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Business-type Activities				Governmental
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	Activities - Internal Service Funds
\$ (1,121,711) \$	(369,186) \$	103,927 \$	(1,403,484)	\$ 9,256
120,122	-	10,661	130,831	23,437
-	2,081	76	580	-
-	(75,989)	(29,378)	2,093	-
-	-	618	(216,790)	-
(12,857)	-	1,518	74,202	-
9,919	(18,283)	(9,702)	(11,141)	(3,297)
-	(82)	(23,677)	224,649	255
-	284	(2,230)	(23,821)	12,015
(1,058)	-	(296)	(1)	(154)
(2,156)	-	(8,894)	(1,946)	(192)
(2,640)	130	1,700	(1,354)	2,114
(5,817)	3,315	(19,174)	(11,072)	2,679
7,179	-	997	2,106	-
-	(526)	(12,145)	(2,767)	-
-	2,452	11	28,378	(7,490)
(11,581)	-	36	8,214	475
101,111	(86,617)	(49,128)	(12,778)	(6,274)
(1,020,600) \$	(455,803) \$	54,799 \$	11	3
			2,533	(76)
			1,357	-
			25,637	2,204
			13,757	-
			89,931	6,443
			241,345	32,143
			(1,162,139)	41,399

\$ 2,065 \$	- \$	1,222 \$	3,287	\$ 314
(385)	-	(106)	(491)	-
-	-	1,613	1,613	-
8,648	-	9,523	57,756	-
12,320	-	11	12,331	2

State of Wisconsin

Statement of Fiduciary Net Assets
June 30, 2003

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private- Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	\$ 544,307	\$ 2,855,980	\$ 11,626	\$ 85,410
Securities Lending Collateral	3,209,471	-	-	-
Prepaid Items	9,018	-	6	-
Receivables (net of estimated uncollectible accounts):				
Prior Service Contributions Receivable	1,650,602	-	-	-
Benefits Overpayment Receivable	2,397	-	-	-
Due from Other Funds	32,819	-	-	932
Interfund Receivables	78,794	703,075	-	-
Due from Other Governments	108,144	-	-	-
Interest and Dividends Receivable	171,408	-	-	-
Investment Sales Receivable	88,407	-	-	-
Other Receivables	(2,448)	1,142	259	1,842
Total Receivables	2,130,122	704,217	259	2,775
Investments:				
Fixed Income	14,489,301	-	-	-
Stocks	35,666,207	-	-	-
Limited Partnerships	2,693,113	-	-	-
Mortgages	726,725	-	-	-
Real Estate	436,628	-	-	-
Investments of Private Purpose Funds	-	-	866,489	-
Investments of Agency Funds	-	-	-	797
Multi-asset Investments	1,451,682	-	-	-
Total Investments	55,463,656	-	866,489	797
Capital Assets	63	-	-	-
Other Assets	-	-	15,589	278,789
Total Assets	61,356,636	3,560,197	893,969	\$ 367,771
Liabilities				
Accounts Payable and Other Accrued Liabilities	36,504	-	59	\$ 73,959
Securities Lending Collateral Liability	3,209,471	-	-	-
Annuities Payable	181,894	-	-	-
Advance Contributions	308	-	-	-
Due to Other Funds	28,150	18	26	4,955
Interfund Payables	78,794	-	-	-
Due to Other Governments	22,158	-	-	-
Tax and Other Deposits	76	-	-	288,856
Investment Payable	242,402	-	-	-
Deferred Revenue	2,234	-	-	-
Compensated Absences Payable	1,309,685	-	-	-
Total Liabilities	5,111,675	18	86	\$ 367,771
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	\$ 56,244,962	\$ 3,560,178	\$ 893,884	

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

**Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2003**

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private- Purpose Trust
Additions			
Contributions:			
Employer Contributions	\$ 482,520	\$ -	\$ -
Employee Contributions	713,954	-	-
Total Contributions	1,196,473	-	-
Deposits	-	11,599,250	395,972
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	1,002,551	-	-
Interest	683,251	-	-
Dividends	276,396	-	-
Securities Lending Income	41,984	-	-
Other	98,468	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	40,739	58,915	48,930
Less:			
Investment Expense	(156,202)	(1,841)	(4,422)
Securities Lending Rebates and Fees	(33,039)	-	-
Investment Income Distributed to Other Funds	(39,717)	-	-
Net Investment Income	1,914,430	57,074	44,508
Interest on Prior Service Receivable	127,972	-	-
Miscellaneous Income			
Escheat Additions	-	-	28,184
Other	1,399	-	-
Total Miscellaneous Income	1,399	-	28,184
Total Additions	3,240,275	11,656,324	468,664
Deductions			
Benefits and Refunds:			
Retirement, Disability, and Beneficiary Separations	2,671,699	-	-
	37,898	-	-
Total Benefits and Refunds	2,709,598	-	-
Distributions	78,454	11,925,183	35,109
Insurance Premiums	199,213	-	-
Unusual Write-off of Receivable	(33)	-	-
Administrative Expense	23,618	211	2,581
Transfers Out	-	-	16,009
Total Deductions	3,010,850	11,925,394	53,699
Net Increase (Decrease)	229,425	(269,070)	414,964
Net Assets - Beginning of Year	56,015,537	3,829,248	478,919
Net Assets - End of Year	\$ 56,244,962	\$ 3,560,178	\$ 893,884

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

Notes To The Financial Statements

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Notes To The Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

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

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

Wisconsin Health Care Liability Insurance Plan
Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53702

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

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

Blended Component Units

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

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

Discrete Component Units

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

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

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

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

appoints a majority of the Hospital's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the State.

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

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

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

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

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

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

Component Units Not Reported in the Financial Statements

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

In August 2001, the State Fair Park entered into an agreement with the SFPEC to lease 7.52 acres on the State Fair grounds for construction of an exposition center. Financing for the exposition center was obtained by the SFPEC through a loan agreement with the City of West Allis, Wisconsin, which secured funding through issuance of \$44.9 million in industrial revenue bonds. The bonds were issued under an indenture of trust between the City of West Allis and a commercial lending institution. To secure the bonds, the SFPEC obtained a letter of credit from the commercial lending institution that is intended to repay the loan to the City of West Allis in the event that the debt service payments under the loan agreement are not paid. The exposition center was substantially completed and placed in service as of August 1, 2002.

The SFPEC follows the financial reporting recommendations of the Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. As of December 31, 2002, total assets of the SFPEC were \$48.4 million consisting primarily of \$37.8 million of capital assets and \$10.0 million of cash and cash equivalents, while liabilities consisted primarily \$40.8 million of industrial revenue bonds payable. Unrestricted

net assets at calendar year-end were \$2.5 million. Operating revenues and expenses for the year ended were \$1.1 million and \$1.1 million, respectively. Other income (expenses) of \$3.0 million consisted of \$4.1 million of bond refinancing income and \$1.1 million of interest expense.

The SFPEC is considered a component unit of the State Fair Park, an enterprise fund, because, although legally separate, the organizations are so intertwined that they are, in substance, the same. Under the provisions of GASB Statement No. 14, the SFPEC is presented with the separately issued financial information of the State Fair Park. However, the SFPEC's financial information is not reported within the State's Fiscal Year 2003 CAFR because the financial information was not available on a timely basis. Exclusion of the SFPEC does not have a material effect on the State's financial condition.

The separately issued financial report of the SFPEC can be requested from:

State Fair Park Exposition Center, Inc.
8200 West Greenfield Avenue
West Allis, WI 53214-0307

Related Organizations

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

In the University of Wisconsin System's enterprise fund, revenues and expenses of an academic term that spans two fiscal years are recognized in two years based on a proration of summer school days.

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

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

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

The State reports the following major funds:

Major Governmental Funds

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

Major Enterprise Funds

- *Patients Compensation Fund* – accounts for the program to provide excess medical malpractice insurance for Wisconsin health care providers. The revenues to finance this insurance are primarily derived from assessments against health care providers.
- *Environmental Improvement Fund* – accounts for financial resources generated and used for clean water projects. Federal capitalization grants, interest earnings, revenue bond proceeds, and general obligation bond proceeds are its primary revenue sources.
- *Veterans Mortgage Loan Repayment Fund* – accounts for the issuance and administration of veterans' first mortgage loans. Revenues are primarily derived from bond proceeds, mortgage payments, and investment income.
- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration.
- *Unemployment Insurance Reserve Fund* – accounts for unemployment contributions made by employers, federal program receipts, benefit payment recoveries and unemployment benefits paid to laid off workers in the State.

In addition, the State reports the following fund types:

Governmental Funds

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

Proprietary Funds

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

Fiduciary Funds

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

Amounts reported as program revenues on the government-wide financial statements include (a) charges for services – amounts received from customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by the State; or investment and interest earnings from various loan and insurance funds/component units, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions. General revenues consist of taxes and all other revenues that do not meet the definition of program revenues. Special items, if any, are significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence.

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

The revenues and expenses shown on the proprietary fund statements are identified as either operating or nonoperating. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's primary mission. The State's enterprise funds are involved in many diverse fields including patient care, insurance programs, loan programs, the University of Wisconsin System, employee benefit plans, and the lottery. The internal service funds provide services and goods to other State agencies and departments.

A significant portion of operating revenues for the proprietary funds are recorded under charges for goods and services. In the case of the State's insurance and loan enterprise funds, investment and interest income is an important component of operating revenue. Operating revenues of the University of Wisconsin include tuition and fees, certain grants and contracts resulting from exchange transactions, and sales and services of educational activities and auxiliary enterprises. In regards to the employee benefit plans, the primary operating revenue source is participant and employer contributions. Operating expenses for the proprietary funds include the costs of sales and services, benefit expenses, administration expenses and depreciation on capital assets. All revenues and expenses not related to a fund's primary purpose are reported as nonoperating.

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

E. Assets, Liabilities, and Net Assets/Equity

1. Cash and Cash Equivalents

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

Cash and cash equivalents, reported on the balance sheet and statement of cash flows, include bank accounts, petty cash, cash in transit, short-term investments with an original maturity of three months or less such as certificates of deposit, money market

certificates and repurchase agreements and individual funds' shares in the State Investment Fund.

