B. Revenue Bonds

Primary Government

Chapter 18, Wisconsin Statutes, authorizes the State to issue revenue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

Transportation Revenue Bonds

Transportation Revenue Bonds are issued to finance part of the costs of certain transportation facilities and major highway projects. Chapter 18, Subchapter II of the Wisconsin Statutes as amended, Wis. Stat. Sec. 84.59 and a general bond resolution and series resolutions authorize the issuance of these bonds.

The Department of Transportation is authorized to issue a total of $1,753.1 million of revenue bonds. Presently, there are twelve issues of Transportation Revenue Bonds totaling $965.3 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 2002 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
20022	4/02	3.0 to 5.5	7/22	$ 68,930	$ 68,930
20021	4/02	4.5 to 5.75	7/19	241,865	241,865
2001A	11/01	3.0 to 5.0	7/22	140,000	140,000
2000A	9/00	5.3 to 5.5	7/21	93,100	93,100
1998A&B	8&10/98	4.0 to 5.5	7/19	229,545	221,255
1996A	5/96	5.0 to 6.0	7/08	54,630	35,475
1995A	9/95	4.8 to 6.25	7/07	49,495	28,230
1994A	7/94	5.1 to 7.5	7/05	41,845	17,860
1993A	9/93	4.3 to 5.0	7/12	116,450	88,720
1992A&B	7/92	5.2	7/02	67,030	15,800
				1,102,890	951,235
Unamortized Premium					14,029
Total				$1,102,890	$ 965,264

Petroleum Inspection Fee Revenue Bonds

Petroleum Inspection Fee (PIF) Revenue Bonds are issued to finance claims made under the Petroleum Environmental Cleanup Fund Award (PECFA) Program for reimbursement of cleanup costs to soil and groundwater contamination. The program reimburses owners for 75 percent to 99 percent of cleanup costs associated with soil and groundwater contamination.

Presently, there are two issues of PIF Bonds outstanding totaling $199.8 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2002 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2001A	12/01	5.0	7/08	$ 30,000	$ 30,000
2000A	3/00	5.0 to 6.0	7/12	170,250	168,500
				200,250	198,500
Unamortized Premium				--	1,297
Total				$ 200,250	$ 199,797

Clean Water Revenue Bonds

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to $1,398.0 million in Revenue Bonds. At June 30, 2002, there were ten issues of Revenue Bonds outstanding totaling $659.5 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Fund as of June 30, 2002 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2002-1	5/01	4.0 to 5.25	6/23	$100,000	$100,000
2001-1	4/01	4.5 to 5.0	6/21	70,000	67,690
1999-1	9/99	5.0 to 5.75	6/20	80,000	74,885
1998-2	8/99	4.0 to 5.5	6/17	104,360	102,560
1998-1	1/98	4.0 to 5.0	6/18	90,000	77,565
1997-1	2/97	4.5 to 6.0	6/17	80,000	45,215
1995-1	7/95	4.0 to 6.25	6/15	80,000	26,990
1993-2	9/93	2.75 to 6.25	6/08	81,950	76,120
1993-1	9/93	3.6 to 5.3	6/13	84,345	28,935
1991-1	4/91	5.4 to 6.9	6/11	225,000	57,445
				995,655	657,405
Unamortized Premium					10,562
Less: Unamortized discount and charge					(8,516)
Total, net of discount, charge and premium				$995,655	$659,451

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

	Governmental Activities				Business-Type Activities	
	Transportation Revenue Bonds		Petroleum Inspection Fee Revenue Bonds		Clean Water Revenue Bonds	
Fiscal Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 38,115	$ 50,874	$ 11,440	$ 10,840	$ 35,410	$ 17,475
2004	46,870	45,856	12,070	10,139	37,305	16,615
2005	51,835	43,468	12,735	9,425	39,090	15,707
2006	54,410	40,875	13,495	8,638	40,985	14,727
2007	56,675	38,180	14,305	7,830	43,170	13,607
2008-2012	263,000	149,052	114,570	19,737	230,610	97,746
2013-2017	241,670	83,484	19,885	577	147,475	43,722
2018-2022	178,590	28,040	--	--	75,950	11,793
2023-2027	20,070	509	--	--	7,410	378
Total	951,235	480,338	198,500	67,186	657,405	231,770
Unamortized Premium	14,029	--	1,297	--	10,562	--
Unamortized Discount/Charge	--	--	--	--	(8,516)	--
Total, net	$ 965,264	$ 480,338	$ 199,797	$ 67,186	$ 659,451	$ 231,770

Component Units

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2002 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 1,966,342
Special obligation and subordinated Special obligation	359,283
Total	2,325,625
Less: Deferred amount on refunding	(3,501)
Total, net	$ 2,322,124

Authority's Revenue Bonds and Notes

The Authority's revenue bonds and notes are collateralized by the revenues and assets of the Authority, subject to the provisions of resolutions and note agreements which pledge particular revenues or assets to specific bonds or notes. The bonds are subject to mandatory sinking fund requirements and may be redeemed at the Authority's option at various dates and at prices ranging from 100 percent to 103 percent of par value. Any particular series contains both term bonds and serial bonds which mature at various dates.

The Authority's revenue bonds and notes outstanding at June 30, 2002 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1992 A	1/92	6.3 to 6.85	2012	$ 49,920
1992 B,C,D	4/92	7.0 to 7.2	2022	65,795
1993 A&B	10/93	4.8 to 5.65	2023	56,005
1993 C	12/93	5.0 to 5.875	2019	110,060
1995 A&B	7/95	5.15 to 6.5	2026	42,555
1998 A,B&C	2/98	4.4 to 6.88	2032	37,050
1999 A&B	10/99	4.55 to 6.18	2031	40,100
2000 A&B	9/00	Variable	2032	10,685
2002 A, B&C	5/02	5.2 to 5.6	2033	110,135
2002 D, E&G	5/02	Variable	2034	15,950
2002 F	5/02	Variable	2033	10,500
2002 H	5/02	4.68	2033	25,520
2002 I	5/02	Variable	2033	7,055
				581,330

(Continued)

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1987 B&C	8/87	7.375	2015	1,535
1992 1,2	6/92	6.35 to 6.875	2024	43,785
1994 A&B	4/94	5.6 to 6.75	2025	32,330
1995 A&B	1/95	6.1 to 7.1	2025	26,360
1995 C,D&E	5/95	5.35 to 6.3	2026	51,865
1995 F,G&H	9/95	5.0 to 7.875	2026	30,430
1996 A&B	3/96	5.1 to 6.15	2027	47,930
1996 C&D	7/96	5.3 to 6.45	2027	44,100
1996 E&F	11/96	4.9 to 6.2	2027	37,535
1997 A,B&C	4/97	5.0 to 7.43	2028	51,855
1997 D&E	6/97	4.75 to 6.0	2028	69,625
1997 G,H&I	11/97	4.6 to 5.75	2028	55,360
1998 A,B&C	4/98	4.75 to 6.3	2028	98,815
1998 D&E	6/98	4.35 to 6.04	2028	92,965
1999 C,D&	4/99	3.85 to 7.29	2029	77,530
1999 A&B	8/99	5.3 to 5.8	2021	56,770
1999 F&G	7/99	4.3 to 7.07	2030	63,570
2000 A,B&C	3/00	4.95 to 7.78	2030	50,690
2000 D&E	9/00	5.0 to 7.91	2031	67,590
2000 F	7/00	Variable	2015	12,330
2000 G	11/00	4.65 to 7.21	2031	36,050
2000 H	11/00	Variable	2024	19,845
2001 A,B,C & D	5/01	3.95 to 6.4 & Variable	2032	85,735
2002 A&C	2/02	1.8 to 5.5	2032	88,020
2002 B	2/02	5.88	2032	20,000
2002 C	2/02	3.69	2016	14,945
2002 D	2/06	2.91	2022	12,600
				1,226,595
Business Development Bonds:				
1989 3&28	Various	4.4 to 5.2	2014	2,215
1991 4,6	Various	3.75 to 5.5	2006	2,380
1994 1,4	Various	Variable	2014	2,655
1995 1-2,4-9	Various	Variable	2015	12,450
				19,700
Notes Payable	Various	Variable	2021	75,147
Authority's Total Revenue Bonds and Notes				$1,966,342

Authority's Special Obligation Bonds

The Authority's Special Obligation Bonds are special limited obligations of the Authority and are collateralized by the revenues and assets of each bond resolution.

Special obligation bonds at June 30, 2002 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1993 A	6/92	5.5 to 6.5	2025	$ 63,855
1994 C&D	8/94	5.5 to 6.65	2025	21,630
1998 F&G	10/98	3.85 to 6.7	2029	81,895
				167,380
Single Family Drawdown Revenue Bonds:				
2001-1	11/01	Variable	2004	191,903
				191,903
Total Special Obligation Bonds				$ 359,283

The interest rate used to calculate Series 1997 future debt service is 3.22 percent, which represents the 10-year BMA rate. The Master Indenture requires that future variable rate equal the interest rate in effect on the last date of each of any consecutive six months occurring in the nine full calendar months immediately preceding the month in which the calculation is made.

Under a Business Development Program and a Beginning Farmer Program, revenue bonds are issued which do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin. They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. They are payable solely out of the revenues derived pursuant to the loan agreement, or in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property. Therefore, the bonds are not reflected in the financial statements. As of June 30, 2002, the Authority had issued 136 series of such bonds in an aggregate principal amount of $81.9 million for economic projects in Wisconsin.

Housing Revenue Bonds, 2002 Series H – The Authority entered into an interest rate swap agreement totaling $25.52 million which matures on November 1, 2033. The weighted fixed rate of the swap agreement is 4.68%. In return, the counterparty pays interest based on 70% of the USD-LIBOR-BBA rate. During the term of the swap agreement, the Authority expects to effectively pay a fixed rate on the debt of 4.68%. The Authority will be exposed to variable rates if the counterparty to the swap defaults, if the swap is terminated or if the effective interest rate determined by the Underwriter used for Bond Holder payments increases over the variable rate index used for calculating the interest received from the counterparty. At June 30, 2002, the valuation of this agreement resulted in an unrealized loss of $974,655. The interest rate hedge is currently classified as effective. The agreement provides the Authority with a synthetic fixed interest rate on a portion of its debt. The Authority does not intend to terminate this agreement.

Home Ownership Revenue Bonds, 2002 Series B – The Authority entered into an interest rate swap agreement totaling $20.0 million which matures on March 1, 2020. The weighted fixed rate of the swap agreement is 5.88%. In return, the counterparty pays interest based on the USD-LIBOR-BBA rate + 35 basis points. During the term of the swap agreement, the Authority expects to effectively pay a fixed rate on the debt of 5.88%. The Authority will be exposed to variable rates if the counterparty to the swap defaults, if the swap is terminated or if the effective interest rate determined by the Underwriter used for Bond Holder payments increases over the variable rate index used for calculating the interest received from the counterparty. At June 30, 2002, the valuation of this agreement resulted in an unrealized loss of $609,834. The interest rate hedge is currently classified as effective. The agreement provides the Authority with a synthetic fixed interest rate on a portion of its debt. The Authority does not intend to terminate this agreement.

