	--	2,000
Information Technology		
Investment	--	3,008
Capital Projects:		
Energy Efficiency	1,000	--
Enterprise:		
University of Wisconsin		
System	--	1,000
Internal Service:		
Technology Services	3,008	--
Total	\$ 6,008	\$ 6,008

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2002 were as follows (in thousands):

Fund	Interfund Transfers In	Interfund Transfers Out
General	\$ 1,122,764	\$ 1,893,081
Special Revenue:		
Transportation	134	34,671
Tobacco Settlement		
Endowment	--	992,361
Conservation	19,939	9,666
Wisconsin Election Campaign	322	--
Medical Assistance Trust	606,353	44,087
Tobacco Control	6,032	11,146
Agricultural Producer Security	406	--
Historical Legacy Trust	--	40
Petroleum Inspection	762	2,576
Environmental	13,257	9,293
Recycling	--	353
Universal Service	--	1,463
Wisconsin Public Broadcasting		
Foundation	--	6,217
Capital Projects:		
Building Trust	19,843	1,264
Energy Efficiency	--	4,585
Capital Improvement	8,765	115,087
Transportation Revenue Bonds	5,060	3,198
Debt Service:		
Bond Security and Redemption	253,399	4
Transportation Revenue Bonds	4	5,060
Permanent Funds:		
Common School	10,000	1,463
Historical Society	59	--
Enterprise:		
Environmental Improvement	15,085	10,200
Veterans Mortgage		
Loan Repayment	--	224
University of Wisconsin		
System	1,042,075	7,921
State Fair Park	3,872	690
Homes for Veterans	832	940
Mendota Mental Health		
Institute	25,849	1,688
Winnebago Mental		
Health Institute	18,661	1,920
Northern Developmental		
Disabilities Center	148	4,997

(Continued)

Fund	interfund Transfers In	interfund Transfers Out
Central Developmental		
Disabilities Center	1,850	2,789
Southern Developmental		
Disabilities Center	2,325	2,443
Institutional Farm Operations	1,049	5
Correctional Canteen		
Operations	649	272
Lottery	1,589	14,099
Health Insurance Risk		
Sharing Plan	10,781	--
Veterans Trust	--	124
Internal Service:		
Technology Services	--	8,647
Fleet Services	872	415
Financial Services	--	940
Facilities Operations		
and Maintenance	11,213	2,310
Risk Management	--	345
Badger State Industries	201	34
Private-Purpose Trust:		
Unclaimed Property Program	--	10,000
College Savings Program		
Trust	--	937
Tuition Trust	937	--
Total transfers reported in fund financial statements	3,205,088	3,207,554
Transfer of capital assets between proprietary funds and governmental funds		(2,466)
	<u>\$3,205,088</u>	<u>\$3,205,088</u>

F. Transfers from Component Units

Interfund Transfers in and out between funds and component units that occurred during Fiscal Year 2002 were as follows (in thousands):

Fund/Component Unit	Transfers from Component Units	Transfers to Primary Government
Primary Government:		
Enterprise:		
University of Wisconsin System	\$ 275	\$ --
Component Unit:		
University of Wisconsin Hospitals and Clinics Authority	--	275
Total	\$ 275	\$ 275

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2002, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$ 2,654,402	\$ 762,589	\$ 454,402	\$ 2,962,588	\$ 210,940
Revenue Bonds	1,023,313	504,392	362,644	1,165,061	51,163
Total Bonds and Notes Payable	3,677,715	1,266,981	817,046	4,127,649	262,103
Other Liabilities:					
Future Benefits and Loss Liability	100,285	30,226	18,690	111,821	-
Capital Leases	19,481	10,326	9,117	20,690	7,694
Installment Contracts	1,104	1,216	1,071	1,249	526
Compensated Absences	88,521	2,628	141	91,008	40,974
Employer Pension Related Debt Costs	689,531	52,846	35,374	707,003	-
Claims, Judgments and Commitments	1,784	188	-	1,972	-
Total Governmental Activities					
Long-term Liabilities	\$ 4,578,421	\$ 1,364,410	\$ 881,439	\$ 5,061,392	\$ 311,296

Repayment of the general obligation bonds is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2002. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. The compensated absences liability will be liquidated by the State's governmental and internal service funds. Long-term liabilities for employer pension costs, and claims, judgments and commitments are generally liquidated with resources of the governmental activities.

Business-type Activities	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$ 1,059,273	\$ 147,537	\$ 210,573	\$ 996,238	\$ 43,206
Revenue Bonds	587,784	102,426	30,759	659,451	35,410
Total Bonds and Notes Payable	1,647,057	249,963	241,332	1,655,689	78,616
Other Liabilities:					
Future Benefits and Loss Liability	1,006,704	161,148	90,384	1,077,468	125,330
Capital Leases	34,633	22,783	19,637	37,779	4,423
Compensated Absences	74,389	3,027	-	77,416	45,422
Total Business-type Activities					
Long-term Liabilities	\$ 2,762,783	\$ 436,921	\$ 351,353	\$ 2,848,352	\$ 253,792

Component Units

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds	\$ 2,322,066	\$ 2,439,394	\$ 765,491	\$ 3,995,969	\$ 208,724
Future Benefits and Loss Liability	84,028	--	16,817	67,212	7,398
Capital Leases	28,597	--	2,825	25,772	2,845
Compensated Absences	3,028	149	--	3,177	3,177
Total Component Units					
Long-term Liabilities	<u>\$ 2,437,719</u>	<u>\$ 2,439,543</u>	<u>\$ 785,133</u>	<u>\$ 4,092,129</u>	<u>\$ 222,143</u>