2. Investments

Primary Government

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

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

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

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

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

Component Units

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

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

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

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

3. Mortgage and Other Loans

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

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

4. Forestation State Tax

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

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

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

5. Interfund Assets/Liabilities

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

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

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

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

6. Inventories and Prepaid Items

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

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

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

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

7. Capital Assets

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

Purchased or constructed capital assets are valued at cost or estimated historical cost if actual historical cost is not practicably determinable. Donated capital assets are recorded at their fair value at the time received.

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

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

Buildings and improvements	4 - 45 years
Equipment, machinery and furnishings	3 - 27 years

Collections of works of art, historical treasures, and similar assets, which are on public display, used in furtherance of historical education, or involved in advancement of artistic or historical research, are not capitalized unless these collections were

already capitalized at June 30, 1999. Collections range from memorabilia on display in the Wisconsin Veterans Museum, the State Historical Society Museum and other museums to buildings such as the Villa Louis Mansion and the Fur Trade Museum located at the Villa Louis historical site. In addition, works of art or historical treasures on display in the various State office buildings, as well as statues on display outside the State Capitol, also are not capitalized.

8. Restricted and Limited Use Assets

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

9. Local Assistance Aids

Municipal and County Shared Revenue Program

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

At June 30, 2003, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State's fiscal year, the amount is prorated over portions of recipient local governments' calendar fiscal years that are within the State's fiscal year. The result is that a liability of \$519.8 million representing one-half of the total appropriated amount is reported at June 30, 2003 as Due To Other Governments.

State Property Tax Credit Program

At June 30, 2003, the State was liable to various taxing jurisdictions for property tax credits paid through the State Property Tax Credit Program. Under the program, payments to local taxing jurisdictions provide property tax relief directly to taxpayers in the form of State credits on individual property tax bills. State statutes require that payment to local taxing jurisdictions be made during July. Although the property tax credit is calculated on the property tax levy for school purposes, the State's July payment is paid to an administering municipality who treats the payment the same as other tax collections and distributes the collections to the various tax levying jurisdictions (e.g., cities; towns; villages; school districts; technical colleges).

The school portion of the property tax credit liability represents the amount of the July payment earned over the school districts' previous fiscal year ended June 30. Since the entire school districts' portion of the July payment occurs within the State's fiscal year, 100 percent of the July payment relating to the school taxing jurisdictions' levy is reported as a liability at June 30, 2003.

The general government portion of the property tax credit liability represents the amount of the July payment prorated over the portion of the local governments' calendar year which is within the State's fiscal year. The result is that 50 percent of the July payment based on the general government taxing jurisdictions' levy is reported as a liability at June 30, 2003.

The aggregated State Property Tax Credit Program liability of \$353.6 million is reported in the General Fund as Due to Other Governments.

Lottery Property Tax Credit Program

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

The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2003 property tax bills, the State made this payment in March 2003.

The Lottery Tax Credit Program is accounted for in the Lottery Fund, an enterprise fund, that records revenues and expenses on the accrual basis. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year that ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 2003, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals \$26.1 million at June 30, 2003.

State Aid for Exempt Computers

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

A portion of the May payment distributed to the general government taxing jurisdictions, Tax Incremental Districts, and special districts applies to their fiscal period ending December 31. Therefore, part of the May distribution represents an expense to

the State in Fiscal Year 2003, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals \$20.8 million at June 30, 2003.

10. Long-term Debt Obligations

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

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

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

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

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

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

11. Compensated Absences

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

Annual Leave

Full-time employees' annual leave days are credited on January 1 of each calendar year at a minimum of 10 days per year. There is no requirement to use annual leave. However, unused leave is lost unless approval to carry over the unused portion is obtained from the employing agency. Compensatory time accumulates for eligible employees for hours worked in excess of forty hours per week. Each full-time employee is eligible for three and one-half personal holidays each calendar year, provided the employee is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employees receive leave time proportional to their working status to use at their discretion.

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

Sick Leave

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

12. Deferred Revenue

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

governmental fund statements revenues are also deferred for amounts that are unearned or unavailable.

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 2003, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

13. Self-Insurance

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

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

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

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

Restricted Net Assets/Fund Equity

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

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

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

During the year ended June 30, 2003, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental section of the Statement of Net Assets (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Assets compared to the current financial focus of the Balance Sheet – Governmental Funds.

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations (3)	Total Amount for Statement of Net Assets
Assets:					
Cash and Cash Equivalents	\$ 1,366,920	\$ -	\$ 35,142	\$ -	\$ 1,402,063
Investments	152,290	-	-	-	152,290
Receivables:					
Taxes	1,214,155	-	-	(1,214,155)	-
Loans to Local Governments	251,418	-	-	(251,418)	-
Other Receivables	205,987	1,849	899	2,154,230	2,362,964
Due from Other Funds	252,364	-	29,664	(282,028)	-
Due from Component Units	5	-	-	(5)	-
Interfund Receivables	486	-	-	(486)	-
Due from Other Governments	656,146	-	-	(656,146)	-
Internal Balances	-	-	2,523	4,096	6,619
Inventories	36,343	4,044	6,102	-	46,488
Prepaid Items	323,014	-	26,477	-	349,491
Advances to Other Funds	1,850	-	-	(1,850)	-
Other Assets	694	-	-	-	694
Deferred Charges	-	25,372	810	-	26,182
Depreciable Capital Assets	-	1,135,565	284,750	-	1,420,315
Infrastructure	-	9,352,302	-	-	9,352,302
Other Non-depreciable Capital Assets	-	2,515,166	25,777	-	2,540,944
Total Assets	\$ 4,461,672	\$ 13,034,298	\$ 412,144	\$ (247,762)	\$ 17,660,352
Liabilities:					
Accounts Payable and Other					
Accrued Liabilities	\$ 894,490	\$ -	\$ 29,385	\$ 707,001	\$ 1,630,876
Due to Other Funds	269,749	-	42,388	(312,138)	-
Due to Component Units	1,400	-	-	(1,400)	-
Interfund Payables	636,891	-	-	(636,891)	-
Due to Other Governments	1,642,480	685	-	-	1,643,165
Tax Refunds Payable	1,013,459	-	-	-	1,013,459
Tax and Other Deposits	30,873	-	-	-	30,873
Deferred Revenue	630,812	(291,235)	10,135	-	349,712
Interest Payable	37,805	24,874	-	-	62,680
Advances from Other Funds	4,334	-	-	(4,334)	-
Short Term Notes Payable	543,643	-	31,126	-	574,769
Long-term Liabilities:					
Short-term Portion	-	307,309	35,739	59,040	402,087
Long-term Portion	-	4,739,587	265,388	-	5,004,974
General Obligation Bonds Payable	100	-	-	(100)	-
Revenue Bonds and Notes Payable	58,940	-	-	(58,940)	-
Total Liabilities	5,764,976	4,781,220	414,160	(247,762)	10,712,594
Fund Balances/Net Assets	(1,303,304)	8,253,078	(2,016)	-	6,947,758
Total Liabilities and Fund Balances/Net Assets	\$ 4,461,672	\$ 13,034,298	\$ 412,144	\$ (247,762)	\$ 17,660,352

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

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

During the year ended June 30, 2003, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the amounts presented in the governmental section of the Statement of Activities (in thousands). The differences result primarily from the long-term economic focus of the Statement of Activities compared to the current financial focus of the Statement of Revenues, Expenditures, Changes in Fund Balance – Governmental Funds.

	Total Governmental Funds	Long-term Revenues and Expenses (1)	Capital-Related Items (2)
Revenues:			
Taxes	\$ 11,270,818	\$ -	\$ -
Income Taxes	-	15,104	-
Sales & Excise Taxes	-	1,964	-
Public Utility Taxes	-	-	-
Other Taxes	-	(380)	-
Motor Fuel (Transportation) Taxes	-	(634)	-
Other Dedicated Taxes	-	(88)	-
Intergovernmental	5,984,658	-	-
Operating Grants	-	-	775
Capital Grants	-	-	896
Unrestricted Grants	-	-	-
Licenses and Permits	891,260	-	-
Charges for Goods and Services	247,519	1,615	-
Investment and Interest Income	48,838	-	-
Fines and Forfeitures/Contributions to Permanent Fund	55,834	-	-
Gifts and Donations	14,342	-	-
Other Revenues:		(7,462)	(945)
Intergovernmental Transfer	598,580	-	-
Tobacco Settlement	153,923	-	-
Other	139,531	-	-
Total Revenues	19,405,302	10,119	727
Expenditures:			
Current Operating:			
Commerce	226,182	(52)	2,512
Education	5,649,280	173	6,143
Transportation	1,519,266	(1,667)	74,927
Environmental Resources	464,479	(1,359)	12,321
Human Relations and Resources	8,113,457	(9,531)	49,737
General Executive	490,846	(2,592)	4,078
Judicial	104,930	(841)	3,893
Legislative	60,175	(935)	444
Tax Relief and Other General Expenditures	845,130	-	-
Intergovernmental	1,107,958	-	-
Debt Service:			
Principal	270,719	-	-
Interest and Other Charges	226,469	55,205	-
Capital Outlay	691,586	-	(691,586)
Total Expenditures	19,770,479	38,402	(537,531)
Excess of Revenues Over (Under) Expenditures	(365,177)	(28,282)	538,258
Other Financing Sources (Uses):			
Net Transfers	(1,085,031)	18,561	741
Long-term Debt Issued	506,524	-	-
Premium/Discount on Bonds	31,640	-	-
Installment Purchase Acquisitions	2,863	(2,863)	-
Capital Leases Acquisitions	17,143	(17,143)	-
Total Other Financing Sources (Uses)	(526,862)	(1,445)	741
Net Change in Fund Balance	(892,038)	\$ (29,727)	\$ 538,999
Change in Reserve for Inventories	(164)		
Net Change for the Year	\$ (892,202)		