Home Ownership Revenue Bonds, 2002 Series C – The Authority entered into an interest rate swap agreement totaling $14.9 million which matures on September 1, 2012. The weighted fixed rate of the swap agreement is 3.69 %. In return, the counterparty pays interest based on 67% of the USD-LIBOR-BBA rate. During the term of the swap agreement, the Authority expects to effectively pay a fixed rate on the debt of 3.69%. The Authority will be exposed to variable rates if the counterparty to the swap defaults, if the swap is terminated or if the effective interest rate determined by the Underwriter used for Bond Holder payments increases over the variable rate index used for calculating the interest received from the counterparty. At June 30, 2002, the valuation of this agreement resulted in an unrealized loss of $402,837. The interest rate hedge is currently classified as effective. The agreement provides the Authority with a synthetic fixed interest rate on a portion of its debt. The Authority does not intend to terminate this agreement.

Home Ownership Revenue Bonds, 2002 Series D – The Authority entered into an interest rate swap agreement totaling $12.6 million which matures on September 1, 2006. The weighted fixed rate of the swap agreement is 2.91%. In return, the counterparty pays interest based on 70% of the USD-LIBOR-BBA rate. During the term of the swap agreement, the Authority expects to effectively pay a fixed rate on the debt of 2.91%. The Authority will be exposed to variable rates if the counterparty to the swap defaults, if the swap is terminated or if the effective interest rate determined by the Underwriter used for Bond Holder payments increases over the variable rate index used for calculating the interest received from the counterparty. At June 30, 2002, the valuation of this agreement resulted in an unrealized loss of $121,664. The interest rate hedge is currently classified as effective. The agreement provides the Authority with a synthetic fixed interest rate on a portion of its debt. The Authority does not intend to terminate this agreement.

The commercial paper obligations are issued for terms of one to 270 days. These obligations bear interest at various rates, which ranged from 1.50%-1.65% and 2.70%-3.10% at June 30, 2002 and June 30, 2001 respectively. The obligations are backed by a line of credit agreement which is renewable annually and bears interest at variable rates, based on an index defined in the agreement. The line of credit agreements used for temporary mortgage financing, one of which is renewable annually, bear interest based on the 30 day LIBOR rate. The three agreements bear interest at the rates of 2.375%, 2.740% and 2.344% at June 30, 2002.

University of Wisconsin Hospitals and Clinics Authority

In April 1997, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) issued $50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 1997 Bonds are due annually commencing in April 2010 through April 2026. Interest is payable monthly. The effective annual estimated interest rate was 1.8 percent in 2002.

In March 2000, the Hospital issued $56.5 million of Hospital Revenue Bonds Series 2000. The bond proceeds are designated to finance qualified capital projects. Principal payments are due annually commencing in April 2007 through April 2029. Interest rates range from 5.35 percent to 6.20 percent and interest is payable semiannually on April 1 and October 1 each year beginning October 1, 2000.

The Series 1997 Bonds and Series 2000 Bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions including compliance with the terms and conditions of the lease agreement (Note 1-B) and provisions limiting the amount of additional indebtedness which may be incurred. The borrowing agreements also require the establishment and maintenance of certain funds under the control of a trustee. These funds are held by the trustee and are reflected in Restricted and Limited Use Assets – Investments in the accompanying financial statements.

The Hospital is limited to total borrowings, exclusive of amounts payable to the primary government, to $175.0 million, with limited exceptions.

The revenue bonds of the Hospital do not constitute debt of the State nor is the State liable on those bonds.

Badger Tobacco Asset Securitization Corporation

In May 2002, the Badger Tobacco Asset Securitization Corporation issued $1.6 billion of bonds for the purpose of making a one-time purchase of Tobacco Settlement Revenue (TSRs) from the State. Interest on the bonds is due June 1 and December 1, commencing December 1, 2002. See Note 1-B for additional discussion.

As of June 30, 2002, debt service requirements for principal and interest for component units at May 31 or June 30, 2002 are as follows (in thousands):

	Component Units					
Fiscal Year Ended	Wisconsin Housing and Economic Development Authority Bonds		University of Wisconsin Hospitals and Clinics Authority Bonds		Badger Tobacco Asset Securitization Corporation	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 208,724	$ 111,444	$ --	$ 4,712	$ --	$ 99,813
2004	51,590	109,798	--	5,049	--	97,643
2005	259,791	106,890	--	5,042	12,210	97,643
2006	61,435	100,437	--	5,045	12,315	96,972
2007	64,400	97,051	580	5,045	12,485	96,294
2008-2012	351,560	428,245	7,785	24,418	166,665	461,173
2013-2017	381,125	320,700	19,575	21,558	209,260	409,432
2018-2022	336,345	240,435	27,560	16,551	258,810	341,463
2023-2027	379,375	147,118	34,515	10,261	404,880	245,886
2028-2032	219,425	45,365	16,485	1,549	514,470	93,882
2033	11,555	5,588			--	--
Total	2,325,625	1,722,076	106,500	99,230	1,591,095	2,040,201
Unamortized Premium/Discount	--	--	--	--	(23,750)	--
Deferred Amount on Refunding	(3,501)	--	--	--	--	--
Total	$2,322,124	$ 1,722,076	$ 106,500	$ 99,230	$1,567,345	$ 2,040,201

C. Refundings and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

The State implemented the provisions of GASB Statement No. 23. *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* beginning with Fiscal Year 1996. This Statement requires proprietary activities to adopt certain accounting and reporting changes for both current refunding and advance refunding resulting in defeasance of debt. GASB Statement No. 23 permits, but does not require, retroactive application of its provisions. The State has chosen not to apply the provisions retroactively to previously issued financial statements.

In February 1996, the State participated in a refunding (1996 Series 1) of general obligation debt that fell within the provisions of GASB Statement No. 23. The State is amortizing these deferred amounts over a period of approximately 19 years, using the straight-line method.

Current Year Refundings/General Obligation Bonds

In October 2001, the State issued $247.1 million of general obligation refunding bonds (2001 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service requirements on $256.3 million of various general obligation bonds outstanding at the time of the refining. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $12.6 million and an economic gain of $8.7 million.

In May 2002, the State issued $75.0 million of general obligation refunding bonds (2002 Series 1), the proceeds of which were used to current refund principal due on $78.8 million of various general obligation bonds outstanding at the time of the refunding. The refunding resulted in an increase in total debt service payments by $27.8 million with no economic gain or loss.

Prior Year Refundings/General Obligation Bonds

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 2002, approximately $662.7 million of general obligation bond principal have been defeased.

Current Year Refunding/Revenue Bonds

In May 2002, the Transportation Revenue Bond Program issued the 2002 Series 1 and 2002 Series 2 refunding bonds under a common plan of finance. Total bond proceeds of $325.2 million were deposited in an escrow account to provide for future debt service requirements on $322.1 million of various transportation revenue bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered to be extinguished in the year ended June 30, 2002 and are not included as liabilities in the accompanying financial statements. The refunding resulted in a decrease in total debt service payments by $15.9 million and an economic gain of $10.6 million.

Prior Year Refundings/Revenue Bonds

For financial reporting purposes, the following primary government revenue bonds have been defeased, and therefore, removed as a liability from the balance sheet:

- Environmental Improvement Fund revenue bonds – At June 30, 2002, revenue bonds outstanding of $91.9 million have been defeased.
- Transportation revenue bonds – At June 30, 2002, revenue bonds outstanding of $510.5 million have been defeased.

In addition, the Wisconsin Housing and Economic Development Authority (the Authority), a proprietary component unit, defeased Insured Mortgage Revenue Bonds payable aggregating $48.4 million and sold the related Insured Mortgage Loan portfolio on March 1, 1990. As of June 30, 2002, the remaining outstanding defeased debt was $33.4 million.

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 2002, the Wisconsin Housing and Economic Development Authority (the Authority) redeemed early various outstanding bonds according to the redemption provisions in the bond resolutions. These redemptions resulted in extraordinary losses due to the write-off of remaining unamortized deferred debt financing costs and, in certain instances, the payment of an early redemption premium. A summary of these early redemptions follows (in thousands):

Bond Issue	Redemptions 2002
Home Ownership Revenue Bond Resolutions:	
1987	$ 104,905
1988	116,045
All Other	92,205
Housing Revenue Bonds	100
General funds	1,285

D. Short-Term Financing

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the Commission has authorized the issuance of notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

General Obligation Commercial Paper Notes

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 2002, the State issued $166.7 million of general obligation commercial paper notes. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the interest due on maturing notes. The State deposited $.4 million with the paying/issuing agent on May 1, 2002, which will be applied after June 30, 2002, to pay-down outstanding general obligation commercial paper notes. At June 30, 2002, the amount of commercial paper notes outstanding was $79.1 million which had interest rates ranging from 1.30 percent to 1.95 percent and maturities ranging from July 2, 2002 to October 15, 2002.

Short term debt activity for the year ended June 30, 2002 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
$ 85.4	$ --	$ 6.3	$ 79.1

General Obligation Extendible Municipal Commercial Paper

The State has authorized general obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 2002, the State issued $340.5 million of general obligation extendible municipal commercial paper. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding extendible commercial paper that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2002, the amount of extendible municipal commercial paper outstanding was $265.9 million which had interest rates ranging from 1.4 percent to 1.9 percent and maturities ranging from July 8, 2002, to September 20, 2002.

Short term debt activity for the year ended June 30, 2002 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
$ 227.4	$ 41.7	$ 3.2	$ 265.9

Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper

The State has authorized petroleum inspection fee revenue extendible municipal commercial paper to pay the costs of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) Program. As of June 30, 2002, the State issued $80.0 million of petroleum inspection fee revenue extendible municipal commercial paper. Periodically, additional extendible municipal commercial paper is issued to pay for maturing paper. The State may periodically deposit money into the Junior Subordinate Principal Account, which represents principal payments to be made on the extendible municipal commercial paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing paper. At June 30, 2002, the amount of extendible commercial paper outstanding was $80.0 million which had interest rates ranging from 1.45 percent to 1.75 percent and maturities ranging from July 10, 2002 to August 20, 2002.

Short term debt activity for the year ended June 30, 2002 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
$ 80.0	$ --	$ --	$ 80.0

Transportation Revenue Commercial Paper Notes

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. As of June 30, 2002, the State issued $154.8 million of transportation revenue commercial paper notes. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2002, the amount of commercial paper notes outstanding was $136.7 million which had interest rates ranging from 1.3 percent to 1.55 percent and maturities ranging from August 2, 2002 to December 5, 2002.

Short term debt activity for the year ended June 30, 2002 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
$ 141.7	$ --	$ 5.0	$ 136.7

E. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by State agencies. This facility is the Third Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 2002, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1996, Series B, in the amount of $.4 million. This series of Master Lease certificates had interest rates ranging from 4.7 percent to 4.9 percent and matures semi-annually through September 1, 2003.
- Master Lease Certificates of Participation of 1996, Series A, in the amount of $22.1 million. This Master Lease certificate evidences the State's obligation to repay revolving loans under a Revolving Credit Agreement, dated July 1, 1996 between Firstar Bank National Association (Trustee) and the Bank of America, as amended. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2009. The balance of this certificate of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.
- Master Lease Certificates of Participation of 1999, Series A, in the amount of $5.1 million. This series of Master Lease certificates have interest rates ranging from 3.5 percent to 3.9 percent and mature semi-annually through March 1, 2005.
- Master Lease Certificates of Participation of 1999, Series B (Taxable), in the amount of $7.8 million. This series of Master Lease certificates have interest rates ranging from 5.5 percent to 5.6 percent and mature semi-annually through September 1, 2005.
- Master Lease Certificates of Participation of 2000, Series A, in the amount of $15.9 million. This series of Master Lease certificates have interest rates ranging from 4.5 percent to 5.0 percent and mature semi-annually through September 1, 2007.
- Master Lease Certificates of Participation of 2000, Series B (Taxable), in the amount of $8.3 million. This series of Master Lease certificates have interest rates ranging from 6.7 percent to 7.0 percent and mature semi-annually through September 1, 2005.
- Master Lease Certificates of Participation of 2002, Series A, in the amount of $45.0 million. This series of Master Lease certificates have interest rates ranging from 2.25 percent to 3.75 percent and mature semi-annually through September 1, 2007.

