

Finances



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller
State Auditor

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements for the following fiduciary and proprietary funds administered by the Department of Employee Trust Funds as of and for the year ended December 31, 2003: the Wisconsin Retirement System, Deferred Compensation, Accumulated Sick Leave Conversion, Life Insurance, Employee Reimbursement Accounts, Commuter Benefits, Milwaukee Retirement Systems, Duty Disability, Long-Term Disability Insurance, Health Insurance, and Income Continuation Insurance. These financial statements are the responsibility of the State of Wisconsin Department of Employee Trust Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Deferred Compensation Plan. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Deferred Compensation Plan, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Deferred Compensation Plan were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present the financial positions, changes in financial positions, and cash flows, where applicable, of only the fiduciary and proprietary funds administered by the Department of Employee Trust Funds and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of December 31, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of each fiduciary fund and of each proprietary fund as of December 31, 2003, and the

respective changes in their financial positions and their cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The required supplementary information on the Wisconsin Retirement System's schedules of funding progress and employer contributions, and the required supplementary information on claims development information for public entity risk pools, are not required parts of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board statements 10 and 25. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

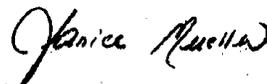
The Introduction and the Sections entitled Statistics, Actuarial, Investments, and Employers and Unfunded Actuarial Accrued Balances, as listed in the table of contents, were not audited by us and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2004, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which will be included in a management letter to the Department, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

November 29, 2004

by



Janice Mueller
State Auditor

Wisconsin Department of Employee Trust Funds
Statement of Fiduciary Net Assets
December 31, 2003
(In Thousands)

	Wisconsin Retirement System	Deferred Compensation
Assets:		
Equity In Pooled Cash & Cash Equivalents	\$ 1,750,746	\$ 1,589
Securities Lending Collateral	3,504,674	0
Prepaid Expenses	1,318	0
Receivables:		
Contributions Receivable	77,940	103
Prior Service Contributions Receivable	1,600,494	0
Benefit Overpayments Receivable	1,614	0
Due From Other Trust Funds	4,571	0
Miscellaneous Receivables	96	0
Interest and Dividends Receivable	189,682	0
Investment Sales Receivable	281,276	0
Total Receivables	2,155,673	103
Investments at Fair Value:		
Fixed Income Investments	14,633,240	0
Stocks	42,195,284	0
Limited Partnerships	2,702,123	0
Mortgages	612,367	0
Real Estate	428,284	0
Multi Asset Investments	328,148	0
Foreign Currency Fluctuations	1,586	0
Investment In Fixed Fund	0	0
Investment In Variable Fund	0	0
Other Investments	0	1,346,410
Total Investments	60,901,032	1,346,410
Capital Assets	61	0
Total Assets	68,313,504	1,348,102
Liabilities:		
Fixed Investment Due Other Programs	2,106,693	0
Variable Investment Due Other Programs	37,202	0
Securities Lending Collateral Liability	3,504,674	0
Benefits Payable	185,413	0
Other Estimated Future Benefits	0	0
Deferred Revenue	308	0
Due To Other Trust Funds	819	74
Miscellaneous Payables	68,925	0
Investment Payables	283,083	0
Total Liabilities	6,187,117	74
Net Assets Held in Trust for Pension Benefits and Pool Participants	\$ 62,126,387	\$ 1,348,028

The accompanying notes are an integral part of the financial statements.
A schedule of funding progress for the Wisconsin Retirement System is presented on page 68.

Statement 1

Accumulated Sick Leave Conversion	Life Insurance	Employee Reimbursement Accounts	Commuter Benefits	Milwaukee Retirement Systems
\$ 0	\$ 2,209	\$ 3,742	\$ 0	\$ 0
0	0	0	0	0
0	0	195	0	0
0	0	90	2	0
0	0	0	0	0
0	0	0	0	0
131	1	97	0	0
0	385	0	0	0
0	0	0	0	0
0	0	0	0	0
131	386	187	2	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
1,583,516	0	0	0	42,424
0	0	0	0	37,202
0	0	0	0	0
1,583,516	0	0	0	79,626
0	0	0	0	0
1,583,647	2,595	4,124	2	79,626
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	3,137	28	0
1,624,942	0	0	0	0
13,388	2,085	755	0	0
40	209	0	100	0
0	0	37	9	0
0	0	0	0	0
1,638,370	2,294	3,929	137	0
\$ (54,723)	\$ 301	\$ 195	\$ (135)	\$ 79,626