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

Internal Service Funds (3)	Long-term Debt Transactions (4)	Eliminations (5)	Revenue/Expense Reclassifications (6)	Total Amount for Statement of Activities
\$ -	\$ -	\$ -	\$(11,270,818)	\$ -
-	-	-	5,487,319	5,502,423
-	-	-	4,100,385	4,102,350
-	-	-	273,892	273,892
-	-	-	278,013	277,633
-	-	-	925,137	924,503
-	-	-	206,072	205,984
-	-	-	(5,984,658)	-
-	-	33,950	5,391,000	5,425,725
-	-	-	634,505	635,402
-	-	-	2	2
-	-	-	(891,260)	-
15,632	-	(28,265)	926,325	1,162,827
22	-	-	(26,507)	22,353
-	-	-	(35,065)	20,769
-	-	-	(14,342)	-
-	-	-	908,043	899,636
-	-	-	(598,580)	-
-	-	-	(153,923)	-
-	-	-	(139,531)	-
15,655	-	5,685	16,009	19,453,497
(470)	-	(3,829)	33	224,377
(3,176)	-	22,350	369	5,675,138
(2,580)	135	-	629	1,590,710
(379)	50	(168)	24	474,969
(6,383)	202	11,573	(840)	8,158,215
21,724	(239)	(24,241)	(134)	489,442
(223)	76	-	-	107,835
(239)	314	-	-	59,758
-	-	-	(1,373)	843,757
-	-	-	-	1,107,958
-	(270,719)	-	-	-
10,091	(631)	-	1,446	292,579
18,364	(270,814)	5,685	155	19,024,739
(2,709)	270,814	-	15,855	428,758
(17,858)	-	-	(16,019)	(1,099,606)
-	(506,524)	-	-	-
-	(31,640)	-	-	-
-	-	-	-	-
(17,858)	(538,163)	-	(16,019)	(1,099,606)
\$ (20,568)	\$ (267,349)	\$ 0	(164)	(670,848)
-	-	-	164	-
-	-	-	\$(0)	\$(670,848)

- (4) Long-term debt transaction differences consist of bond proceeds and principal repayments reported as other financing sources and expenditures in governmental funds, but as increases and decreases in liabilities in the government-wide statements.
- (5) Intra-entity activity within the same function is eliminated to remove the grossing up of both direct expenses and program revenues within that category.
- (6) Revenue and expense reclassifications are necessary due to the differing level of detail needed on each of the statements. In addition, the Statement of Activities focuses on program revenue, which has been redefined from the traditional revenue source categories.

NOTE 3. BUDGETARY CONTROL

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

Due to the continuing economic downturn, tax revenue collections throughout fiscal year 2003 were significantly less than the original estimates. As a consequence of this revenue shortfall, various budget repair bills were needed to bring expenditures in line with expected revenues. The net result of these bills, along with earlier cost-saving legislation, was that additional expenditure controls were enacted, segregated funds were required to transfer additional funds to the General Fund, and payment of a portion of the expenditures for the State's shared revenue program was temporarily shifted from General Fund to Tobacco Settlement Endowment Fund resources.

The budgetary comparison schedule and related disclosures for the General and all major special revenue funds are reported as Required Supplementary Information. This schedule presents the original budget, the final budget and actual data of the current period. The related disclosures describe the budgetary practices of the State, as well as, provide a detailed reconciliation between the General and major special revenue funds' equity balance on the budgetary basis compared to the GAAP basis as shown on the governmental fund statements.

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

In addition to the General Fund, funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2003 are (in thousands):

Special Revenue:		
Petroleum Inspection	\$	256,847
Information Technology Investment		2,984
Capital Projects:		
Capital Improvement		194,829
Transportation Revenue Bonds		70,463
Enterprise:		
Duty Disability		197,566
Internal Service:		
Fleet Service		814
Risk Management		116,526
Pension and Other Employee Benefit Trust:		
Accumulated Sick Leave		688,311

NOTE 5. DEPOSITS AND INVESTMENTS

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

A. Deposits**Primary Government**

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

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

At June 30, 2003, the carrying amount of the primary government deposits reported as cash was \$(43.5) million and the bank balance was \$244.7 million. In addition, \$150.0 million of International Time Deposits, reported on the financial statements as investments, are considered uncollateralized and uninsured. Of the bank amount, excluding a bank overdraft of \$37.7 million in two bank accounts that are covered by compensating balances in other accounts,

- \$9.5 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name, and
- \$272.9 million was uncollateralized and uninsured.

The State's unemployment compensation program had \$1,056.3 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

Petty cash and contingent accounts authorized under Wis. Stat. Sec. 20.920, which are held by agencies and reported as Cash and Cash Equivalents in the amount of \$171 thousand, are not included in the carrying amount nor bank balance of deposits in this note because these are neither deposits nor investments.

Component Units

At June 30, 2003, the carrying amount of the component units' deposits was \$25.8 million and the bank balance was \$25.9 million. Of the bank amount, \$2.1 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name and \$23.8 million was uncollateralized and uninsured.

B. Investments

Primary Government

State Investment Fund

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

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

Valuation of Securities

Investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank has compiled fair value information for all securities by utilizing third party pricing services. Government and agency securities and commercial paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Repurchase agreements and certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. Swaps are valued at the net present value of estimated expected future cash flows using discount rates commensurate with the risk involved. In addition, a bond issued by other State agencies having a par value of \$1.3 million is valued at par, which management believes approximates fair value. The fair value of investments is determined at the end of each month.

Pool Earnings and Pool Shares

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

Derivative Financial Instruments

As of June 30, 2003, the only derivative financial instrument held by the State Investment Fund was a restructured interest rate swap. Each swap transaction involves the exchange of interest rate payment obligations without the exchange of underlying principal amounts. The notional amounts used to express the volume of these transactions do not represent the amounts subject to risk, but represent the amount on which both parties calculate interest rate obligations. The settlement of the interest rate exchange occurs at predetermined dates, with the net difference between the interest paid and interest received reflected as an increase in income. Entering into interest rate swap agreements subjects the investor to the possibility of financial loss in the event of adverse changes in market rates or nonperformance by the counterparty to the swap agreement. Selecting creditworthy counterparties mitigates credit risks arising from derivative transactions.

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

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

As of June 30, 2003, the fair value of the restructured investments was negative \$9.4 million while the amortized deferred loss was negative \$8.6 million.

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

Deposits

The State Investment Fund holds certificates of deposit at various Wisconsin banks as part of the Wisconsin Certificate of Deposit Program implemented in July 1987. As of June 30, 2003, the fair value of these certificates of deposit was \$400.0 million.

Approximately \$354.2 million are Category 1 risk level deposits which are insured by the FDIC, the Wisconsin State Deposit Guarantee Fund and Financial Securities Assurance Corporation insurance. The remaining \$45.8 million are considered Category 3 uncollateralized deposits.

Investments

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

At June 30, 2003, the State Investment Fund's investments are as follows (in millions):

	Category			Fair Value
	1	2	3	
U.S. government and agency holdings	\$ 3,328.2	--	--	\$ 3,328.2
Repurchase agreements	1,777.0	--	--	1,777.0
Commercial paper	455.1	--	--	455.1
Mortgage backed securities	1.3	--	--	1.3
	<u>\$ 5,561.6</u>	<u>--</u>	<u>--</u>	<u>5,561.6</u>
Swaps				(22.9)
				<u>\$ 5,538.6</u>

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

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

Other Funds Managed by the Board

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

Governmental

Historical Society - At June 30, 2003, investments of \$9.8 million consisted of stock and bond index funds.

Business-Type

Local Government Property Insurance, State Life Insurance, and Patients Compensation Funds - At June 30, 2003, investments were \$12.4 million for the Local Government Property Insurance Fund, \$77.2 million for the State Life Insurance Fund, and \$652.8 million for the Patients Compensation Fund, consisting of stocks and fixed income.

Fiduciary

Pension Trust Fund - This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS) (see Note 13 to the financial statements). At June 30, 2003, the Pension Trust Fund held \$54,296.9 million of investments consisting of fixed income, stocks, limited partnerships, real estate, mortgages and other investments valued at fair value in accordance with Wis. Stat. Sec. 25.17(14). In addition, \$336.0 million of investments are included in the fund's cash and cash equivalents. Further, \$150.0 million is invested in a time deposit reported as part of the securities lending collateral and not included in the investments.

In addition, \$3,209.5 million of securities lending transactions were held at June 30, 2003. These transactions are categorized consistent with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

Tuition Trust Fund - At June 30, 2003, investments of \$13.3 million consisted of bonds and principal only strips.

The following table presents investments of these funds at June 30, 2003, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2003, the investments of the Other Funds Managed by the Board consisted of (in millions):

	Category			Fair Value
	1	2	3	
Fixed Income	\$ 10,089.4	\$ --	\$ --	\$ 10,089.4
Stocks	14,005.7	--	--	14,005.7
Repurchase Agreements	192.1	--	--	192.1
Certificates of Deposit	50.0	--	--	50.0
	<u>\$ 24,337.2</u>	<u>\$ --</u>	<u>\$ --</u>	<u>24,337.2</u>
Limited Partnerships				2,693.1
Pooled Equity Funds				20,558.2
Pooled Bond Funds				5,260.9
Mortgages				726.7
Real Estate				436.6
Custodial Pooled Cash and Equivalents				336.0
Pooled Multi-Asset Fund				285.0
Investments Held by Broker Dealers Under Securities Loans:				
Fixed Income				1,914.9
Equities				1,187.5
Securities Lending Cash Collateral Pooled Investments				721.7
				<u>\$ 58,457.8</u>

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

Securities on loan at June 30, 2003 are presented as unclassified in the preceding schedule of custodial risk. At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires them to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

The majority of securities loans can be terminated on demand, although the average term of the loans is approximately one week. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short term investments with a weighted average maturity of 22 days.

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

Derivative Financial Instruments

As of June 30, 2003, the State of Wisconsin Investment Board (SWIB) utilized various derivative financial instruments, including forward contracts, futures contracts, collateralized mortgage obligations and principal only strips in the pension trust fund. All financial derivative instruments are reported at fair value, regardless of whether the instruments are held for trading or nontrading purposes. The instruments are marked to market monthly, with valuation changes recognized in income.

Foreign Currency Forwards and Options - The State of Wisconsin Investment Board's derivative trading activities primarily involve forward contracts and foreign currency options. Generally, foreign currency forwards and options are held to hedge foreign

exchange risk. Market risk is generally controlled by holding substantially offsetting purchase and sell positions. At June 30, 2003 the fair value of foreign currency forward contracts assets totaled \$1.2 billion, while the liabilities totaled \$1.2 billion.