The Third Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 2002, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $4.1 million. As a result of terminating these lease schedules, the associated liability is removed from the financial statements.

F. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2002, no arbitrage rebate liability existed.

G. Moral Obligation Debt

Through legislation enacted in 1994, the State authorized the creation of local exposition districts. These districts are authorized to issue bonds for costs related to an exposition center, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts' reserve funds that secure up to $200 million principal amount of bonds. To date, one such district has been created, and it has issued $125.8 million of bonds that are subject to the moral obligation. Two other local exposition districts each have authority to issue $160.0 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Each of these districts have issued revenue obligations that do not carry the moral obligation of the State.

Through legislation enacted in 1999, the State authorized the issuance of up to $170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. One bond issue of $33.3 million has been issued that has a special debt service reserve fund secured by the State's moral obligation.

H. Credit Agreements

Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the US Bank National Association under which the Bank has agreed to provide to the State an open line of credit in the amount of $50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 2002, $50.0 million was unused and available.

The State has previously entered into a credit agreement to provide a line of credit for liquidity support for up to $110.0 million of general obligation commercial paper notes. The line of credit expires in March, 2003, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is .095 percent per year.

Also, the State has entered into a credit agreement with two banks to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $150.0 million. This line of credit expires in May, 2003, but is subject to renewal as provided for in the credit agreement. The cost of this line of credit is 0.160 percent per year.

NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The State leases office buildings, space, and equipment under a variety of agreements that vary in lease term, many of which are subject to appropriation from the State Legislature to continue the lease commitment. If such funding, i.e., through legislative appropriation, is judged to be assured, and the likelihood of cancellation through exercise of the fiscal funding clause is remote, leases are considered noncancelable and reported as either a capital lease or an operating lease.

A. Capital Leases

Primary Government

Capital lease commitments in the government-wide and proprietary funds statements are reported as liabilities at lease inception. The related assets along with the depreciation are also reported at that time. Lease payments are reported as a reduction of the liability.

For capital leases in governmental funds, "Other Financing Sources - Capital Lease Acquisitions" and expenditures are recorded at lease inception. Lease payments are recorded as expenditures.

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 2002 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2003	$ 8,530	$ 5,488
2004	6,536	4,861
2005	3,221	3,874
2006	1,481	3,460
2007	1,063	3,325
2008 – 2012	1,803	20,935
2013 – 2017	464	4,022
Total minimum future payments	23,099	45,964
Less: Executory costs	(59)	--
Less: Interest	(2,350)	(8,185)
Present value of net minimum lease payments	$ 20,690	$ 37,779

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of capital assets recorded under capital leases as of June 30, 2002 (in thousands):

	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ --
Buildings and Improvements	1,060	1,087
Machinery and Equipment	31,851	9,728
Less: Accumulated Depreciation	(11,769)	(3,394)
Carrying Amount	$ 21,518	$ 7,421

Master Lease Program

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by state agencies. This facility is the Third Amended and Restated Master Lease between the State acting by and through the Department of Administration and Firstar Bank National Association. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination. Pursuant to terms of the Master Lease, the Trustee for the facility issues parity Master Lease Certificates of Participation that evidence proportionate interest of the owners thereof in lease payments. Items acquired and outstanding on June 30, 2002 consisted of:

Balance Due	Average Life (Weighted Term)
$100,424,929	3.3914 Years

Component Unit

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements). The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities. Interest rates on the related bonds range from 4.0 percent to 7.75 percent, with final maturities due beginning in April 2000 through April 2022. Scheduled principal and interest payments through April 2022 are $32.7 million.

B. Operating Leases

Operating leases, those leases not recorded as capital leases as required by FASB Statement No. 13, are not recorded in the statement of net assets. These leases contain various renewal options, the effect of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals which are not included in the calculation of the future minimum lease payments. The State has adopted the operating lease scheduled rent increase provisions of FASB Statement No. 13. Operating lease expenditures/expenses are recognized as incurred or paid over the lease term.

Governmental and business-type activities rental expenses under operating leases for Fiscal Year 2002 were $51.6 million. Of this amount, $51.1 million relates to minimum rental payments stipulated in lease agreements, $451 thousand relates to contingent rentals, and $472 thousand relates to subrental payments.

The following is an analysis of the future minimum rental payments due under operating leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities	Component Units
2003	$ 41,115	$ 9,663	$ 4,368
2004	33,524	8,708	4,279
2005	25,648	6,902	4,209
2006	20,935	5,678	3,966
2007	18,856	3,747	3,363
2008 - 2012	45,954	14,280	6,928
Minimum lease payments	$ 186,032	$ 48,977	$ 27,114

C. Installment Purchases

The State has entered into installment purchase agreements. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2002 for installment purchases (in thousands):

Fiscal Year	Governmental Activities
2003	$ 595
2004	409
2005	319
2006	54
2007	1
Total minimum future payments	1,377
Less: Interest	(128)
Present value of net minimum installment payments	$ 1,249

NOTE 13. RETIREMENT PLAN

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public employees. The WRS consists of the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1999, may be obtained by writing to:

Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931.

The separately issued financial reports for the years ended December 31, 2000 and 2001 will be available in Calendar Year 2003.

Plan Description

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan. It provides coverage to all eligible State of Wisconsin, local government and other public employees. Any employee of a participating employer who is expected to work at least 600 hours per year for at least one year must be covered by the WRS. As of December 31, 2001, the number of participating employers was:

State Agencies	61
Cities	153
Counties	71
4th Class Cities	34
Villages	206
Towns	175
School Districts	426
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	167
Total Employers	1,321

For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. Employees who retire at or after age 65 (55 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits. The WRS also provides death and disability benefits for employees.

Accounting Policies and Plan Asset Matters

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the variable retirement investment trust and the fixed retirement investment trust. The variable retirement investment trust consists primarily of equity securities. The fixed retirement investment trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the fixed retirement investment trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

The assets of the fixed and variable retirement investment trusts are carried at fair value with all market value adjustments recognized in current operations. Investments are revalued monthly to current market value. The resulting valuation gains or losses are recognized as income, although revenue has not been realized through a market-place transaction.

The WRS does not have any investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5.0 percent or more of plan net assets.

State Contributions Required and Contributions Made

Covered State employees in the General/Teacher category are required by statute to contribute 5.0% of their salary (3.9% for Executives and Elected Officials, 3.8% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employees.

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits; however, State legislation in 1999 prescribed a $200 million contribution holiday for employers for the first time in the plan's history. State contributions made for the years ended December 31, 2001, 2000 and 1999 were as follows (in millions):

	2001	2000	1999
Employer current service	$ 122.9	$ 124.7	$ 121.6
Percent of payroll	4.2%	4.6%	4.9%
Employer prior service	$ 15.5	$ 0.4	$ 31.9
Percent of payroll	0.5%	0.0%	2.5%
Employee required	$ 140.9	$ 134.1	$ 124.2
Percent of payroll	4.9%	4.9%	5.0%
Benefit adjustment contrib.	$ 5.1	$ 12.1	$ 17.6
Percent of payroll	0.2%	0.4%	.7%
Percent of Required Contributions	100%	100%	100%

The WRS uses the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability (UAAL) is generally affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. The UAAL is being amortized over a 40 year period beginning January 1, 1990. However, periodically, the Employee Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions may affect the UAAL, and the resulting actuarial gains or losses are credited or charged to employers' unfunded liability accounts.

All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost.

As of June 30, 2002 and 2001, the WRS's unfunded actuarial accrued liability was $2.0 billion and $2.1 billion, respectively. These amounts are presented as Prior Service Contributions Receivable on the financial statements. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 8 percent.

Employer Pension Costs

The State's unfunded liability as of June 30, 2002, was $707.0 million, or 35.1 percent of the total WRS unfunded liability of $2.0 billion. This liability is determined in accordance with the provisions of GASB Statement No. 27. The State's unfunded liability for prior service is recorded in the governmental activities.

NOTE 14. MILWAUKEE RETIREMENT SYSTEMS

The Milwaukee Retirement Systems (MRS), consisting of the City of Milwaukee Retirement System and the Milwaukee Public Schools Retirement System, is reported as an Investment Trust Fund. MRS provides assets to the State of Wisconsin, Department of Employee Trust Funds (DETF) for investing in its Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT), funds of the Wisconsin Retirement System (WRS). Participation of the MRS in the FRIT and VRIT is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the FRIT and VRIT with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

The investments of the FRIT and VRIT consist of a highly diversified portfolio of securities. Wis. Stat. 25.17(3)(a) allow investments in loans, securities and any other investments as authorized by Wis. Stat. 620.22. Permitted classes of investments include bonds of governmental units or of private corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

Investments are revalued monthly to fair value, with unrealized gains and losses reflected in income.

Monthly, the DETF distributes a pro-rata share of the total FRIT and VRIT earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per DETF Administrative Code, Chapter 10.12(2).

Neither State statute, a legal provision nor a legally binding guarantee exists to support the value of shares.

At June 30, 2002, the FRIT and VRIT held a number of nonnegotiable short-term certificates of deposit. The fair value of these certificates of deposit was approximately $65.4 million, all of which was uncollateralized.

At June 30, 2002, the FRIT and VRIT held $56,084.6 million of investments of which includes $2,335.7 million of securities lending collateral. The following tables present investments of the FRIT and VRIT at June 30, 2002, categorized in accordance with the level of risk requirements of GASB Statement No. 3 (in millions):

Fixed Retirement Investment Trust:

	Category 1	Category 2	Category 3	Fair Value
Bonds	$ 6,658.0	$ --	$ --	$ 6,658.0
Stocks	12,723.9	--	--	12,723.9
Repurchase Agreements	97.7	--	--	97.7
Bankers Acceptances	284.1	--	--	284.1
Total	$ 19,763.7	$ --	$ --	19,763.7
Private Placements				3,530.0
Limited Partnerships				2,598.4
Pooled Equities				15,401.9
Pooled Bonds				4,830.8
Mortgages				685.8
Real Estate Owned				461.9
Custodial Pooled Cash and Equivalents				605.5
Investments Held by Broker Dealers under Securities Loans:				
Bonds				1,438.3
Equities				760.1
Securities Lending Cash Collateral Pooled Investments				505.8
				$ 50,582.2

Variable Retirement Investment Trust:

	Category 1	Category 2	Category 3	Fair Value
Bonds	$ 61.5	$ --	$ --	$ 61.5
Stocks	2,485.4	--	--	2,485.4
Repurchase Agreements	4.4	--	--	4.4
Bankers Acceptances	12.9	--	--	12.9
Total	$ 2,564.2	$ --	$ --	2,564.2
Limited Partnerships				.2
Pooled Equities				2,785.1
Pooled Cash and Equivalents				29.1
Investments Held by Broker Dealers under Securities Loans:				
Equities				100.3
Securities Lending Cash Collateral Pooled Investments				23.5
				$ 5,502.4

The following schedule provides summary information by investment classification for the FRIT at June 30, 2002 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Bonds	Variable and .1 to 25.4	9/02 to 10/49	$ 10,700,776	$ 11,581,063
Common and Preferred Stock	N/A	N/A	32,889,031	28,885,894
Limited Partnerships	N/A	N/A	2,765,778	2,598,401
Mortgages	6.77 to 12.25	8/04 to 6/22	639,001	685,784
Real Estate Owned	N/A	N/A	396,580	461,912
Financial Futures Contracts	N/A	N/A	--	6
Private Placements	Variable and 5.95 to 24.0	9/02 to 12/31	3,464,511	3,530,009
Total Investments			$ 50,855,677	$ 47,743,069