Wisconsin Department of Employee Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2003
(In Thousands)

	Wisconsin Retirement System	Deferred Compensation
Additions:		
Contributions:		
Employer Contributions	\$ 473,187	\$ 0
Employee Contributions	564,755	117,178
Total Contributions	<u>1,037,942</u>	<u>117,178</u>
Deposits	0	0
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	11,514,737	0
Interest	595,466	0
Dividends	318,168	0
Securities Lending Income	40,594	0
Other	100,250	244,256
Less:		
Investment Income Distributed to Other Funds	341,859	0
Investment Expense	152,948	0
Securities Lending Rebates and Fees	30,979	0
Net Investment Income	<u>12,043,429</u>	<u>244,256</u>
Interest on Prior Service Receivable	36,119	0
Miscellaneous Income	3,563	841
Total Additions	<u>13,121,053</u>	<u>362,275</u>
Deductions:		
WRS Benefits and Refunds:		
Retirement, Disability, and Beneficiary Separation Benefits	2,690,603	0
Total WRS Benefits and Refunds	<u>2,719,450</u>	<u>0</u>
Other Benefit Expense	0	0
Distributions	0	54,273
Unusual Write-Off of Receivable	(51)	0
Carrier Administrative Expenses	0	2,251
Departmental Administrative Expenses	16,393	210
Total Deductions	<u>2,735,792</u>	<u>56,734</u>
Net Increase (Decrease)	10,385,261	305,541
Net Assets		
Beginning of Year	<u>51,741,126</u>	<u>1,042,487</u>
End of Year	<u>\$ 62,126,387</u>	<u>\$ 1,348,028</u>

The accompanying notes are an integral part of the financial statements.

Statement 2

Accumulated Sick Leave Conversion	Life Insurance	Employee Reimbursement Accounts	Commuter Benefits	Milwaukee Retirement Systems
\$ 813,119	\$ 5,449	\$ 386	\$ 0	\$ 0
0	31,373	18,424	942	0
<u>813,119</u>	<u>36,822</u>	<u>18,810</u>	<u>942</u>	<u>0</u>
0	0	0	0	6,223
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
229,262	15	43	(1)	16,274
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
<u>229,262</u>	<u>15</u>	<u>43</u>	<u>(1)</u>	<u>16,274</u>
0	0	0	0	0
0	554	0	0	0
<u>1,042,381</u>	<u>37,391</u>	<u>18,853</u>	<u>941</u>	<u>22,497</u>
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
381,145	36,822	18,238	928	0
0	0	0	0	23
0	0	0	0	0
0	0	599	107	0
88	550	81	3	0
<u>381,233</u>	<u>37,372</u>	<u>18,918</u>	<u>1,038</u>	<u>23</u>
661,148	19	(65)	(97)	22,474
(715,871)	282	260	(38)	57,152
<u>\$ (54,723)</u>	<u>\$ 301</u>	<u>\$ 195</u>	<u>\$ (135)</u>	<u>\$ 79,626</u>



Wisconsin Department of Employee Trust Funds
 Statement of Net Assets — Proprietary Funds
 December 31, 2003
 (In Thousands)

Statement 3

ASSETS	Duty Disability	Long-Term Disability Insurance	Health Insurance	Income Continuation Insurance
Current Assets:				
Equity in Pooled Cash & Cash Equivalents	\$ 0	\$ 0	\$ 54,815	\$ 0
Investment In Fixed Fund	147,504	250,827	0	82,422
Prepaid Expenses	0	0	52,156	10
Contributions Receivable	3,469	0	679	795
Due From Other Trust Funds	384	219	57	0
Benefit Overpayments Receivable	137	47	8	2,256
Miscellaneous Receivables	0	16	1	1
Total Current Assets	<u>151,494</u>	<u>251,109</u>	<u>107,716</u>	<u>85,484</u>
Total Assets	151,494	251,109	107,716	85,484

LIABILITIES

Current Liabilities:				
Benefits Payable	1,924	0	4	0
Deferred Revenue	0	0	65,095	98
Current Portion of Estimated Future Benefits	22,272	7,978	8,326	12,050
Due To Other Trust Funds	0	1,030	3,057	130
Miscellaneous Payables	0	57	2,127	123
Total Current Liabilities	<u>24,196</u>	<u>9,065</u>	<u>78,609</u>	<u>12,401</u>
Noncurrent Liabilities:				
Noncurrent Portion of Estimated Future Benefits	316,950	45,973	0	44,820
Total Noncurrent Liabilities	<u>316,950</u>	<u>45,973</u>	<u>0</u>	<u>44,820</u>
Total Liabilities	341,146	55,038	78,609	57,221
NET ASSETS RESTRICTED FOR BENEFITS	\$ (189,652)	\$ 196,071	\$ 29,107	\$ 28,263

The accompanying notes are an integral part of the financial statements.