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

Futures Contracts – One outside investment manager used futures contracts to manage exposure to the stock market. Upon entering into a futures contract, the outside manager is required to deposit with the broker, in SWIB's name, an amount of U.S. government obligations in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily with gains and losses being recognized. The variation margin is settled daily until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation. Losses may arise from the changes in the value of the underlying instrument, illiquidity in the secondary market for the contracts, or if the counterparties do not perform under the terms of the contract. Futures contracts are valued each day at the settlement price established by the board of trade or exchange on which they are traded. As of June 30, 2003, no futures contracts were held.

Collateralized Mortgage Obligations (CMO's) – Bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with each CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some CMO's may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. A reduction in interest payments causes a decline in cash flows and thus a decline in the fair value of the security. Rising interest rates may cause an increase in interest payments, thus an increase in fair value of the security. CMO's are held to maximize yields and in part to hedge against a rise in interest rates. At June 30, 2003, CMO's valued at \$90.0 million were held.

Principal Only Strips – Securities that derive cash flow from the payment of principal on underlying debt securities. SWIB holds several principal only strips for yield enhancing purposes. The underlying securities are United States Treasury obligations, therefore the credit risk is low. On the other hand, principal only strips are more volatile in terms of pricing, and thus the market risk is higher than traditional United States Treasury obligations. As of June 30, 2003, principal only strips valued at \$3.3 million were held.

Unfunded Capital Commitments

Partnership agreements generally set a limit on the total dollar amount that limited partners must commit to funding when entering the partnership. Over the life of the partnership, the general partner will request capital contributions totaling the agreed upon limit. As of June 30, 2003, unfunded capital commitments totaled \$1.5 billion.

Other State Agencies and Funds

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

Governmental

General Fund – At June 30, 2003, investments of \$9.9 million of which \$7.7 million are considered deposits and included in Note 5A.

Transportation Revenue Bond Funds - At June 30, 2003, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling \$167.3 million, of which \$162.0 million are reported as cash equivalents. Investments of \$5.3 million satisfy risk category No. 1, while the remaining investments are uncategorized.

Common School Fund – At June 30, 2003, investments totaling \$132.8 million meet risk Category 1.

Petroleum Inspection Fund – At June 30, 2003, investments totaling \$1.1 million were uncategorized.

Wisconsin Public Broadcasting Foundation Fund - The fund's investments at June 30, 2003, were \$5.0 million, which consists of \$3.3 million of various investments and \$1.7 million of money market funds which are reported as cash equivalents. All investments meet Category 1 risk criteria.

Business-Type

Environmental Improvement Fund - The fund's aggregate investments at June 30, 2003, were \$182.7 million, of which \$35.7 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of \$147.0 million consist of government and agency holdings and satisfy Category 1 risk criteria.

Lottery Fund - Investments are all in the form of U.S. Treasury zero coupon bonds. At June 30, 2003, investments of \$147.5 million which meet Category 1 risk criteria were held.

The University of Wisconsin System – The fund's aggregate investments at June 30, 2003, were \$303.3 million of which \$13.7 million are reported as cash equivalents. Of the remaining \$289.6 million, \$262.0 million meet Category 1 risk criteria while the remaining investments are unclassified.

Fiduciary

Inmate and Resident Fund – At June 30, 2003, investments totaling \$7 million of which \$5 million are reported as cash equivalents and \$2 million meet risk Category 3.

College Savings Program Trust – At June 30, 2003, investments totaling \$853.2 million, which consist of short-term securities which meet risk Category 1.

At June 30, 2003, the State has approximately \$278.8 million of securities which it holds for banks and insurance companies. These assets are held for the period of time specified by statute and then returned to their owner. The assets are presented in the *Bank and Insurance Company Deposits Fund* as "Other Assets". All investments meet risk Category 1.

Unclaimed property, usually in the form of stocks, bank accounts, insurance proceeds, utility deposits and uncashed checks, are transferred periodically to the *Unclaimed Property Program Fund*. The \$15.6 million securities, presented as "Other Assets" on the financial statements meet risk Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling \$1,166.7 million at June 30, 2003, are in the form of equity, bond and money market mutual funds, insured savings accounts and investment contracts with insurance companies.

The following table presents investments of the Other State Agencies and Funds at June 30, 2003, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2003, the Other State Agencies and Funds' investments consisted of (in millions):

	Category			Reported Amount	Fair Value
	1	2	3		
Government and agency holdings	\$ 658.0	\$ --	\$.3	\$ 658.3	\$ 658.3
Municipal bonds	166.6	--	--	166.6	166.6
Commercial paper and nonsecured corporate notes and bonds	156.3	--	--	156.3	156.3
Repurchase agreements	--	35.7	--	35.7	35.7
Negotiable certificates of deposit	7.2	--	--	7.2	7.2
	<u>\$ 988.1</u>	<u>\$ 35.7</u>	<u>\$.3</u>	1,024.2	1,024.2
Mutual Funds				854.9	854.9
Pooled Fixed Income				9.0	9.0
Money market funds				166.6	166.6
Pooled Equity Fund				30.3	30.3
Deferred compensation investments				1,166.7	1,166.7
Limited partnerships				1.1	1.1
Other				1.0	1.0
				<u>\$ 3,253.8</u>	<u>\$ 3,253.8</u>

Component Units

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

The Authority's aggregate investments at June 30, 2003, were \$831.7 million of which \$146.2 million are reported as cash equivalents consisting of repurchase agreements, commercial paper, money market funds, and short-term investment agreements. The Authority's investments except for uncollateralized investment agreements of \$68.1 million are a Category 1 level of risk. The Authority's investments in uncollateralized investment agreements are a Category 3 level of risk.

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

The Authority is also authorized to invest its funds in the State Investment Fund. The Authority has established a Master

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

The Authority's Finance committee approved the use of a security-lending program with the trust department of a bank acting as an agent. As of June 30, 2003 the Authority had \$73.2 million of securities on loan to broker-dealers for a fee. The transactions are categorized consistently with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

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

government securities or irrevocable letters of credit. The fair value of the investment securities loaned was \$73.2 million as of June 30, 2003, and the fair value of the collateral received was \$74.7 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2003, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent states that in the event that a borrower fails to return the lent security, the bank will indemnify the Authority for the following amounts: a) The difference between the closing market value of security on the date it should have been returned to the account and the cash collateral substituted for the lent securities, or b) In the case of collateral received in kind, the difference between the closing market value of the security on the date it should have been returned to the account and the closing market value of the collateral in kind on the same date.

The Authority assumes all risk of loss arising out of collateral investment loss and any resulting collateral deficiencies. The bank expressly assumes the risk of loss arising from negligent or fraudulent operations of its securities lending program. The bank operates the securities lending program as a business trust investment pool with open and matched components. In the matched portion of the investment pool, the maturities of the securities lent and collateral are the same. The open portions of the pool maintains a weighted average maturity of the portfolio at approximately 15 days, with a range from 1 day to 25 days. The open portions of the pool generally have a 15-day mismatch between the portfolio coverage maturity and the open loans. As of June 30, 2003, approximately 61.0% of the securities lent were in the matched portion and approximately 39.0% in the open portion of the investment pool. No restrictions on the amount of the loans exist or can be made. The earnings generated from the securities lending program is reported as other income. During the year ended June 30, 2003 the Authority received \$104 thousand of income related to security lending transactions.

Wisconsin Health Care Liability Insurance Plan - The investments of the Wisconsin Health Care Liability Insurance Plan at December 31, 2002 were \$97.3 million, of which \$26.9 million are reported as cash equivalents. Investments of \$4.0 million in bonds meet the Category 1 risk level, while all remaining investments meet the Category 2 risk level.

University of Wisconsin Hospital and Clinics Authority - The University of Wisconsin Hospitals and Clinics Authority (the Hospital) aggregate investments of \$227.9 million consist of \$194.5 million of restricted and limited use investments and \$33.4 million of unrestricted investments.

Badger Tobacco Asset Securitization Corporation - Investments of \$234.5 million of which \$97.4 million are reported as cash equivalents. Investments of \$137.1 million meet the Category 1 risk level, while \$97.4 million are uncategorized.

The following table presents investments of component units at December 31, 2002, May 31, 2003, or June 30, 2003, categorized in accordance with the requirements of GASB Statement No. 3.

At December 31, 2002, May 31, 2003, or June 30, 2003, the component units' investments consisted of (in millions):

	Category			Reported Amount	Fair Value
	1	2	3		
Bonds	\$ 116.8	\$ 36.0	\$ --	\$ 152.8	\$ 158.9
Negotiable certificates of deposit	18.1	--	--	18.1	18.1
Uncollateralized investment agreements	--	--	68.1	68.1	68.1
Mortgage-backed securities	6.6	33.5	--	40.1	40.1
Repurchase agreements	--	55.3	--	55.3	55.4
Collateralized investment contracts	433.1	--	--	433.1	433.1
Commercial Paper	46.7	--	--	46.7	46.7
Forward Delivery Contracts	137.1	--	--	137.1	140.1
	<u>\$ 758.4</u>	<u>\$ 124.8</u>	<u>\$ 68.1</u>	951.3	960.5
Money market funds				266.7	266.7
International Equities				173.4	173.4
				<u>\$ 1,391.4</u>	<u>\$ 1,400.6</u>

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

Other Funds Managed by the Board	\$ 58,457.8
Other State Agencies and Funds	3,253.8
Component Units	1,391.4
Total Investments	<u>\$ 63,103.0</u>

C. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling \$147.5 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year	Amount
2004	\$ 16,750
2005	16,868
2006	16,992
2007	17,118
2008	17,250
Thereafter	101,818
Total future value	186,796
Less: Present value adjustment	(63,064)
Present value of payments	<u>\$ 123,731</u>

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2003 were as follows (in thousands):