The following schedule provides summary information by investment classification for the VRIT at June 30, 2002 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Bonds	N/A	9/02 to 8/08	$ 192	$ 196
Common and Preferred Stock	N/A	N/A	6,370,547	5,370,734
Limited Partnerships	N/A	N/A	173	174
Financial Futures Contracts	N/A	N/A	--	2
Total Investments			$ 6,370,912	$ 5,371,106

Significant financial data for the FRIT and VRIT for the year ended June 30, 2002 is presented below (in thousands):

Fixed Retirement Investment Trust
Condensed Statement of Net Assets
As of June 30, 2002

Assets:	
Cash and Cash Equivalents	$ 1,361,036
Securities Lending Collateral	2,233,869
Investment Receivables	1,369,394
Investments, at Fair Value	47,743,069
Other Assets	3,041
Total Assets	$ 52,710,409
Liabilities:	
Securities Lending Collateral Liability	$ 2,233,869
Investment Payables	1,205,217
Total Liabilities	3,439,086
Net Assets Held in Trust of:	
Internal Investment Pool Participants	49,221,514
Milwaukee Retirement Systems	49,809
	$ 49,271,323

Fixed Retirement Investment Trust
Condensed Statement of Changes in Net Assets
For the Year Ended June 30, 2002

Additions:	
Net Increase (Decrease) in Fair Value of Investments	$ (3,639,236)
Interest	768,257
Dividends	202,019
Securities Lending Income	71,426
Other	125,802
Total Additions	(2,471,732)
Deductions:	
Investment Expense	135,372
Securities Lending Rebates and Fees	59,504
Net Withdrawals by Pool Participants	1,475,978
Total Deductions	1,670,854
Net Increase (Decrease)	(4,142,586)
Net Assets Held in Trust for Pool Participants	
Beginning of Year	53,413,909
End of Year	$ 49,271,323

Variable Retirement Investment Trust
Condensed Statement of Net Assets
As of June 30, 2002

Assets:		
Cash and Cash Equivalents	$	102,367
Securities Lending Collateral		101,784
Investment Receivables		279,302
Investments, at Fair Value		5,371,106
Total Assets	$	5,854,559
Liabilities:		
Securities Lending Collateral Liability	$	101,784
Investment Payables		285,831
Total Liabilities		387,615
Net Assets Held in Trust of:		
Internal Investment Pool Participants		5,451,641
Milwaukee Retirement Systems		15,303
	$	5,466,944

Variable Retirement Investment Trust
Condensed Statement of Changes in Net Assets
For the Year Ended June 30, 2002

Additions:		
Net Increase (Decrease) in		
Fair Value of Investments	$	(1,020,302)
Interest		2,406
Dividends		33,870
Securities Lending Income		2,764
Total Additions		(981,262)
Deductions:		
Investment Expense		11,827
Securities Lending Rebates and Fees		1,766
Net Withdrawals by Pool Participants		298,397
Total Deductions		311,990
Net Increase (Decrease)		(1,293,252)
Net Assets Held in Trust for Pool Participants		
Beginning of Year		6,760,197
End of Year	$	5,466,944

NOTE 15. OTHER POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the State participates in the Department of Employee Trust Funds administered post retirement life insurance and health insurance benefit programs. The State provides life and health insurance benefits for retired employees in accordance with Chapter 40 of the Wisconsin Statutes.

Post retirement life insurance is provided to employees retiring before age 65 if they (1) have 20 years of creditable service, and (2) are eligible for a retirement annuity. This coverage is at the employee's expense (employee must pay the full premium) until age 65 when reduced coverage is provided at no cost. Employees retiring at or after age 65 are immediately eligible for reduced coverage at no cost. Beginning in the month in which an insured annuitant reaches age 65, premiums are no longer collected and coverage is continued for life. Approximately 12,500 State annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by an independent insurance carrier. Premiums are prefunded with employer paid premiums during the employee's active career. The amount of premiums is determined by the insurer. The accrued liability and assets specifically related to post employment benefits could not be determined.

In accordance with Chapter 40, Wisconsin Statutes, the State also provides that employees retiring and beginning an immediate annuity are eligible for conversion of unused sick leave to post retirement health insurance. At the time of eligibility for an immediate annuity or employee's death, that employee's accumulated unused sick leave balance may be converted at the employee's current rate of pay to credits for the payment of health insurance premiums for the employee or the employee's surviving dependents. The program also provides partial matching of sick leave accumulation depending on years of service and employment category. Health insurance premiums are paid on the employee, or employee's dependents behalf, until the sick leave conversion credits are exhausted. At that time, the employee has the option to continue coverage by paying the total cost of the premiums. Approximately 8,868 annuitants are currently receiving health insurance coverage through sick leave conversion credits. Accumulated sick leave conversion is prefunded based on an actuarially determined percentage of payroll. The actuarial valuation is based on the entry age actuarial cost method.

Significant actuarial assumptions include an 8 percent assumed interest rate, 4.5 percent assumed annual salary growth, and an average sick leave accumulation of 6.4 days per year for non-University employees and 7.4 days per year for University employees. The assets and reserves of the sick leave conversion program are accounted for in a fiduciary fund. The accrued liability for the post retirement health insurance benefits at December 31, 2001, determined through an actuarial valuation performed on that date, was $1,208.8 million. The program's assets on that date were $745.0 million. The unfunded liability was $463.7 million.

Assets of the life insurance and health insurance benefit programs are valued at fair value.

The State's postemployment life and health insurance required and actual contributions totaled $3.9 million and $78.3 million, respectively, during the calendar year ended December 31, 2001.

NOTE 16. PUBLIC ENTITY RISK POOLS ADMINISTERED BY THE DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, protective occupation duty disability insurance and long-term disability insurance. The information provided in this note applies to the period ending December 31, 2001.

A. Description of Funds

The Health Insurance Fund offers group health insurance for current and retired employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Two hundred fifty-eight local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The fund includes both a self-insured, fee-for-service plan as well as various prepaid plans, primarily Health Maintenance Organizations (HMO's).

The Income Continuation Insurance Fund offers disability wage continuation insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. One hundred thirty-eight local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

The Duty Disability Fund offers special disability insurance for State and local Wisconsin Retirement System participants in protective occupations. Participation in the program is mandatory for all Wisconsin Retirement System employers with protective occupation employees. Four hundred and fifty local employers plus the State currently participate. The plan is self-insured and risk is shared between the State and local portions of the plan.

The Long-term Disability Insurance Fund offers long-term disability benefits to participants in the Wisconsin Retirement System (WRS). The long-term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long-term disability insurance coverage, while participating employees active prior to October 15, 1992, may elect coverage through WRS or the long-term disability insurance program.

B. Accounting Policies for Risk Pools

Basis of Accounting - All Public Entity Risk Pools are accounted for in enterprise funds using the full accrual basis of accounting and the flow of economic resources measurement focus.

Valuation of Investments - Assets of the Health Insurance Fund are invested in the State Investment Fund. Assets of the Income Continuation Insurance, Duty Disability and Long-term Disability Insurance funds are invested in the fixed retirement investment trust. Investments are valued at fair value.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using interest rates of 8 percent for income continuation, and 5 percent for long-term disability insurance and duty disability insurance. The liabilities for income continuation, long-term disability, health insurance and duty disability insurance were determined by actuarial methods. The Duty Disability Fund's accounting deficit is being amortized over a twenty-three year period beginning January 1, 2000. Face values are not available.

Administrative Expenses - All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses. Premium deficiencies are not calculated because acquisition costs are immaterial. Claim adjustment expenses are also immaterial.

Reinsurance - Health insurance plans provided by HMO's and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

Risk Transfer - Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of the fund were exhausted, participating employers would not be responsible for the fund's liabilities.

Premium Setting - Premiums are established by the Group Insurance Board (Health, Income Continuation Insurance and Long-term Disability Insurance) and the Employee Trust Funds Board (Duty Disability) in consultation with actuaries.

NOTE 18. INSURANCE FUNDS

Primary Government

A. Local Government Property Insurance Fund

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2002, the Local Government Property Insurance Fund insured 1,183 local governmental units. The total amount of insurance in force as of June 30, 2002 was $30.0 billion.

Valuation of Cash Equivalents and Investments - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 4-B to the financial statements. At June 30, 2002, the fund had $12.0 million of shares in the State Investment Fund which are considered cash equivalents and $15.5 million of high grade, long-term, fixed income obligations.

Premium - Unearned premium reported as deferred revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

Unpaid Claims Liabilities - The Local Government Property Insurance Fund establishes future benefits and loss liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Claims liabilities are recomputed periodically to produce current estimates that reflect recent settlements, claim frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

Policy Acquisition Costs - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

Premium Deficiency – Investment income is considered in determining whether a premium deficiency exists. No premium deficiency existed at June 30, 2002.

Reinsurance - The Local Government Property Insurance Fund uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of June 30, 2002 the fund had $240 million of per occurrence excess of loss reinsurance in force with a $2.0 million combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a $12.0 million annual aggregate retention plus a per claim retention of $10 thousand once the aggregate is met, as respects occurrences for the term of the agreement. Premium ceded to reinsurers during the fiscal year amounted to $3.5 million. Reinsurance loss and adjusting expense recoveries earned for the year amounted to $.2 million.

Unpaid Claims Liabilities

As discussed above, the Local Government Property Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

	2001	2002
Unpaid claims and claim adjustment expenses at beginning of the year	$11,890	$14,436
Less: Reinsurance recoverable	(8,466)	(6,097)
Net unpaid loss liability at beginning of year	3,424	8,339
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	13,050	13,858
Increase (decrease) in provision for insured events of prior years	(675)	301
Total incurred claims and claim adjustment expenses	12,375	14,159
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	5,060	7,278
Claims and claim adjustment expenses attributable to insured events prior years	2,400	8,153
Total payments	7,460	15,431
Net unpaid claims and claim adjustment expenses at end of year	8,339	7,067
Reinsurance recoverable	6,097	4,706
Total unpaid claims and claim adjustment expenses	$14,436	$11,773

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2002 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance
121 East Wilson Street
Madison, Wisconsin 53702

B. State Life Insurance Fund

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The costs of policy issuance and underwriting, all of which vary with, and are primarily related to, the production of new business, have been deferred. These deferred acquisition costs are amortized over a forty year period, considered representative of the life of the contract. The amortization is in proportion to the ratio of annual in-force business to the amount of business issued. Such anticipated in-force business was estimated using similar assumptions to those used for computing liabilities for future policy benefits.

Deferred Acquisition Cost Assumptions

Issue Years	Interest Rate	Lapse Rate	Mortality
1913-1966	3.0%	2.0%	None
1967-1976	3.0	2.0	None
1977-1985	4.0	2.0	None
1986-1994	5.0	2.0	None
1995+	4.0	2.0	None

The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield and mortality. The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

Issue Year	Ordinary Life Insurance in Force	Amount of Policy Liability
1913-1966	$ 14,133	$ 9,027
1967-1976	40,471	15,382
1977-1985	86,152	19,660
1986-1994	55,978	5,672
1995+	29,290	2,111
	$ 226,024	$ 51,852

Bases of Assumptions

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ANB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995+	4.0	1980 CSO, ALB, Aggregate

* Age Last Birthday

All of the State Life Insurance Fund's ordinary life insurance in force is participating. This fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends. Policyholder dividends are declared each year in order to achieve the required level of surplus.