**Wisconsin Department of Employee Trust Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets — Proprietary Funds
For the Year Ended December 31, 2003
(In Thousands)**

	Duty Disability	Long-Term Disability Insurance	Health Insurance	Income Continuation Insurance
Operating Revenues:				
Investment Income	\$ 28,976	\$ 52,446	\$ 847	\$ 14,902
Contributions	39,309	0	825,572	10,531
Miscellaneous Income	10	18	49	84
Total Operating Revenues	68,295	52,464	826,468	25,517
Operating Expenses:				
Benefit Expense	41,370	17,185	813,517	10,128
Carrier Administrative Expenses	0	699	2,447	1,417
Departmental Administrative Expenses	77	(40)	3,292	506
Total Operating Expenses	41,447	17,844	819,256	12,051
Operating Income (Loss)	26,848	34,620	7,212	13,466
Change in Net Assets	26,848	34,620	7,212	13,466
Total Net Assets - Beginning of Year	(216,500)	161,451	21,895	14,797
Total Net Assets - End of Year	\$ (189,652)	\$ 196,071	\$ 29,107	\$ 28,263

The accompanying notes are an integral part of the financial statements.



Wisconsin Department of Employee Trust Funds
Statement of Cash Flows — Proprietary Funds
For the Year Ended December 31, 2003
(In Thousands)

Statement 5

	Duty Disability	Long-Term Disability Insurance	Health Insurance	Income Continuation Insurance
Cash Flows from Operating Activities				
Cash Received for Insurance Premiums	\$ 39,016	\$ 0	\$ 827,779	\$ 10,513
Cash Paid for Employee Benefits	(22,824)	(7,337)	(825,049)	(13,543)
Cash Paid for Administrative Services	(518)	(885)	(2,590)	(1,943)
Interest Income	10	2	49	79
Net Cash Provided (Used) by Operating Activities	15,684	(8,220)	189	(4,894)
Cash Flows from Investing Activities				
Investment Income	28,976	52,446	857	14,901
Decrease (Increase) in Investment in Fixed Fund	(44,660)	(44,226)	0	(10,007)
Net Cash Provided (Used) by Investing Activities	(15,684)	8,220	857	4,894
Net Increase (Decrease) in Cash and Cash Equivalents	0	0	1,046	0
Equity in Pooled Cash and Cash Equivalents at Beginning of Year	0	0	53,769	0
Equity in Pooled Cash and Cash Equivalents at End of Year	\$ 0	\$ 0	\$ 54,815	\$ 0
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ 26,848	\$ 34,620	\$ 7,212	\$ 13,466
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Investment Income (Loss) Classified as Operating Revenue	(28,976)	(52,446)	(847)	(14,902)
Changes in Assets and Liabilities:				
Decrease (Increase) in Contributions Receivable	(294)	0	(247)	(25)
Decrease (Increase) in Miscellaneous Receivables	0	(16)	(1)	(1)
Decrease (Increase) in Benefit Overpayments Receivable	29	(30)	0	(1,285)
Decrease (Increase) in Prepaid Expenses	0	0	(12,881)	(10)
Decrease (Increase) in Due From Other Trust Funds	(384)	(219)	1,046	0
Increase (Decrease) in Estimated Future Benefits	18,386	10,145	262	(1,381)
Increase (Decrease) in Deferred Revenue	0	0	2,453	1
Increase (Decrease) in Benefits Payable	132	(412)	0	(750)
Increase (Decrease) in Miscellaneous Payables	0	9	135	13
Increase (Decrease) in Due to Other Trust Funds	(57)	129	3,057	(20)
Total Adjustments	(11,164)	(42,840)	(7,023)	(18,360)
Net Cash Provided (Used) by Operating Activities	\$ 15,684	\$ (8,220)	\$ 189	\$ (4,894)

The accompanying notes are an integral part of the financial statements.