	Taxes	Student Loans	Veterans Loans	Mortgage Loans	Insurance Policy Loans	Loans to Local Governments	Other Receivables	Due From Other Governments	Due From Component Units	Total Receivables
Governmental Activities:										
General	\$ 1,095,198	\$ -	\$ -	\$ -	\$ -	\$ 14,892	\$ 180,439	\$ 552,235	\$ 5	\$ 1,842,769
Transportation	93,636	-	-	-	-	-	5,176	90,645	-	189,456
Nonmajor Governmental	25,321	-	-	-	-	236,526	20,372	13,267	-	295,486
Total Governmental:	1,214,155	-	-	-	-	251,418	205,987	656,146	5	2,327,711
Government-wide										
Adjustments:										
Internal Service Funds	-	-	-	-	-	-	368	265	266	899
Accrual Adjustments	-	-	-	-	-	-	1,849	-	-	1,849
Fiduciary Receivables	-	-	-	-	-	-	32,506	-	-	32,506
Total - Governmental Activities	\$ 1,214,155	\$ -	\$ -	\$ -	\$ -	\$ 251,418	\$ 240,710	\$ 656,411	\$ 271	\$ 2,362,964
Related revenue deferral because the receivable does not meet the availability criteria	\$ 252,164	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,114	\$ -	\$ -	\$ 295,279
Business-type Activities:										
Current:										
Patients Compensation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,534	\$ -	\$ 16	\$ 8,550
Environmental Improvement	-	-	-	-	-	76,609	330	6,343	-	83,282
Veterans Mortgage Loan Repayment	-	-	-	16,688	-	-	6,751	-	-	23,438
University of Wisconsin System	-	27,503	-	-	-	-	79,926	48,917	1,931	158,276
Unemployment Insurance Reserve	-	-	-	-	-	-	150,623	8,740	-	159,363
Nonmajor Enterprise	-	411	6,498	1,391	-	206	47,224	6,135	-	61,865
Total Current:	-	27,914	6,498	18,078	-	76,816	293,387	70,135	1,946	494,775
Noncurrent:										
Environmental Improvement	-	-	-	-	-	1,119,900	-	-	-	1,119,900
Veterans Mortgage Loan Repayment	-	-	-	375,587	-	-	-	-	-	375,587
University of Wisconsin System	-	149,567	-	-	-	-	-	-	-	149,567
Nonmajor Enterprise	-	960	39,436	15,131	3,722	1,579	-	-	-	60,827
Total Noncurrent	-	150,527	39,436	390,718	3,722	1,121,479	-	-	-	1,705,881
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	180	-	-	180
Total - Business-type Activities	\$ -	\$ 178,441	\$ 45,934	\$ 408,796	\$ 3,722	\$ 1,198,295	\$ 293,567	\$ 70,135	\$ 1,946	\$ 2,200,837

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2003, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	\$ 72,509
Sales and Services of Auxiliary Enterprises	13,870
Total	\$ 86,379

NOTE 7. CAPITAL ASSETS**Primary Government**

Capital asset activity for the fiscal year ended June 30, 2003 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	\$ 1,072,168	\$ 140,918	\$ (601)	\$ 1,212,485
Buildings and Improvements	151,792	2,727	-	154,519
Library Holdings	73,797	1,054	(25)	74,827
Equipment	641	-	-	641
Construction in Progress	916,064	527,483	(345,077)	1,098,470
Infrastructure	9,205,713	212,179	(65,591)	9,352,302
Total capital assets, not being depreciated	11,420,176	884,362	(411,293)	11,893,245
Capital assets, being depreciated:				
Land Improvements	82,235	8,643	(11,133)	79,745
Buildings and Improvements	1,448,807	117,352	(10,489)	1,555,669
Equipment	523,470	50,962	(33,746)	540,687
Totals	2,054,512	176,956	(55,367)	2,176,100
Less accumulated depreciation for:				
Land Improvements	19,641	4,650	-	24,291
Buildings and Improvements	396,997	39,702	(3,661)	433,038
Equipment	272,893	53,422	(27,859)	298,457
Totals	689,531	97,774	(31,520)	755,785
Total Capital Assets, being depreciated, net	1,364,981	79,182	(23,848)	1,420,315
Governmental activities capital assets, net	\$ 12,785,157	\$ 963,543	\$ (435,141)	\$ 13,313,560
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	\$ 109,813	\$ 1,210	\$ (103)	\$ 110,920
Library Holdings	967,601	22,974	(3,928)	986,646
Construction in progress	10,828	29,565	(11,397)	28,995
Total Capital Assets, not being depreciated	1,088,241	53,749	(15,429)	1,126,561
Capital assets, being depreciated:				
Land Improvements	8,486	207	(1)	8,692
Buildings	3,028,698	148,623	(782)	3,176,539
Equipment	630,806	88,060	(69,067)	649,799
Totals	3,667,989	236,890	(69,849)	3,835,030
Less accumulated depreciation for:				
Land Improvements	5,462	426	(1)	5,888
Buildings	1,294,081	79,515	(679)	1,372,916
Equipment	439,606	50,891	(38,229)	452,268
Totals	1,739,149	130,831	(38,909)	1,831,072
Total Capital Assets, being depreciated, net	1,928,840	106,058	(30,941)	2,003,958
Business-type activities capital assets, net	\$ 3,017,082	\$ 159,807	\$ (46,369)	\$ 3,130,519

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of \$4,008 thousand at June 30, 2003, with accumulated depreciation totaling \$3,945 thousand.

Depreciation Expense

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

Governmental Activities		Business-type Activities	
Commerce	\$ 2,280	Patients Compensation	\$ 6
Education	2,500	Veterans Mortgage Loan Repayment	43
Transportation	9,425	University System	120,122
Environmental Resources	9,112	Lottery	64
Human Relations and Resources	42,673	Other Business-Type	10,597
General Executive Functions	4,057		
Judicial	3,846	Total depreciation expense -	
Legislative	444	business-type activities	<u>\$ 130,831</u>
Depreciation on capital assets held by the internal service funds	23,437		
Total depreciation expense - governmental activities	<u>\$ 97,774</u>		

Construction in Progress

Construction in progress of the primary government reported in the government-wide statement of net assets at June 30, 2003 included the following projects (in thousands):

	Allotments	Expended to June 30, 2003	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
Justice Center and Law Library	\$ 42,600	\$ 123	\$ 32	\$ 42,445
Camp Douglas US Property and Fiscal	13,717	875	351	12,491
Four probation/parole facilities	12,346	9,502	747	2,097
West Bend Army Aviation Support	11,069	2,402	475	8,193
Madison Crime Lab Remodeling	10,227	3,940	4,776	1,511
Other projects with allotments totaling less than \$10 million		47,087		
		<u>63,929</u>		
Other:				
Transportation related		1,029,216		
Other		5,325		
Total construction in progress – governmental activities		<u>\$ 1,098,470</u>		
Business-type Activities:				
University of Wisconsin System:				
Health Science Learning Center - Madison	\$ 63,887	\$ 32,321	\$ 16,174	\$ 15,392
Klotsche Center Physical Education Addition - Milwaukee	39,973	2,568	29,906	7,499
Fine Arts Center Remodeling/Addition – Stevens Point	26,120	1,791	24	24,305
Gates Center Physical Education Addition/Remodeling - Superior	16,201	10,291	4,997	913
Lab Science Remodeling – Green Bay	15,140	7,894	5,466	1,780
Residence Hall – River Falls	10,641	633	429	9,579
Upham Science Addition/Remodeling - Whitewater	10,030	6,299	2,194	1,537
Home for Veterans:				
Home-Skilled Nursing Facility – Southern Wisconsin Center	17,076	959	353	15,765
State Fair Park:				
Grandstand Replacement	20,500	19,395	1,105	–
Other projects with allotments totaling less than \$10 million:				
University of Wisconsin System		67,388		
Other		8,642		
Total construction in progress – business-type activities		<u>\$ 158,180</u>		

As discussed in Note 1E7, construction in progress of the University of Wisconsin System is reported in the applicable major capital assets categories. Construction in progress of the University of Wisconsin System and of the other business-type activities totaled \$129.1 million and \$29.0 million as of June 30, 2003, respectively.

Component Units

Capital Assets balance of the Wisconsin Housing and Economic Development Authority and the University of Wisconsin Hospitals and Clinics Authority as of June 30, 2003 were as follows (in thousands):

	Amount
Capital Assets, not being depreciated:	
Land and Land Improvements	\$ 5,820
Construction in Progress	20,009
Total Capital Assets, not being depreciated	<u>25,829</u>
Capital Assets, being depreciated:	
Buildings	268,067
Equipment	154,592
Totals	<u>422,659</u>
Less accumulated depreciation for:	
Buildings	108,946
Equipment	89,690
Totals	<u>198,636</u>
Total Capital Assets, being depreciated, net	<u>224,023</u>
Component Units Capital Assets, net	<u><u>\$ 249,852</u></u>

NOTE 8. ENDOWMENTS**Primary Government****University of Wisconsin System**

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate of 4.5 percent applied to a 12-quarter moving average market value of the fund. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed monthly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2003, net appreciation of \$9.5 million was available to be spent.

University of Wisconsin System investment policies and guidelines for the Long Term Fund and Intermediate Term Fund are governed and authorized by the Board of Regents. The approved asset allocation policy for the Long Term Fund sets a general target of 65 percent marketable equities, 25 percent fixed income and 10 percent alternatives. Accordingly, the fund includes investments in domestic and non-U.S. stocks and bonds, and limited partnerships consisting of venture capital and other private equity investments. The approved asset allocation for the Intermediate Term Fund is 100 percent intermediate maturity, investment-grade fixed income.

The fair value of Endowments as of June 30, 2003 was \$295.9 million including unrealized gains of \$11.0 million when fair values as of June 30, 2003 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2002 of \$298.1 million. The net decrease in fund balance during 2002-03 was \$2.2 million.

The book value of Endowments under control of the University of Wisconsin System was \$284.9 million as of June 30, 2003 compared to a book value of \$295.7 million as of June 30, 2002. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments since realized gains and losses are based on the difference between the selling price and the acquisition cost of the asset. Therefore, when assets are reported at fair value much of the realized gain or loss may have already been included in prior years as part of the overall change in the fair value of investments.