The statutory assets at December 31, 2001 were $75.6 million and the statutory capital and surplus were $6.1 million, and the capital and surplus at June 30, 2002 was $7.4 million.

C. Patients Compensation Fund

The Patients Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice insurance for health care providers in the state. The Patients Compensation Fund pays that portion of a medical malpractice claim which is in excess of the legal primary insurance limit prescribed under law, or the maximum liability limit for which the health provider is insured, whichever limit is greater. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Patients Compensation Fund operating fees. Risk of loss is retained by the fund.

The Future Benefits and Loss Liability Account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses. Individual case estimates of the liability for reported losses and net losses paid from inception of the Patients Compensation Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as of June 30, 2002 as follows (in thousands):

Projected ultimate loss liability	$ 1,302,384
Less: Net loss paid from inception	(518,240)
Less: Liability for reported losses	(35,421)
Liability for incurred but not reported losses	$ 748,723

The Future Benefits and Loss Liability Account also includes a provision for the estimated future payment of the costs to settle claims. These ultimate loss adjustment expenses as of June 30, 2002 are estimated at 5.25 percent of the projected ultimate loss liabilities. The loss reserves are actuarially determined. The loss adjustment expenses paid from the inception of the Patients Compensation Fund are deducted from the projected ultimate loss adjustment expenses provision to determine the liability for loss adjustment expenses as of June 30, 2002 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 68,375
Less: Loss adjustment expense paid from inception	(33,525)
Liability for loss adjustment expense	$ 34,850

The uncertainties inherent in projecting the frequency and severity of large claims because of the Patients Compensation Fund's unlimited liability coverage, and extended reporting and settlement periods, makes it likely that the amounts ultimately paid will differ from the recorded estimated liabilities. These differences cannot be quantified.

The liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense are maintained on a present value basis with the difference from full value being reported as a contra account to the loss reserve liabilities. The loss reserve liabilities are discounted only to the extent that they are matched by cash and invested assets. If all loss liabilities are discounted, the discounted loss liability would be as follows as of June 30, 2002 (in thousands):

Estimated unpaid loss liabilities	$ 784,144
Estimated unpaid loss adjustment expense	34,850
Total estimated loss liabilities	818,994
Less: Amount representing interest	239,965
Discounted loss liabilities	$ 579,029

The future benefits and loss liabilities are continually reviewed as adjustments to these liabilities become necessary. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year.

D. Health Insurance Risk Sharing Plan

The Health Insurance Risk Sharing Plan Fund was established in 1980 to provide major medical and Medicare supplemental insurance for persons unable to obtain this insurance in the private market or who otherwise qualify for eligibility under Section 149.12, Wis. Stats. The Health Insurance Risk Sharing Plan is funded primarily by premiums paid by insureds of the plan, assessments made to participating insurers, reduction of provider payments rates, and general purpose revenue from the State of Wisconsin.

The financial statements of the Health Insurance Risk Sharing Plan fund are prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board. Premiums are recognized as revenues over the terms of the insurance policies, and a liability for unearned premiums is established to reflect premiums received applicable to subsequent accounting periods. Participating insurers are assessed every six months, and revenue is recognized in the period covered by the assessments.

The future benefits and loss liabilities include loss reserves reflecting the accumulation of losses reported but not paid prior to the close of the accounting period and estimates of incurred but unreported losses. Loss reserves are actuarially determined and are based on historical patterns of claim payments and represent the estimated ultimate cost of settling claims incurred prior to June 30. Due to the inherent uncertainties in the reserving process, loss reserves as computed may not reflect the actual payments ultimately to be made. The methods for making such estimates and for establishing the resulting reserves are continually reviewed, and any adjustments are reflected in earnings currently.

The following represents changes in the Future Benefit and Loss Liability account balances for the prior two fiscal years (in thousands):

	2001	2002
Balance, beginning of year	$ 13,414	$ 17,790
Incurred related to:		
Current year	57,688	75,575
Prior years	(3,010)	(7,576)
Total Incurred	54,678	67,999
Paid related to:		
Current year	40,212	60,876
Prior years	10,090	9,617
Total Paid	50,302	70,493
Balance, end of year	$ 17,790	$ 15,296

The Future Benefits and Loss Liability Account also includes a reserve for loss adjustment costs to be incurred in settlement of the claims provided for in the loss reserves.

Component Units

E. Wisconsin Health Care Liability Insurance Plan

The Wisconsin Health Care Liability Insurance Plan (the Plan) is a statutory unincorporated association established by rule of the Commissioner of Insurance of the State of Wisconsin as mandated by the State of Wisconsin legislature. The Plan provides health care liability insurance and liability coverages normally incidental to health care liability insurance to eligible health care providers in the State of Wisconsin calling for payment of premium prior to the effective date of the policy. All insurers authorized to write personal injury liability insurance in the State of Wisconsin, with certain minor exceptions, are required to be members of the Plan.

The Plan generates its premium written revenue by selling medical malpractice insurance. Rates are calculated in accordance with generally accepted actuarial principles. The rates are set so that the Plan will be self-supporting. Profit is not the intent of the Plan.

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from $200 thousand per occurrence and $600 thousand annual aggregate to the current limits of $1.0 million per occurrence and $3.0 million annual aggregate effective July 1, 1998. A general liability coverage is also available to participating health care providers with limits of $1.0 million per occurrence and $3.0 million annual aggregate effective July 1, 1990. The Plan is not covered under any reinsurance contracts.

In the event that sufficient funds are not available for the sound financial operation of the Plan, all members shall, on a temporary basis, contribute to the financial needs of the Plan. Members shall participate in the contributions in the proportion of their respective premiums to the aggregate premiums written by all members of the Plan. Such assessments shall be recouped by rate increases applied prospectively. There were no assessments for the year ended December 31, 2001.

The future benefits and loss liability includes amounts determined from individual reported losses (case reserves) and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability will differ from the amounts provided. The methods for making such estimates and for establishing the resulting liability are annually reviewed, and any adjustments are reflected in income currently. Specific account balances as of December 31, 2000 and December 31, 2001, are as follows (in thousands):

	2000	2001
Balance at January 1	$ 102,030	$ 84,028
Incurred related to:		
Current year	4,916	4,413
Prior years	(19,858)	(19,783)
Total Incurred	(14,942)	(15,370)
Paid related to:		
Current year	101	68
Prior years	2,959	1,378
Total paid	3,060	1,446
Balance at December 31	$ 84,028	$ 67,212

As a result of changes in estimates of insured events of prior years, the provisions for losses and loss adjustment expenses were decreased as indicated in the table above. Also, because of the significant length of time between the date these type of losses are reported and paid, these changes were greater than actual losses incurred for the current year, causing negative incurred losses.

NOTE 19. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State issues revenue bonds to finance the Leveraged Loan Program, which is accounted for as part of the Environmental Improvement Fund. Investors in those bonds rely solely on the revenue generated within the Leveraged Loan Program. Assets of this program are used primarily for loans for Wisconsin municipal waste water projects. Condensed financial statement information of the Leveraged Loan Program as of and for the year ended June 30, 2002 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	175,372
Other Assets		642,407
Total Assets	$	817,779
Liabilities:		
Due to Other Funds	$	1,987
Other Current Liabilities (Including Current Portion of Long-term Debt)		38,395
Noncurrent Liabilities		626,713
Total Liabilities		667,095
Fund Equity:		
Restricted		150,684
Total Fund Equity		150,684
Total Liabilities and Fund Equity	$	817,779

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Loan Interest	$	15,973
Interest Expense		(32,426)
Other Operating Expenses		(2,052)
Operating Income (Loss)		(18,504)
Nonoperating Revenues (Expenses):		
Investment Income		15,116
Capital Contributions		12,808
Change in Fund Equity		9,419
Beginning Fund Equity		141,264
Ending Fund Equity	$	150,684

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(2,037)
Noncapital Financing Activities		52,165
Investing Activities		12,964
Net Increase (Decrease)		63,093
Beginning Cash and Cash Equivalents		103,980
Ending Cash and Cash Equivalents	$	167,072

NOTE 20. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's four component units for the year ended December 31, 2001, May 31, 2002, or June 30, 2002 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	Badger Tobacco Asset Securitization Corporation	Total
Condensed Balance Sheet					
Assets:					
Cash, Investments and Other Assets	$ 2,802,801	$ 122,531	$ 270,604	$ 293,970	$ 3,489,906
Due from Primary Government	176	--	2,397	423	2,995
Capital Assets, Net	22,272	--	199,822	--	222,094
Total Assets	$ 2,825,249	$ 122,531	$ 472,823	$ 294,393	$ 3,714,995
Liabilities:					
Accounts Payable and Other Current Liabilities	$ 151,620	$ 40,997	$ 49,055	$ 4,079	$ 245,751
Due to Primary Government	19	14	2,068	--	2,101
Long-term Liabilities (Current and Noncurrent Portions)	2,322,521	67,212	135,052	1,567,345	4,092,129
Total Liabilities	2,474,160	108,223	186,174	1,571,423	4,339,980
Fund Equity:					
Invested in Capital, Net of Related Debt	--	--	67,550	--	67,550
Restricted	187,301	--	3,963	276,322	467,586
Unrestricted	163,788	14,307	215,136	(1,553,352)	(1,160,121)
Total Fund Equity	351,089	14,307	286,649	(1,277,030)	(624,985)
Total Liabilities and Fund Equity	$ 2,825,249	$ 122,531	$ 472,823	$ 294,393	$ 3,714,995
Condensed Statement of Revenues, Expenses and Changes in Fund Equity					
Program Expenses:					
Depreciation	$ 3,999	$ --	$ 19,049	$ --	$ 23,048
Transfers to Primary Government	--	--	275	--	275
Other	270,537	19,650	462,939	1,277,242	2,030,368
Total Program Expenses	274,536	19,650	482,263	1,277,242	2,053,691
Program Revenues:					
Charges for Services	149,795	13,991	502,564	--	666,350
Operating Grants and Contributions	123,120	--	--	--	123,120
Total Program Revenues	272,915	13,991	502,564	--	789,470
Net Program Revenue/(Expense)	(1,621)	(5,659)	20,301	(1,277,242)	(1,264,221)
General Revenues:					
Interest and Investment Earnings	28,446	--	2,254	212	30,912
Change in Fund Equity	26,825	(5,659)	22,555	(1,277,030)	(1,233,309)
Fund Equity, Beginning of Year	324,264	19,966	264,094	--	608,324
Fund Equity, End of Year	$ 351,089	$ 14,307	$ 286,649	$ (1,277,030)	$ (624,985)

NOTE 21. RESTATEMENTS OF BEGINNING FUND BALANCE/FUND EQUITY/NET ASSETS AND OTHER CHANGES

During Fiscal Year 2002, the State implemented the following standards issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*
- GASB Statement No. 37, *Basic Financial Statements -- and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*

GASB Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state governments, including statement formats and changes in fund types. As a result, fund reclassifications and adjustments to the fund equities reported in the prior year financial statements were required. In addition to fund financial statements, Statement No. 34 requires governments to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus, and to present a Management Discussion and Analysis (MD&A).

Statement No. 35 establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The University of Wisconsin System, reported as an enterprise fund, adopted the requirements of Statement No. 35.

Statement No. 38 requires certain note disclosures at the time Statement No. 34 is implemented.

The provisions of these new standards have been incorporated into the Fiscal Year 2002 financial statements and notes.