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2002 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	\$ 2,962,588
Revenue Bonds:	
Transportation	965,264
Petroleum Inspection	199,797
Total Governmental Activities	<u>4,127,649</u>
Business-Type Activities:	
General Obligation Bonds:	
Veterans Mortgage Loan Repayment	697,869
University of Wisconsin System	274,314
Other Business-Type	24,055
Revenue Bonds:	
Environmental Improvement	659,451
Total Business-Type Activities	<u>1,655,689</u>
Total Primary Government	<u>5,783,338</u>
Component Units	
Wisconsin Housing and Economic Development Authority Revenue	2,322,124
University of Wisconsin Hospitals and Clinics Authority Revenue Bonds	106,500
Badger Tobacco Asset Securitization Corporation	1,567,345
Total Component Units	<u>3,995,969</u>
Total at June 30, 2002	<u><u>\$ 9,779,307</u></u>

A. General Obligation Bonds

Primary Government

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. To date, the Commission has authorized and issued general obligation bonds primarily to provide funds for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Occasionally, general obligation bonds are also issued for the purpose of providing funds for veterans housing loans and to refund general obligation bonds. All general obligation bonds authorized and issued by the State are secured by a pledge of the full faith, credit and taxing power of the State of Wisconsin and are customarily repaid over a period of twenty to thirty years.

Article VIII of the Wisconsin Constitution and Wis. Stat. Sec. 18.05 set limits on the amount of debt that the State can contract in total and in any calendar year. In total, debt outstanding cannot exceed five percent of the value of all taxable property in the State. Annual debt issued cannot exceed the lesser of three-quarters of one percent or five percent of the value of all taxable property in the State less net indebtedness at January 1.

At June 30, 2002, \$2,621.3 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2002 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	6.9 to 7.0	5/10	\$ 65,859	\$ 26,415
1991	1991 Series B and I	5/91; 6/91	5.25 to 9.6	1/21	202,136	86,261
1992	1992 Series B and Refunding Issue	6/92; 3/92	6.0 to 6.6	1/22	478,935	257,600
1993	1992 C and 2	10/92; 11/92				
	1993 1, 2 and A and H; 1993AC	1/93; 3/93; 5/93; 1/93	4.4 to 8.85	5/15	726,175	324,198
1994	1993 Refunding Issues	8/93; 12/93; 10/93; 3/94;				
	3, 4, 5, 6; 1994 Refunding Issue 2; and 1994 Series A and B; 1994 1	1/94; 6/94; 1/94	4.3 to 7.18	5/24	838,215	414,208
1995	1994 Series 3 and C;	9/94; 9/94				
	1995 Series A & B, and 1	1/95; 2/95; 2/95	5.3 to 7.18	5/25	336,715	77,526
1996	1995 Series 2 and C;	10/95; 9/95;				
	1996 Series 1, B; 1995 AC and Note 995B	2/96; 1/96; 5/96; 8/95 and 7/95	4.20 to 7.64	11/26	453,537	261,625
1997	1996 C and D;	9/96; 10/96;				
	1997 1 and A; 1996 AC; 1997 AC	3/97; 3/97; 8/96; 3/97	4.75 to 7.81	5/28	200,230	95,365
1998	1997 B, C and D;	7/97; 9/97; 10/97; 2/98	4.25 to 7.81	11/28	421,765	334,276
	1998 A, B and C; 1997 AC 2 and 1998 AC	9/97; 3/98; 5/98; 5/98				
1999	1998 Series 1, 2, D, E and F;	8/98; 9/98; 9/98; 10/98	4.0 to 7.25	11/30	590,675	521,450
	1999 Series 1, A and B	10/98; 2/99; 5/99; 5/99				
2000	1999 C and D; 2000 A; 1999 AC	10/99; 11/99; 3/00; 12/99	5.10 to 8.0	11/30	320,000	229,165
2001	2000 Series B, C, D, E; and 2001 Series A, B, C and D, 2000 AC; 2001 AC	7/00; 7/00; 11/00; 11/00 2/01; 4/01; 6/01; 6/01; 11/00; 4/01	3.0 to 8.05	11/31	556,710	471,300
2002	2001 Series 1, E, F and F1; and 2002 Series 1, A, B, C, and D; 2001 BC	10/01; 10/01; 0/01; 10/01; 3/02; 3/02; 3/02; 6/02; 6/02; 12/01	3.0 to 6.96	5/33	824,545	823,920
Total					6,015,497	3,923,309
Premiums/Discounts					--	42,571
Deferred Amount on Refunding					--	(7,055)
Total General Obligation Bonds and Notes					\$ 6,015,497	\$ 3,958,825

As of June 30, 2002, general obligation bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2003	\$ 213,575	\$ 158,579	\$ 44,277	\$ 57,551
2004	204,999	146,042	41,750	55,734
2005	198,510	134,846	43,721	53,541
2006	196,996	122,493	44,476	51,403
2007	194,194	111,708	40,011	49,028
2008-2012	893,367	403,970	191,693	214,125
2013-2017	651,986	196,177	207,282	158,172
2018-2022	370,559	49,537	171,778	100,417
2023-2027	--	--	134,430	51,289
2028-2032	--	--	76,245	12,070
2033-2034	--	--	2,460	121
Total	2,924,186	1,322,852	999,123	803,451
Premiums/Discounts	39,657	--	2,914	--
Deferred Amount on Refunding	(1,255)	--	(5,800)	--
Total	\$ 2,962,588	\$ 1,322,852	\$ 996,237	\$ 803,451

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of \$26.4 million which is the accreted value at June 30, 2002. The bonds mature on May 1 through the year 2010.

The general obligation bonds of 1991, Series B, are zero coupon bonds recorded in the amount of \$48.5 million. The bonds mature on May 1 through the year 2011.