At June 30, 2003, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	\$ 128.6
Realized Gains – Undistributed	156.3
Book Value	284.9
Unrealized Net Gains/Losses - Undistributed	11.0
Fair Value	<u>\$ 295.9</u>

On June 30, 2003, the portfolio at market contained 67.4 percent in stocks, 25.4 percent in fixed income obligations, .4 percent in alternative assets, and 6.8 percent in short-term investments. The total return on the principal Long-term Fund including capital appreciation was 1.2 percent. The total return on the principal Intermediate Fund including capital appreciation was 7.1 percent. External investment counsel was furnished for funds representing 98.0 percent of market-value principal.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2003 consist of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds and the Due to Other Funds represent short-term interfund accounts receivable and payable. The balances in these accounts at June 30, 2003 were as follows (in thousands):

Due to Other Funds:

	General	Transportation	Nonmajor Governmental	Patients Compensation
Due from Other Funds:				
General	\$ -	\$ 22,564	\$ 41,303	\$ 13
Transportation	1,795	-	19,351	-
Nonmajor Governmental	38,730	13,047	6,530	3
Environmental Improvement	14	-	290	-
Veterans Mortgage Loan Repayment	1	-	-	-
University of Wisconsin System	36,416	452	3,834	-
Unemployment Insurance Reserve	500	-	-	-
Nonmajor Enterprise	30,724	44	24	-
Internal Service	18,440	4,180	685	-
Fiduciary	25,400	3,220	2,205	7
Total	\$ 152,020	\$ 43,508	\$ 74,222	\$ 23

The balances in the Due from Other Funds and Due to Other Funds accounts typically result from the time lag between the dates that

- (1) interfund goods and services were provided and when the payments occurred, and
- (2) interfund transfers were accrued and when the liquidations occurred.

Environmental Improvement	Veterans Mortgage Loan Repayment	University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	Total
\$ 226	\$ 67	\$ 37,009	\$ 1,970	\$ 33,955	\$ 2,100	\$ 32,065	\$ 171,272
-	-	23	-	-	188	-	21,357
1,353	-	2	-	-	71	-	59,735
-	-	-	-	-	-	-	304
-	-	-	-	32	-	-	32
49	-	-	-	1	93	-	40,846
-	-	-	-	-	-	-	500
-	1,067	-	-	455	8	180	32,503
2	2	1,148	-	225	1,557	441	26,680
8	45	-	-	1,877	525	464	33,751
\$ 1,638	\$ 1,182	\$ 38,181	\$ 1,970	\$ 36,545	\$ 4,542	\$ 33,150	\$ 386,980

B. Due from/to Component Units

Receivables and payables between funds and component units at June 30, 2003 were as follows (in thousands):

	Due from Component Unit				Due from Primary Government		Total
	General	Patients Compensation	University of Wisconsin System	Internal Service	Wisconsin Housing And Economic Development Authority	University of Wisconsin Hospitals and Clinics Authority	
Due to Primary Government:							
Wisconsin Housing and Economic Development Authority	\$ --	\$ --	\$ --	\$ 19	\$ --	\$ --	\$ 19
Wisconsin Health Care Liability Insurance Plan	--	16	--	--	--	--	16
University of Wisconsin Hospitals and Clinics Authority	5	--	1,931	247	--	--	2,183
Due to Component Unit:							
General	--	--	--	--	60	1,340	1,400
University of Wisconsin System	--	--	--	--	--	1,560	1,560
Nonmajor Enterprise	--	--	--	--	--	11	11
Internal Service	--	--	--	--	3	--	3
Total	\$ 5	\$ 16	\$ 1,931	\$ 266	\$ 63	\$ 2,912	\$ 5,192

The receivable and payable balances between the primary government and the component units typically result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between entities are made.

C. Interfund Receivables/Payables

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2003 by individual fund were as follows (in thousands):

	Interfund Receivables:		
	Transportation	Fiduciary	Total
Interfund Payables:			
General	\$ --	\$ 636,405	\$ 636,405
Nonmajor Governmental	486	--	486
Nonmajor Enterprise	--	28,824	28,824
Internal Service	--	37,846	37,846
Fiduciary	--	78,794	78,794
Total	\$ 486	\$ 781,869	\$ 782,355

D. Advances to/from Other Funds

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2003 by individual fund were as follows (in thousands):

	Advances to Other Funds (asset):		
	Nonmajor Governmental	Internal Service	Total
Advances from Other Funds (liability):			
Nonmajor Governmental	\$ 1,350	\$ 2,984	\$ 4,334
University of Wisconsin System	500	--	500
Total	\$ 1,850	\$ 2,984	\$ 4,834

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2003 were as follows (in thousands):

	Transfers in:							Total
	General	Transportation	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	
Transfers out:								
General	\$ -	\$ 9	\$ 692,094	\$ -	\$ 988,692	\$ 57,391	\$ 8,613	\$ 1,746,799
Transportation	16,342	-	22,829	-	-	-	-	39,171
Tobacco Settlement Endowment	287,147	-	-	-	-	-	-	287,147
Nonmajor Governmental	61,426	102	25,302	32,800	113,852	11,149	1,440	246,071
Patients Compensation	9	-	-	-	-	-	-	9
Environmental Improvement	69	-	6,000	-	-	-	-	6,069
Veterans Mortgage Loan Repayment	286	-	-	-	-	-	-	286
University of Wisconsin System	38,598	6	500	-	-	-	-	39,104
Nonmajor Enterprise	40,221	-	10	-	-	84	23	40,338
Internal Service	26,841	-	356	-	5	-	892	28,095
Fiduciary	9	-	16,000	-	-	-	-	16,009
Capital Assets Transferred From Proprietary Funds To Governmental Funds	-	-	-	-	-	-	(731)	(731)
Total	\$ 470,947	\$ 118	\$ 763,092	\$ 32,800	\$ 1,102,549	\$ 68,624	\$ 10,237	\$ 2,448,367

Transfers are typically used to move: (1) revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; (2) receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; (3) unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations; and (4) accumulated surpluses from other funds to the General Fund when authorized by statute.

In the fiscal year ended June 30, 2003, transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Funds Reporting the Transfer	Amount
Amounts transferred to the General Fund from other funds to address revenue shortfalls:	
Transportation	\$ 12,382
Utility Public Benefits	8,366
Environmental	11,346
Recycling	9,120
Universal Service	3,639
Technology Services	11,330
Facilities Operations and Maintenance	6,942
Other funds	8,868
Amounts transferred to the General Fund from other funds in lieu of contributions for accumulated unused sick leave credits:	
Transportation	3,475
Conservation	1,247
University of Wisconsin System	28,867
Other funds	4,980
Tobacco Settlement Endowment Fund transfer to fund a portion of the shared revenue program in the General Fund	287,147

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2003, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$ 2,963,410	\$ 352,586	\$ 225,121	\$ 3,090,875	\$ 222,754
Revenue Bonds	1,165,061	211,724	51,199	1,325,586	60,584
Total Bonds and Notes Payable	4,128,471	564,310	276,320	4,416,461	283,339
Other Liabilities:					
Future Benefits and Loss Liability	111,821	30,509	24,065	118,265	23,475
Capital Leases	33,011	20,117	12,814	40,315	12,482
Installment Contracts	1,249	4,141	1,737	3,653	1,170
Compensated Absences	91,008	53,911	40,974	103,945	42,622
Employer Pension Related Debt Costs	707,003	54,005	38,761	722,248	39,000
Claims, Judgments and Commitments	1,972	202	-	2,174	-
Total Governmental Activities					
Long-term Liabilities	\$ 5,074,536	\$ 727,195	\$ 394,670	\$ 5,407,061	\$ 402,087

Repayment of the general obligation bonds is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2003. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. The compensated absences liability will be liquidated by the State's governmental and internal service funds. Long-term liabilities for employer pension costs, and claims, judgments and commitments are generally liquidated with resources of the governmental activities.

Business-type Activities	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$ 993,335	\$ 103,587	\$ 183,470	\$ 913,452	\$ 129,784
Revenue Bonds	659,451	85,575	121,608	623,418	37,545
Total Bonds and Notes Payable	1,652,786	189,162	305,078	1,536,870	167,329
Other Liabilities:					
Future Benefits and Loss Liability	1,077,468	215,262	125,330	1,167,400	147,322
Capital Leases	37,779	3,287	150	40,916	4,515
Compensated Absences	77,416	53,648	45,422	85,642	47,449
Total Business-type Activities					
Long-term Liabilities	\$ 2,845,449	\$ 461,359	\$ 475,980	\$ 2,830,828	\$ 366,615

Component Units

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds	\$ 3,995,969	\$ 954,528	\$ 1,137,968	\$ 3,812,529	\$ 78,626
Future Benefits and Loss Liability	67,212	--	15,532	51,680	6,000
Capital Leases	25,772	--	2,845	22,927	2,967
Compensated Absences	3,177	1,044	--	4,221	--
Total Component Units					
Long-term Liabilities	\$ 4,092,129	\$ 955,572	\$ 1,156,345	\$ 3,891,357	\$ 87,593

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2003 (in thousands):

Primary Government

Governmental Activities:

General Obligation Bonds	\$ 3,090,875
Revenue Bonds:	
Transportation	1,137,467
Petroleum Inspection	188,119
Total Governmental Activities	<u>4,416,461</u>

Business-Type Activities:

General Obligation Bonds:	
Veterans Mortgage Loan Repayment	580,375
University of Wisconsin System	291,128
Other Business-Type	41,949
Revenue Bonds:	
Environmental Improvement	623,418
Total Business-Type Activities	<u>1,536,870</u>
Total Primary Government	<u>5,953,331</u>

Component Units

Wisconsin Housing and Economic Development Authority Revenue	2,069,675
University of Wisconsin Hospitals and Clinics Authority Revenue Bonds	175,628
Badger Tobacco Asset Securitization Corporation	<u>1,567,226</u>
Total Component Units	<u>3,812,529</u>
Total at June 30, 2003	<u>\$ 9,765,860</u>