The reconciliations that follow summarize changes to the end-of-year fund equities as reported in the 2001 Comprehensive Annual Financial Report to the beginning-of-year fund balances/fund equities/net assets reported for Fiscal Year 2002 (in thousands). These reconciliations include reclassifications and adjustments necessary to implement the new standards discussed above.

A. Fund Statements – Governmental Funds

	Major Funds		Nonmajor	Total
	General	Transportation	Funds	Governmental
Ending fund balances as reported in the 2001 Comprehensive Annual Financial Report:				
General	$ (1,214,848)	$ --	$ --	
Special Revenue - Transportation	--	345,658	--	
Other Special Revenue	--	--	(84,978)	
Debt Service	--	--	9,155	
Capital Projects	--	--	(305,865)	
Expendable Trust	--	--	2,986,399	
Totals	(1,214,848)	345,658	2,604,711	$ 1,735,521
GASB 34 fund structure reclassifications:				
Expendable Trust to Special Revenue:				
Children's Trust	--	--	--	--
Expendable Trust to Pension and Other Employee Benefits Trust:				
Accumulated Sick Leave	--	--	(1,899)	(1,899)
Employee Reimbursement Accounts	--	--	(1,490)	(1,490)
Life Insurance	--	--	(247)	(247)
Deferred Compensation	--	--	(1,148,099)	(1,148,099)
Expendable Trust to Private Purpose Trust:				
Unclaimed Property Program	--	--	(20,674)	(20,674)
Special Death Benefits	--	--	(1,280)	(1,280)
Expendable Trust to Permanent:				
Common School Income (included in Common School)	--	--	--	--
Nonexpendable Trust to Permanent:				
Agricultural College	--	--	305	305
Common School	--	--	451,230	451,230
Normal School	--	--	19,582	19,582
University	--	--	234	234
Historical Society	--	--	11,366	11,366
Benevolent	--	--	14	14
Expendable Trust to Enterprise:				
Unemployment Insurance Reserve	--	--	(1,805,033)	(1,805,033)
	(1,214,848)	345,658	108,720	(760,470)
Less: Capital assets removed from Nonexpendable Trust Funds	--	--	(635)	(635)
	(1,214,848)	345,658	108,085	(761,105)
Other fund structure reclassifications:				
Printing and Other Services	(791)	--	--	(791)
Prior Period Adjustments:				
Recognition of expenditures for county and municipal contract payments	(60,366)	--	--	(60,366)
Correction of the cancelled draft liability reported in the General Fund	(12,467)	--	--	(12,467)
Reclassification of notes payable recorded through the Capital Improvement Fund			(67,760)	(67,760)
Other adjustments of assets and liabilities as of June 30, 2001	2,935	(1,174)	2,285	4,046
Beginning Fund Balances as reported in the 2002 Comprehensive Annual Financial Report	$ (1,285,537)	$ 344,484	$ 42,610	$ (898,443)
Effect of prior period adjustments on the amount of net change in fund balances of the 2001 Comprehensive Annual Financial Report	$ (67,425)	$ (1,174)	$ 185,896	$ 117,297

B. Fund Statements – Proprietary Funds

	Major Funds							
	Patients Compensation	Improvement	Veterans Mortgage Loan Repayment	University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Funds	Total Enterprise	Internal Services Funds
Ending fund equity as reported in the 2001 Comprehensive Financial Report	$ 28,461	$ 824,625	$ 82,284	$ --	$ --	$368,471	$1,303,841	$ 5,738
GASB 34 fund structure reclassifications:								
Enterprise to Private-Purpose Trust:								
Tuition Trust	--	--	--	--	--	786	786	--
College Savings Program Trust	--	--	--	--	--	(31)	(31)	--
Expendable Trust to Enterprise:								
Unemployment Insurance	--	--	--	--	1,805,033	--	1,805,033	--
University of Wisconsin System to Enterprise	--	--	--	4,008,905	--	--	4,008,905	--
Unemployment Insurance Fund adjustments for GASB Statement No. 34	--	--	--	--	6,723	--	6,723	--
University of Wisconsin System adjustments for GASB Statements No. 34 and 35:								
Report Accumulated Depreciation	--	--	--	(1,492,450)	--	--	(1,492,450)	--
Exclude liability for general obligation debt funded by general purpose revenues reported by governmental activities rather than by enterprise fund	--	--	--	745,589	--	--	745,589	--
Other	--	--	--	8,641	--	--	8,641	--
Other fund structure reclassifications:								
Portions of Internal Services Funds to General Fund	--	--	--	--	--	--	--	791
Prior Period Adjustments of assets and as of June 30, 2001	(187)	--	(1,428)	(30,618)	--	(15,372)	(47,605)	(60)
Fund equity July 1, 2001 as restated	$ 28,273	$ 824,625	$ 80,856	$3,240,068	$ 1,811,756	$353,853	$6,339,432	$ 6,469
Effect of prior period adjustments on the amount of net change fund equity of Fiscal Year 2001	$ (187)	$ 0	$ (1,428)	$ 0	$ 0	$ (6,624)	$ (8,239)	$ (176)

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Total Fiduciary
Fund Balances, June 30, 2001 – As reported in the 2001 Comprehensive Annual Financial Report:	$ 60,550,927	$ 3,901,225	$ --	$ 64,452,152
From Expendable Trust Funds Statements:				
Accumulated Sick Leave	1,899	--	--	1,899
Employee Reimbursement Accounts	1,490	--	--	1,490
Life Insurance	247	--	--	247
Deferred Compensation	1,148,099	--	--	1,148,099
Unclaimed Property Program	--	--	20,674	20,674
Special Death Benefits	--	--	1,280	1,280
From Enterprise Funds:				
Tuition Trust	--	--	(786)	(786)
College Savings Program Trust	--	--	31	31
Accrued liability adjustments for GASB Statement No. 34:				
Accumulated Sick Leave	(378,500)	--	--	(378,500)
Unclaimed Property Program	--	--	7,912	7,912
Tuition Trust	--	--	9,697	9,697
College Savings Program Trust	--	--	12,496	12,496
Other adjustments of assets and liabilities as of June 30, 2001	(4,041)	3,520	(117)	(638)
Net assets July 1, 2001 as restated	$ 61,320,120	$ 3,904,745	$ 51,188	$ 65,276,053
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2001	$ (4,041)	$ 3,520	$ (117)	$ (638)

NOTE 22. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

The State is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations.

Claims and Judgments Reported in Governmental Activities

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $2.0 million on June 30, 2002 reported in the governmental activities, are discussed below:

Litigation - The Department of Health and Family Services is involved in various legal proceedings where the ultimate disposition is estimated at $.3 million.

Other Claims - Work Injury Supplemental Benefits - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid to the above individuals totaled $1.7 million at June 30, 2002.

Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. The potential liability amount relating to an unfavorable outcome for certain of these proceedings could impact the State by approximately $3.0 million. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position, except as noted below.

Corporate Tax Measured by Interest from U.S. Securities - In this corporate franchise tax case, American Family Mutual Insurance Company and American Standard Insurance Company sought refunds of taxes paid that were measured by U.S. interest.

Federal law prohibits an income tax on U.S. interest, but allows a non-discriminatory franchise tax measured on U.S. interest. The insurance companies argued that because bonds authorized by the State for housing and development were exempt from State taxes, that the franchise tax was discriminatory. The State had heretofore held that the exemption applied only to direct State taxes and had uniformly included interest on the State authorized bonds in the franchise tax measure. The Wisconsin Tax Appeals Commission and the County Circuit Court upheld the State.

The Court of Appeals, District IV, reversed the decisions. The Supreme Court reversed the Court of Appeals. The taxpayers maintain that the decision is not applicable to 1993 and 1994. The State maintains the principles of the decision are applicable to the subsequent years.

Due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 2002.

Federal Pension Income – The 1984-1988 period settlements with approximately 3,200 military retirees and 14,000 civilian retirees, triggered by the United States Supreme Court ruling in Davis v. Michigan Department of the Treasury are essentially completed. The Davis case had held that a state government violates the intergovernmental tax immunity clause when it provided for taxation of federal pension benefits. Subsequent litigation with other retirees on a variety of issues has occurred, with the Department prevailing in all instances. Litigation is still in progress on a limited number of issues. The Department of Revenue is confident that it will continue to prevail on this issue. Because a fiscal impact cannot be readily determined if the State were not to prevail, and due to the uncertainty in predicting the outcome, a liability has not been recorded.

Environmental Clean-up Actions - The State is involved in environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination. Sixteen sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $2.8 million.

The State is also involved in environmental remediations on 9 properties that do not involve releases from underground storage tanks, with an estimated cost of $2.8 million.

B. Commitments

Primary Government

In addition to legal proceedings, the State is party to commitments which normally occur in governmental operations.

In addition to the amount of encumbrances outstanding at June 30, 2002 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2002 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 221,007
Transportation Revenue Bonds Capital Projects Fund	30,159
General Fund – Department of Commerce programs, including economic and community development programs	2,909

The Environmental Improvement Fund (the Fund) was established to administer the Clean Water Fund Loan Program. Loans are made to local units of government for wastewater treatment projects for terms of up to 20 years. These loans are made at a number of prescribed interest rates based on environmental priority. The loans contractually are revenue obligations or general obligations of the local governmental unit. Additionally, various statutory provisions exist which provide further security for payment. The fund has made financial assistance commitments of $204.0 million as of June 30, 2002. These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations.

In addition, the revenue obligation bonds of the Leveraged Loan Program in the Fund are collateralized by a security interest in all the assets of the Leveraged Loan Program. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Fund's revenue obligation bonds. However, as the loans granted to local units of government are at an interest rate less than the revenue bond rate, the State is obligated by the Fund's General Resolution to fund, at the time each loan is made, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest disparity.

Also, Wisconsin Statutes require that the Fund provide financial hardship assistance for those communities that qualify under Wis. Stat. Sec. 281.58. This assistance may come in the form of reduced interest rates or grants (not to exceed 70 percent of project costs). At fiscal year ended June 30, 2002, future commitments for hardship grants totaled $112.3 million.

The *Patients Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments. One of the fund's annuity providers has defaulted on $600 thousand in annuity payments. The total estimated replacement value of the fund's annuities as of June 30, 2002 was $132.8 million. The fund reserves the right to pursue collection from State guarantee funds.

State Public Deposit Guarantee - As required by Wis. Stat. Sec. 34.08, the State is to make payments to public depositors for proofs of loss (e.g., loss resulting from a bank failure) up to $400 thousand per depositor above the amount of federal insurance. This statutory requirement guarantees that the State will make payments in favor of the public depositor that has submitted a proof of loss. Payments would be made in the order in which satisfactory proofs of loss are received by the State's Department of Financial Institutions, until the designated appropriation is exhausted. At June 30, 2002, the appropriation available totaled $29.4 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Department of Financial Institutions. Any recovery made by the Department of Financial Institutions under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

The Board of Commissioners of Public Lands (BCPL) – The BCPL has entered into a commitment with the Green Bay/Brown County Professional Football Stadium District (the District) to become a "standby bond purchaser" in the event that certain terms and conditions as set forth in a *Standby Bond Purchase Agreement* between the BCPL and the District are met. At June 30, 2002, $30.4 million of cash balance has been restricted in the Common School Fund, a permanent fund, for this purpose.

Component Units

The Wisconsin Housing and Economic Development Authority's mission was expanded since its creation to include administration of the Agricultural and Business Programs. These programs administer funds that are legislatively appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. At June 30, 2002, outstanding loan guarantees totaled $31.7 million.