A. General Obligation Bonds

Primary Government

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

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

At June 30, 2003, \$2,610.7 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2003 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	6.9 to 7.0	5/10	\$ 65,859	\$ 23,844
1991	1991 Series B and I	5/91; 6/91	5.25 to 9.6	1/21	202,136	79,294
1992	1992 Series B and Refunding Issue	6/92; 3/92	6.0 to 6.6	1/22	478,935	192,865
1993	1992 2	11/92				
	1993 1, 2 and A and H; 1993 AC	1/93; 3/93; 5/93; 1/93	4.5 to 6.0	5/15	552,890	289,540
1994	1993 Refunding Issues 3, 4, 5, 6; 1994 Refunding Issue 2; and 1994 Series A and B; 1994 AC 1	8/93; 12/93; 12/93; 10/93; 3/94; 1/94; 6/94; 1/94	4.4 to 7.18	5/24	838,215	355,834
1995	1994 Series 3 and C; 1995 Series A & B, and 1	9/94; 9/94 1/95; 2/95; 2/95	5.4 to 7.0	5/25	336,715	41,415
1996	1995 Series 2 and C; 1996 Series 1, B; 1995 AC and Note 995B	10/95; 9/95; 2/96; 1/96; 5/96; 8/95 and 7/95	4.7 to 7.64	11/26	453,537	238,959
1997	1996 C and D; 1997 1 and A; 1996 AC; 1997 AC	9/96; 10/96; 3/97; 3/97; 8/96; 3/97	5.0 to 7.81	5/28	200,230	62,974
1998	1997 B, C and D; 1998 A, B and C; 1997 AC 2 and 1998 AC	7/97; 9/97; 10/97; 2/98 9/97; 3/98; 5/98; 5/98	4.5 to 7.81	11/28	421,765	304,787
1999	1998 Series 1, 2, D, E and F; 1999 Series 1, A and B	8/98; 9/98; 9/98; 10/98 10/98; 2/99; 5/99; 5/99	4.0 to 7.25	11/30	590,675	488,885
2000	1999 C and D; 2000 A; 1999 AC	10/99; 11/99; 3/00; 12/99	5.0 to 8.0	11/30	320,000	197,980
2001	2000 Series B, C, D, E; and 2001 Series A, B, C and D, 2000 AC; 2001 AC	7/00; 7/00; 11/00; 11/00 2/01; 4/01; 6/01; 6/01; 11/00; 4/01	4.5 to 8.05	11/31	556,710	443,100
2002	2001 Series 1, E, F and F1; and 2002 Series 1, A, B, C, and D; 2001 BC	10/01; 10/01; 10/01; 10/01; 3/02; 3/02; 3/02; 6/02; 6/02; 12/01	3.5 to 6.96	5/33	824,545	817,720
2003	2002 Series E, F, G and H; 2003 Series 1, 2, and A	9/02; 9/02; 10/02; 12/02 4/03; 4/03; 5/03	2.45 to 6.00	5/33	415,190	415,190
Total					6,257,402	3,952,387
Premiums/Discounts					--	60,164
Deferred Amount on Refunding					--	(8,224)
Total General Obligation Bonds and Notes					\$ 6,257,402	\$ 4,004,327

As of June 30, 2003, general obligation bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 217,688	\$ 161,541	\$ 42,524	\$ 51,612
2005	211,725	149,300	44,513	49,064
2006	210,554	136,864	45,187	46,916
2007	208,195	125,475	41,221	44,538
2008	206,696	114,022	33,092	42,606
2009-2013	932,462	412,749	188,239	184,578
2014-2018	685,782	198,561	196,759	130,260
2019-2023	366,508	44,616	155,457	79,212
2024-2028	--	--	113,810	36,609
2029-2033	--	--	51,975	6,989
Total	3,039,610	1,343,128	912,777	672,384
Premiums/Discounts	54,365	--	5,799	--
Deferred Amount on Refunding	(3,100)	--	(5,124)	--
Total	\$ 3,090,875	\$ 1,343,128	\$ 913,452	\$ 672,384

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of \$23.8 million which is the accreted value at June 30, 2003. The bonds mature on May 1 through the year 2010.

The general obligation bonds of 1991, Series B, are zero coupon bonds recorded in the amount of \$44.4 million. The bonds mature on May 1 through the year 2011.

B. Revenue Bonds

Primary Government

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

Transportation Revenue Bonds

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

The Department of Transportation is authorized to issue a total of \$2,095.6 million of revenue bonds. Presently, there are eleven issues of Transportation Revenue Bonds totaling \$1,113.1 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, 2003 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2002A	10/02	3.0 to 5.0	7/23	\$ 200,000	\$ 200,000
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	212,225
1996A	5/96	5.0 to 6.0	7/08	54,630	31,115
1995A	9/95	4.8 to 6.25	7/07	49,495	24,095
1994A	7/94	5.3 to 7.5	7/05	41,845	13,735
1993A	9/93	4.4 to 5.0	7/12	116,450	88,055
				<u>1,235,860</u>	<u>1,113,120</u>
Unamortized Premium					<u>24,347</u>
Total				<u>\$ 1,235,860</u>	<u>\$ 1,137,467</u>

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 \$188.1 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2003 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	5.25 to 6.0	7/12	170,250	157,060
				<u>200,250</u>	<u>187,060</u>
Unamortized Premium				-	<u>1,059</u>
Total				<u>\$ 200,250</u>	<u>\$ 188,119</u>

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 \$1,616.0 million in Revenue Bonds. At June 30, 2003, there were eleven issues of Revenue Bonds outstanding totaling \$623.4 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, 2003 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2002-2	8/02	3.0 to 5.5	6/26	\$ 85,575	\$ 84,580
2002-1	5/01	4.0 to 5.25	6/23	100,000	97,250
2001-1	4/01	4.5 to 5.0	6/21	70,000	65,300
1999-1	9/99	5.0 to 5.75	6/20	80,000	53,570
1998-2	8/99	4.0 to 5.5	6/17	104,360	90,400
1998-1	1/98	4.0 to 5.0	6/18	90,000	69,335
1997-1	2/97	4.5 to 6.0	6/17	80,000	14,205
1995-1	7/95	4.0 to 6.25	6/15	80,000	8,475
1993-2	9/93	2.75 to 6.25	6/08	81,950	75,440
1993-1	9/93	3.6 to 5.3	6/13	84,345	4,480
1991-1	4/91	5.4 to 6.9	6/11	225,000	57,445
				<u>1,081,230</u>	<u>620,480</u>
Unamortized Premium					<u>15,332</u>
Less: Unamortized discount and charge					<u>(12,394)</u>
Total, net of discount, charge and premium				<u>\$ 1,081,230</u>	<u>\$ 623,418</u>

As of June 30, 2003, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

Fiscal Year Ended June 30	Governmental Activities				Business-Type Activities	
	Transportation Revenue Bonds		Petroleum Inspection Fee Revenue Bonds		Clean Water Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 46,870	\$ 45,856	\$ 12,070	\$ 10,139	\$ 37,545	\$ 32,986
2005	57,885	52,647	12,735	9,425	39,340	31,163
2006	60,760	49,869	13,495	8,638	41,255	29,182
2007	63,345	46,978	14,305	7,830	43,455	26,928
2008	66,045	43,917	30,115	6,617	45,765	24,572
2009-2013	292,525	173,637	104,340	13,698	219,555	83,542
2014-2018	280,670	97,214	--	--	132,845	35,656
2019-2023	229,735	31,028	--	--	60,720	7,874
2024-2028	15,285	363	--	--	--	--
Total	1,113,120	541,509	187,060	56,347	620,480	271,903
Unamortized Premium	24,347	--	1,059	--	15,332	--
Unamortized Discount/Charge	--	--	--	--	(12,394)	--
Total, net	\$ 1,137,467	\$ 541,509	\$ 188,119	\$ 56,347	\$ 623,418	\$ 271,903

Component Units

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2003 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	\$ 1,696,226
Special obligation and subordinated Special obligation	<u>379,695</u>
Total	2,075,921
Less: Deferred amount on refunding	<u>(6,246)</u>
Total, net	<u>\$ 2,069,675</u>

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, 2003 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1992 A	1/92	6.4 to 6.85	2012	\$ 9,670
1993 A&B	10/93	4.0 to 5.65	2023	52,670
1993 C	12/93	5.1 to 5.875	2019	104,130
1995 A&B	7/95	5.45 to 6.5	2026	40,720
1998 A,B&C	2/98	4.4 to 6.88	2032	36,140
1999 A&B	10/99	4.55 to 6.18	2031	39,055
2000 A&B	9/00	Variable	2032	10,585
2002 A, B&C	5/02	3.2 to 5.6	2033	110,135
2002 D, E&G	5/02	Variable	2034	15,850
2002 F	5/02	Variable	2033	10,430
2002 H	5/02	4.68	2033	25,520
2002 I	5/02	Variable	2033	7,005
				<u>461,910</u>

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1987 B&C	8/87	7.375	2015	555
1994 A&B	4/94	5.7 to 6.45	2017	19,860
1995 A&B	1/95	5.4 to 7.1	2025	10,385
1995 C,D&E	5/95	5.45 to 7.45	2026	29,100
1995 F,G&H	9/95	5.25 to 7.2	2017	11,785
1996 A&B	3/96	5.2 to 6.15	2027	29,720
1996 C&D	7/96	4.5 to 6.45	2027	25,555
1996 E&F	11/96	5.0 to 6.1	2026	20,330
1997 A,B&C	4/97	5.1 to 7.11	2028	28,975
1997 D&E	6/97	4.85 to 6.0	2028	42,500
1997 G,H&I	11/97	4.75 to 5.75	2028	33,860
1998 A,B&C	4/98	4.75 to 5.6	2028	67,355
1998 D&E	6/98	4.45 to 6.04	2028	67,545
1999 C & D	4/99	4.0 to 7.29	2029	52,825
1999 A&B	8/99	5.3 to 5.5	2021	52,420
1999 F&G	7/99	4.3 to 7.07	2030	44,825
2000 A,B&C	3/00	5.1 to 8.57	2030	25,955
2000 D&E	9/00	5.15 to 7.91	2031	31,070
2000 F	7/00	Variable	2015	11,645
2000 G	11/00	4.75 to 7.21	2031	15,710
2000 H	11/00	Variable	2024	19,500
2001 A,B,C & D	5/01	3.95 to 6.4 & Variable	2032	62,445
2002 A&C	2/02	3.5 to 5.5	2032	76,610
2002 B	2/02	5.88	2032	19,515
2002 C	2/02	3.69	2016	14,945
2002 D	2/02	2.91	2022	9,965
2002 E,G&H	3/03	2.2 to 5.25	2022	128,445
2002 I	10/02	Variable	2032	85,000
2002 F	7/02	Variable	2032	22,980
2002 J	10/02	Variable	2032	9,980
2003 A	4/03	1.3 to 4.95	2033	110,000
				<u>1,181,360</u>

Business Development Bonds:				
1989 3&28	Various	4.4 to 5.2	2014	2,045
1991 4,6	Various	3.75 to 5.5	2006	1,925
1994 1,4	Various	Variable	2014	2,305
1995 1-2,4-9	Various	Variable	2015	10,875
				<u>17,150</u>

Notes Payable	Various	Variable	2021	<u>35,806</u>
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Authority's Total Revenue Bonds and Notes				<u><u>\$ 1,696,226</u></u>
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(Continued)

Authority's Special Obligation Bonds

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

Special obligation bonds at June 30, 2003 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1993 A	6/92	5.6 to 6.5	2025	\$ 37,155
1994 C&D	8/94	5.625 to 6.3	2014	12,955
1998 F&G	10/98	4.1 to 6.7	2029	62,250
				112,360
Single Family Drawdown Revenue Bonds:				
2001-1	11/01	Variable	2004	206,000
2003-1	4/03	Variable	2006	61,335
				267,335
Total Special Obligation Bonds				\$ 379,695

The Authority has entered into various interest rate swap agreements. The agreements provide the Authority with synthetic fixed interest rates on a portion of its debt. During the term of the swap agreements, the Authority expects to effectively pay a fixed rate on the debt. In return, the counterparty pays interest based on a contractually agreed upon variable rate. The Authority will be exposed to variable rates on the outstanding bonds if the counterparty to the swap defaults, the swap is terminated or the effective interest rate, determined by the Remarketing Agent used for Bond Holder payments, increases over the variable rate index used for calculating the interest received from the counterparty. All interest rate swap agreements at June 30, 2003 are classified as effective. The Authority does not intend to terminate these agreements prior to their maturity.

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, 2003, the Authority had issued 142 series of such bonds in an aggregate principal amount of \$82.6 million for economic projects in Wisconsin.

The following table outlines information related to agreements in place as of June 30, 2003 (in thousands):

Program and Bond Issue	Notional Value at 6/30/03	Effective Date	Swap Termination Date	Credit Rating	Percent Fixed Rate Paid	Variable Rate/Index Received	Swap Termination Market Value at 6/30/03
Housing Revenue Bonds							
2002 Series H	\$ 25,520	5/21/2002	11/1/2033	AAA	4.68	70% of one month London Interbank Offered Rate (LIBOR)	\$ (3,123)
							(3,123)
1987 Home Ownership Revenue Bonds							
2002 Series B	19,515	2/6/2002	3/1/2020	AAA	5.88	One month LIBOR + 35 basis points	(2,071)
2002 Series C	14,945	2/6/2002	9/1/2012	AAA	3.69	67 percent of one month LIBOR	(1,340)
2002 Series D	9,965	2/6/2002	9/1/2006	AAA	2.91	70 percent of one month LIBOR	(262)
2002 Series I	8,250	10/17/2002	3/1/2008	AA+	2.33	70 percent of one month LIBOR	(245)
2002 Series I	35,020	10/17/2002	9/1/2032	AA+	4.07	70 percent of one month LIBOR	(2,714)
2002 Series J	9,980	10/17/2002	9/1/2006	AA+	3.13	One month LIBOR + 40 basis points	(214)
							(6,846)
1988 Home Ownership Revenue Bonds							
2002 Series E	22,370	7/11/2002	3/1/2011	AAA	3.24	70 percent of one month LIBOR	(1,168)
2002 Series E	23,890	7/11/2002	9/1/2032	AAA	4.67	70 percent of one month LIBOR	(2,042)
2002 Series F	22,890	7/11/2002	9/1/2014	AAA	5.20	Three months LIBOR + 40 basis	(1,746)
2003 Series A	25,000	4/3/2003	9/1/2014	AAA	2.98	65 percent one month LIBOR + 25 basis points	(832)
2003 Series A	31,375	4/3/2003	9/1/2030	AAA	4.26	65 percent one month LIBOR + 25 basis points	(1,287)
2003 Series A	17,920	4/3/2003	9/1/2033	AAA	4.17	65 percent one month LIBOR + 25 basis points	(867)
							(7,942)
							\$ (17,911)

The commercial paper obligations are issued for terms of one to 270 days. These obligations bear interest at various rates, which ranged from .95%-1.30% and 1.50%-1.65% at June 30, 2003 and June 30, 2002 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 1.800%, 2.210% and 1.625% at June 30, 2003.

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 1.3 percent in 2003.

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.

In September 2000, the Hospital entered into an interest rate swap in order to effectively change a portion of the Series 2000 Bonds fixed rate interest cash flows to variable rate interest cash flows. The notional amount of this swap agreement was \$46.5 million. The terms of the swap agreement are for the Hospital to pay to the counterparty a variable rate and to receive a fixed interest payment from the counterparty. The fair value of \$2.9 million at June 30, 2002 is not reflected in the financial statements. The swap agreement was terminated in September 2002. The cancellation resulted in a gain to the Hospital of \$4.0 million reflecting additional market value appreciation.

In October 2002, the Hospital issued \$68.5 million of Hospital Revenue Bonds, Series 2002 (Series 2002 Bonds) consisting of \$55.6 million Series 2002A Short-term Adjustable Securities and \$12.9 million Series 2002B Fixed Interest Rate Bonds. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 2002A Bonds range from \$500 thousand to \$3.9 million due annually commencing in April 2013 through 2032. The interest rates and the interest payment dates for the Series 2002A Bonds vary depending on if the bonds are in auction mode, daily mode, weekly mode, or in flexible mode beginning November 29, 2002. Principal payments on the Series 2002B Bonds range from \$1.4 million to \$1.9 million due annually commencing in April 2006 through April 2013. Interest rates for the Series 2002B Bonds range from 5.25 percent to 5.50 percent and interest is payable semiannually on April 1 and October 1 of each year beginning April 1, 2003. The effective annual interest rate of the Series 2002 A Bonds was 1.19 percent in 2003. The effective annual interest rate of the Series 2002B Bonds was 5.45 percent in 2003.

In October 2002, the Hospital 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 at June 30, 2003, which matures on April 1, 2022. 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 to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. As of June 30, 2003, the interest rate received by the Hospital was 0.92 percent. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate on the bonds. The Hospital does not intend to terminate this agreement. As of June 30, 2003, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value.

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, 2003, debt service requirements for principal and interest for component units at May 31 or June 30, 2003 are as follows (in thousands):

Fiscal Year Ended	Component Units					
	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
2004	\$ 78,626	\$ 84,788	\$ --	\$ 9,614	\$ --	\$ 148,634
2005	267,865	79,045	--	5,185	--	97,643
2006	131,780	75,321	1,385	5,186	12,210	97,308
2007	65,650	71,646	2,035	5,114	12,315	96,603
2008	68,945	68,458	2,480	5,007	12,485	95,966
2009-2013	363,265	294,113	18,530	22,674	166,665	456,698
2014-2018	354,515	208,371	33,135	18,514	209,260	403,156
2019-2023	278,290	132,914	42,235	14,352	258,810	333,536
2024-2028	293,890	68,060	52,010	9,271	404,880	233,486
2029-2033	171,515	23,542	23,190	921	514,470	77,171
2034	1,580	1,421	--	--	--	--
Total	2,075,920	1,107,680	175,000	95,838	1,591,095	2,040,201
Unamortized Premium/Discount	--	--	628	--	(23,869)	--
Deferred Amount on Refunding	(6,245)	--	--	--	--	--
Total	\$2,069,675	\$ 1,107,680	\$ 175,628	\$ 95,838	\$1,567,226	\$ 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 April 2003, the State issued \$7.0 million of general obligation refunding bonds (2003 Series 1), the proceeds of which were used to refund the outstanding 1992 Series B bonds. 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 \$2.4 million and an economic gain of \$.3 million.

In April 2003, the State issued \$13.7 million of general obligation refunding bonds (2003 Series 2), the proceeds of which were used to replacement refund principal due on certain general obligation bonds previously issued to fund veterans housing loans. The refunding resulted in an increase in total debt service payments by \$(8.7) million with an economic gain of \$4.0 million.

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, 2003, approximately \$504.2 million of general obligation bond principal have been defeased.

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, 2003, revenue bonds outstanding of \$86.1 million have been defeased.
- Transportation revenue bonds – At June 30, 2003, revenue bonds outstanding of \$233.3 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, 2003, the remaining outstanding defeased debt was \$32.1 million.

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 2003, 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 2003
Home Ownership Revenue	
Bond Resolutions:	
1987	\$ 152,630
1988	277,300
All Other	223,230
Housing Revenue Bonds	105,425
General funds	175

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, 2003, 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. At June 30, 2003, the amount of commercial paper notes outstanding was \$77.1 million which had interest rates ranging from .90 percent to 1.07 percent and maturities ranging from July 1, 2003 to September 10, 2003.

Short term debt activity for the year ended June 30, 2003 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
\$ 79.1	\$ --	\$ 2.0	\$ 77.1

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, 2003, 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, 2003, the amount of extendible municipal commercial paper outstanding was \$239.9 million which

had interest rates ranging from 0.9 percent to 1.10 percent and maturities ranging from July 1, 2003, to August 14, 2003.

Short term debt activity for the year ended June 30, 2003 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
\$ 265.9	\$ --	\$ 26.0	\$ 239.9

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, 2003, the State issued \$142.3 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, 2003, the amount of extendible commercial paper outstanding was \$142.3 million which had interest rates ranging from 0.9 percent to 1.12 percent and maturities ranging from July 1, 2003 to August 4, 2003.

Short term debt activity for the year ended June 30, 2003 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
\$ 80.0	\$ 62.3	\$ --	\$ 142.3