NOTE 23. SUBSEQUENT EVENTS

Primary Government

Long-term Debt

State of Wisconsin General Obligation Bonds – In September 2002, the State issued $2.0 million of 2002 Series E general obligation bonds to be used to fund veterans primary mortgage loans. Interest is payable on May 1 and November 1, beginning May 1, 2003, with the bonds maturing May 1, of the years 2004 through 2018.

In September 2002, the State issued $13.0 million of 2002 Series F general obligation bonds to be used to fund veterans primary mortgage loans. Interest is payable on May 1 and November 1, beginning May 1, 2003, with the bonds maturing May 1, of the years 2004 through 2033.

In October 2002, the State issued $190.6 million of 2002 Series G general obligation bonds to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes. Interest is payable on May 1 and November 1, beginning May 1, 2003, with bonds maturing May 1, of the years 2004 through 2023.

Revenue Bonds – In October 2002, the Department of Transportation issued $200.0 million of 2002 Series A transportation revenue bonds. The bond proceeds will be used to pay the costs of major highway projects. Interest rates vary from 3.0 to 5.0 percent, payable January 1 and July 1, beginning July 1, 2003. The bonds mature on July 1 of the years 2004 through 2023.

In August 2002, the Environmental Improvement Fund issued $85.5 million in Clean Water Revenue Refunding Bonds, 2002 Series 2. The proceeds were deposited in an escrow account to provide for future debt service requirements on $86.0 million of various clean water revenue bonds outstanding at the time of the refunding.

Commercial Paper Notes – In August and September 2002, the State issued $62.3 million of Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper notes.

Component Units

Wisconsin Housing and Economic Development Authority – In July 2002, the Authority issued $160.0 million of the Home Ownership Revenue Bonds, 2002 Series E, F (taxable), G and H. These bonds were issued under the 1988 Home Ownership Revenue Bond Resolution.

In October 2002, the Authority issued $95.0 million of the Home Ownership Revenue Bonds, 2002 Series I (AMT) and J (taxable). These bonds were issued under the 1987 Home Ownership Revenue Bond Resolution.

The Authority entered into interest rate swap agreements as part of the two bond issues subsequent to June 30, 2002. These agreements include requirements for the pledging of assets based on the Authority's credit rating. As of October 31, 2002, there was no requirement to pledge assets.

In July 2002, the Authority redeemed $38.9 million of the Housing Revenue Bonds, 1992 Series A. These bonds were redeemed from mortgage prepayments and the proceeds of the Housing Revenue Bonds 2002 Series C. In July 2002, the Authority redeemed $62.1 million of the Housing Revenue Bonds, 1992 Series B, C and D. These bonds were redeemed from mortgage prepayments and the proceeds of the Housing Revenue bonds 2002 Series B and G and from a portion of the 2002 Series A bonds.

University of Wisconsin Hospitals and Clinics Authority (the Hospital) – In September 2002, the Hospital cancelled the interest rate swap agreement with a counterparty under which the difference between the fixed- and floating-rate interest amounts calculated on an agreed-upon notional principal amount ($46.5 million) were exchanged. The cancellation resulted in a gain to the Hospital of $1.1 million reflecting additional market value appreciation subsequent to June 30, 2002.

In October 2002, the Hospital issued $68.5 million of Hospital Revenue Bonds Series 2002. The Series 2002 bonds were issued in two (2) series, Series 2002A and Series 2002B. The bond proceeds are designated to finance qualified capital projects.

Bond Issue Series 2002A were issued as Short-Term Adjustable Rate Securities in the amount of $55.6 million and were initially issued in the Auction Mode with a 28-day Rate Period. Principal payments on the Bond Issue Series 2002A, ranging from $.5 million to $3.9 million, are due annually commencing in April 2013 through April 2032. Interest on the Bond Issue Series 2002A is payable at the end of each Rate Period (initially a 28-day Rate Period) and thereafter at the sum of subsequent Auction and Service Charge Rates. The initial interest rate was 1.80% per annum at the time of issuance. The Bond Issue Series 2002A is insured by Financial Security Assurance, Inc.

Bond Issue Series 2002B were issued as Fixed Rate Serial bonds in the amount of $12.9 million. The Series 2002B bonds were sold at a premium totaling approximately $.7. This premium will be amortized to interest expense on a straight-line basis over the life of the bonds. Principal payments on the bond Issue Series 2002B, ranging from $1.4 million to $1.9 million, are due annually commencing in April 2006 through April 2013. Interest on the Bond Issue Series 2002B is not guaranteed by a municipal bond insurance policy or any other form of credit enhancement.

In October 2002, the Hospital also entered into an interest rate swap in order to convert a portion of the Series 2002A short-term adjustable rate securities to fixed rates. The notional amount of this swap agreement was $21.4 million effective October 31, 2002. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85 percent per annum, payable semiannually, and the Hospital will receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly.

Required Supplementary Information

Infrastructure Assets Reported Using the Modified Approach

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that the assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 miles of roads and 4,900 bridges.

Road Network

Condition assessments are completed on a two-year cycle. Numerous measures are used to assess the condition of the State's road network. The State has adopted the International Roughness Index (IRI), as defined by the Federal Highway Administration, as its primary condition measure. IRI is measured on a scale of 0 to 5, with an IRI of 2.69 or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment cause negative impacts for the traveling public by decreasing driver comfort and increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment. At June 30, 2002, approximately 4.6 percent of the State road network had a "poor" IRI rating.

The State estimated that during Fiscal Year 2002, it would cost approximately $470.7 million to maintain and preserve the road network at, or above, the established condition level. Actual maintenance and preservation costs of the road network were $437.6 million, $33.1 million less than estimated. The State of Wisconsin, Department of Transportation's multi-year budgeting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

Bridge Network

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The State has adopted the National Bridge Inventory (NBI) 10-point rating scale as its primary condition measure. Using the Federal Highway Administration's definition, a bridge is considered "structurally deficient" if it has an NBI score of 4 or less on its deck, superstructure, or substructure. "Structurally deficient" bridges cause negative impacts for the public by increasing the likelihood that heavy loads will need to be rerouted to less efficient routes, thus increasing logistic costs for State businesses. It is the State's policy to ensure no more than 15 percent of its bridges are "structurally deficient". At June 30, 2002, approximately 7.6 percent of the State bridge network was rated "structurally deficient".

The State estimated that during FY 2002, it would cost approximately $33.6 million to maintain and preserve the bridge network at, or above, the established condition level. Actual costs for maintenance and preservation were $38.4 million, $4.8 million more than estimated. The Department of Transportation's multi-year budgeting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult, since expenditures for the current year may have been budgeted and committed to a project in prior years.

State of Wisconsin

Budgetary Comparison Schedule
General and Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2002

(In Thousands)

	General Fund		
	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 935,893
Revenues and Transfers (Inflows):			
Taxes	$ 10,677,729	$ 10,226,169	10,036,703
Departmental:			
Tobacco Settlement	155,526	155,526	156,215
Tobacco Securitization	450,000	681,000	681,000
Other	9,964,803	9,979,516	9,976,159
Transfers from:			
Transportation Fund	6,692	11,026	11,545
Veterans Mortgage Loan Repayment Fund	224	224	224
Nonmajor Funds	7,664	8,685	8,685
Total Revenues and Transfers	21,262,638	21,062,146	20,870,532
Amounts Available for Appropriation			21,806,424
Appropriations and Transfers (Outflows):			
Commerce	260,538	256,084	207,956
Education	8,766,778	8,871,414	8,583,634
Environmental Resources	268,645	257,535	228,211
Human Relations and Resources	7,710,719	9,236,672	8,531,381
General Executive	689,772	819,440	622,510
Judicial	104,543	109,009	107,534
Legislative	63,934	62,467	62,228
General	1,946,850	2,902,717	2,875,614
Transfers to:			
General Fund	-	-	-
Tobacco Control Fund	6,032	6,032	6,032
Other Nonmajor Funds	406	406	406
Total Appropriations and Transfers	$ 19,818,217	$ 22,521,776	21,225,507
Fund Balances, End of Year			580,917
Less Encumbrances Outstanding at June 30, 2002			(506,279)
Fund Balances, End of Year Budgetary Basis			$ 74,638
Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Amount Reported in the Annual Fiscal Report:			
Amount from Annual Fiscal Report			$ 77,429
Late Audit Adjustment			(2,791)
Revised End of Year Fund Balance, Budgetary Basis			$ 74,638

Transportation Fund			Tobacco Settlement Endowment Fund		
Original Budget	Final Budget	Actual Amounts	Original Budget	Final Budget	Actual Amounts
		$ 317,414			$ 0
$ 887,934	$ 887,934	887,934	$ -	$ -	-
-	-	-	-	-	-
-	-	-	-	-	-
1,301,291	1,301,291	1,301,291	1,276,155	1,276,155	1,276,155
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,189,225	2,189,225	2,189,225	1,276,155	1,276,155	1,276,155
		2,506,639			1,276,155
83	87	87	-	-	-
-	-	-	-	-	-
3,121,493	3,305,960	2,109,788	-	-	-
-	-	-	-	-	-
4,241	2,096	2,085	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,338	17,743	17,743	-	-	-
6,692	11,026	11,545	605,526	836,526	681,000
-	-	-	-	-	-
-	-	-	-	-	-
$ 3,149,848	$ 3,336,912	2,141,249	$ 605,526	$ 836,526	681,000
		365,390			595,155
		(910,580)			-
		$ (545,189)			$ 595,155

NOTE 1. BUDGETARY INFORMATION

A. Budgetary-GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule compares the legally adopted budget (more fully described in RSI Note 1-B) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2002 is presented below (in thousands):

	General Fund	Transportation Fund	Tobacco Settlement Endowment
Fund balance June 30, 2002 (budgetary basis – budgetary fund structure)			
As reported on the budgetary comparison schedule	$ 74,638	$ (545,189)	$ 595,155
Reclassifications:			
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference)	506,279	910,580	--
To reclassify activities reported in another GAAP fund type (perspective differences):			
Enterprise funds (except for the University of Wisconsin System)	15,685	--	--
University of Wisconsin System	(229,782)	--	--
Internal service funds	12,143	--	--
Fiduciary funds	(39,447)	--	--
Transportation Revenue Bonds debt service fund	--	11,315	--
Fund balance June 30, 2002 (GAAP fund structure – budgetary basis, excluding Encumbrances treated as expenditures at year end)	339,516	376,705	595,155
Adjustments (basis differences):			
To adjust expenditures for the municipal and county shared revenue program	(492,878)	--	--
To accrue the amount due to the General Fund from the Tobacco Settlement Endowment Fund that will be applied to the municipal and county shared revenue program payment	311,361	--	(311,361)
To adjust expenditures for State property tax credit program	(354,030)	--	--
To accrue receivables and establish payables for individual income taxes (net)	(658,813)	--	--
To defer revenues for gross receipts public utility taxes	(151,521)	--	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(276,821)	(894)	--
To accrue unpaid Medicaid claims (net of receivable from federal government)	(160,095)	--	--
To adjust expenditures/revenues for certain major Health and Family Services and Workforce Development accruals and deferrals (net)	(44,203)	--	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--	--
To adjust revenues and expenditures for other items (net)	78,150	(19,481)	--
Fund balance June 30, 2002 (GAAP fund structure – GAAP basis) as reported on The governmental fund statements)	$(1,484,333)	$ 356,330	$ 283,794

B. Budgetary Basis of Accounting

The State's biennial budget is prepared using a modified cash basis of accounting. The final budget is primarily a general purpose revenue and expenditure budget. General purpose revenues consist of general taxes and miscellaneous receipts which are paid into the General Fund, lose their identity, and are then available for appropriation by the Legislature. The remaining revenues consist of program revenues, which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues which are paid into separate identifiable funds.

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenue estimates of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedule.

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. While State statutes prohibit spending beyond budgetary authority, a provision is made to include the value of accounts receivable, inventories and work in process in identifying available revenues. The State also utilizes nonbudget accounts for which no budget is established but expenditures may be incurred. As a result, actual expenditures may exceed budgeted amounts in certain categories.

Budgets are required by State law for the statutorily defined General Fund, and certain special revenue and permanent funds. The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activity from the statutory General and special revenue funds. Consequently, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedule for the General and the major special revenue funds presents both the original and final appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. Certain special revenue funds are also excluded. The Employee Trust Fund Administration Fund is extracted from a statutory unbudgeted fund type, while the Wisconsin Public Broadcasting Foundation is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School Fund are budgeted.

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

In general, supplemental appropriations require the approval of the Joint Finance Committee of the Legislature. Routine adjustments, such as pay plan supplements and rent increases, are distributed by the Division of Executive Budget and Finance from non-agency specific appropriations authorized by the Legislature. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

Appropriation unexpended balances lapse at year-end or forward to the subsequent fiscal year depending on the type of appropriation involved:

- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature.
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end.
  - *Program Revenue* - unexpended cash balances may be forwarded to the next fiscal year.
- *Biennial* - unexpended balances or deficits automatically forward to the second year. At the end of the second year all unencumbered general purpose revenue balances lapse.
- *Sum sufficient* - moneys are appropriated and expended in the amounts necessary to accomplish the purpose specified.

Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with Department of Administration approval. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end for purchase orders and contracts expected to be honored in the following year are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

Supplementary Information

Nonmajor Governmental Funds

SPECIAL REVENUE: Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for a specified purpose. The State's special revenue funds are described below:

The **Conservation Fund** accounts for the management of the State's fish, wildlife, parks and other natural resources with funds provided from hunting and fishing licenses, recreational fees and forestry taxes.

The **Heritage State Parks and Forests Fund** accounts for the funding for operations and maintenance of State parks, southern State forests, and recreation areas either by making partial matching grants to "friends groups" or by accepting expenditure transfers from park and forest programs in the Conservation Fund.

The **Wisconsin Health Education Loan Repayment Fund** accounts for administrative expenditures related to issuing Health Education Loan bonds. These expenditures are funded from trustee transfers.

The **Waste Management Fund** accounts for the closure and long-term care of approved landfills from fees imposed on landfill operators.

The **Wisconsin Election Campaign Fund** accounts for taxpayer donated funding for political candidates. The donations are intended to replace special interest funds.

The **Investment and Local Impact Fund** accounts for grants and loans to municipalities where metalliferous minerals exist to offset the negative effects of mining projects. These grants and loans are funded with taxes which have been imposed on mining activities.

The **Industrial Building Construction Loan Fund** accounts for economic development grants and loans for the construction of industrial buildings. These grants and loans are funded primarily with investment income.

The **Self-insured Employers Liability Fund** establishes a reserve to cover claims for employees of employers who have become insolvent. These employers were previously determined to be exempt from the requirement to carry accident or death insurance. The reserve is also used to cover the cost of insurance carrier or insurance service organization used to process, investigate, and pay valid claims from the injured employees.

The **Medical Assistance Trust Fund** accounts for moneys received from the Medical Assistance (MA) program via Intergovernmental Transfers. The moneys are used to fund MA eligible activities.

The **Work Injury Supplemental Benefit Fund** accounts for compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. This compensation is provided with funds collected from State employers and insurance carriers.

The **Tobacco Control Fund** accounts for a portion of the moneys received from the settlement of the lawsuit between several states, including Wisconsin, and the tobacco companies. The moneys are used to fund health care related costs including grants for tobacco prevention, research, and intervention.

The **Uninsured Employers Fund** accounts for the administration of insurance enforcement activities and compensation to injured employees of uninsured employers. The revenue is primarily provided by funds collected from uninsured employers.

The **Utility Public Benefits Fund** accounts for voluntary contributions and public benefits fees collected from customers by utilities to assist in funding low income assistance grants and energy conservation and efficiency grants.

The **Mediation Fund** accounts for the resolution of disputes regarding medical malpractice. Dispute filing fees and fees charged to health care providers are the primary revenue sources.

The **Agricultural Chemical Cleanup Fund** accounts for the portion of the costs responsible persons pay to clean up fertilizer and pesticide spills and historical handling areas. Fertilizer and pesticide licenses and registration fees primarily provide the revenue.

The **Agrichemical Management Fund** accounts for the regulation and enforcement of pesticide, feed and fertilizer industries. The revenue is generated by licenses and fees assessed to these industries.

(Continued)

Nonmajor Governmental Funds

(Continued)

The **Agricultural Producer Security Fund** accounts for the program to secure payments to producers. This fund is supported primarily with fees, surcharges, assessments, reimbursements and bond proceeds of surety bonds.

The **Employee Trust Funds Administration Fund** accounts for transactions related to the administration and general operations of the Department of Employee Trust Funds.

The **Historical Legacy Trust Fund** accounts for moneys to commemorate the 200th anniversary of statehood. Gifts, grants, and bequests generate the revenue. Also, all moneys received by the State Sesquicentennial Commission after September 30, 1998 are reported in this fund.

The **Petroleum Inspection Fund** accounts for revenues received from inspection fees on petroleum products shipped into Wisconsin and proceeds received from revenue bonds. These resources are used for petroleum inspection programs, environmental cleanup awards, clean air and water administration and other environmental programs in the State.

The **Environmental Fund** accounts for the development and enforcement of groundwater standards, as well as assistance in the emergency response, investigation and clean up of contaminated sites. This assistance is funded by fees on activities or substances which may contaminate groundwater and fees for solid waste tipping, pesticide licenses and oil inspections.

The **Dry Cleaner Environmental Response Fund** accounts for the financial assistance for the remediation of environmental contamination caused by the spillage of dry cleaning solvents. Revenues used to fund this program are dry cleaning facility license and solvent fees.

The **Recycling Fund** accounts for the moneys from the recycling surcharge tax and recycling fees, used to reduce the amount of solid waste disposed of in landfills and incinerators.

The **Information Technology Investment Fund** accounts for revenues, primarily subscription fees from vendors, used to carry out information technology development projects, including paying for costs associated with technology-related equipment, software and support.

The **Universal Service Fund** accounts for various programs that ensure that all State residents receive essential telecommunication services at reasonable prices and that they have access to certain advanced telecommunications service capabilities. Assessment of entities in the telecommunications industry is the primary source of revenues.

The **Wisconsin Public Broadcasting Foundation (Foundation) Fund** accounts for financial resources generated to support the activities of the Educational Communications Board. The primary revenue sources of the Foundation are from gifts, grants and contributions.

The **Children's Trust Fund** accounts for the program which provides information and encourages the development of child abuse and neglect prevention programs. This fund is supported primarily with investment income and moneys received as contributions, grants, gifts and bequests.

CAPITAL PROJECTS: Capital projects funds account for financial resources used for the acquisition, construction, renovation or repair of major capital facilities (other than those financed by proprietary funds and trust funds). The State's capital projects funds are described below:

The **Building Trust Fund** accounts for repair projects of major capital facilities which are funded primarily through General Fund and agency transfers.

The **Energy Efficiency Fund** accounts for improvements on heating plants and loans to State agencies for energy efficiency projects. Revenues are primarily derived from utility rebates, utility matching funds, savings from improvements to heating costs and General Fund supported borrowing.

The **Capital Improvement Fund** accounts for revenues from general obligation bond proceeds, General Fund transfers and investment pool interest earnings which are primarily used for the acquisition or construction of major capital facilities and for repair and maintenance projects.

The **Transportation Revenue Bonds Fund** accounts for the accumulation of financing resources for the construction, maintenance, and repair of certain major highway projects and administrative facilities.

(Continued)

Nonmajor Governmental Funds

(Continued)

DEBT SERVICE: Debt service funds account for the accumulation of resources for, and the payment of, principal, interest and related costs of general long-term obligations.

The **Bond Security and Redemption Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of, general obligation bond debt.

The **Petroleum Inspection Revenue Bonds Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of, petroleum revenue bond obligations.

The **Transportation Revenue Bonds Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of, transportation revenue bond obligations.

PERMANENT: Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used to support the State's programs.

The **Agricultural College Fund** accounts for federal land grant revenues used as public purpose loans for municipalities and school districts.

The **Common School Fund** accounts for revenues received from the sale of federally granted land, fines and forfeitures from penal law breaches, and the disposal of escheated property. These moneys are used for public purpose loans to municipalities and school districts. Earnings of this fund are distributed to aid local school districts and to cover administrative costs incurred by the Public Lands Commission.

The **Normal School Fund** accounts for public purpose loans to municipalities and school districts. These loans are financed with revenues derived from the sale of federally granted land and timber. The interest generated from this fund is used to support and maintain State universities.

The **University Fund** accounts for federal land grant revenues used for public loans to municipalities and school districts.

The **Historical Society Fund** accounts for investment income and donations received by the State Historical Society to assist in the operations of the State's archives, research and library services, museums, historic preservation, and executive and administrative services.

The **Benevolent Fund** accounts for investment income used for the care, custody and education of residents committed to the Lincoln Hills School.

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2002

(In Thousands)

	Special Revenue Funds				
	Conservation	Heritage State Parks and Forests	Wisconsin Health Education Loan Repayment	Waste Management	Wisconsin Election Campaign
Assets					
Cash and Cash Equivalents	$ 58,604	$ 1,069	$ 2	$ 11,092	$ 593
Investments	-	-	-	-	-
Receivables (net of estimated uncollectible accounts):					
Taxes	21,726	-	-	-	-
Loans to Local Governments	-	-	-	-	-
Other Receivables	1,352	-	13	-	-
Due from Other Funds	15,059	-	-	-	-
Due from Other Governments	10,458	-	-	-	-
Inventories	2,479	-	-	-	-
Prepaid Items	1,303	-	1	-	-
Advances to Other Funds	-	-	-	-	-
Restricted and Limited Use Assets:					
Cash and Cash Equivalents	-	-	-	-	-
Other Assets	-	-	-	-	-
Total Assets	$ 110,981	$ 1,069	$ 16	$ 11,093	$ 593
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 11,337	$ -	$ -	$ -	$ -
Due to Other Funds	18,022	-	7	-	-
Interfund Payables	-	-	-	-	-
Due to Other Governments	14,765	-	-	-	-
Tax Refunds Payable	291	-	-	-	-
Tax and Other Deposits	967	-	-	4,758	-
Deferred Revenue	3,983	-	-	-	-
Interest Payable	-	-	-	-	-
Advances from Other Funds	-	-	-	-	-
Short-term Notes Payable	-	-	-	-	-
General Obligation Bonds Payable	-	-	-	-	-
Revenue Bonds and Notes Payable	-	-	-	-	-
Total Liabilities	49,366	-	7	4,758	-
Fund Balances:					
Reserved for Encumbrances	11,770	-	16	-	-
Reserved for Inventories	2,479	-	-	-	-
Reserved for Prepaid Items	1,303	-	1	-	-
Reserved for Restricted Funds	277	-	-	-	-
Reserved for Long-term Receivables	-	-	-	-	-
Reserved for Advances to Other Funds	-	-	-	-	-
Unreserved:					
Undesignated	45,786	1,069	(9)	6,334	593
Total Fund Balance	61,615	1,069	9	6,334	593
Total Liabilities and Fund Balance	$ 110,981	$ 1,069	$ 16	$ 11,093	$ 593