



February 25, 2004

Senator Carol Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed our fiscal year (FY) 2002-03 financial audit of the State of Wisconsin Investment Board, as requested by the Investment Board and to fulfill our audit requirements under s. 13.94(1)(df), Wis. Stats. The Investment Board's financial statements present the investments and investment activity for the State Investment Fund, the Wisconsin Retirement System funds, and five other smaller insurance and trust funds. The statements and our unqualified opinion on them are included in the Investment Board's 2003 annual report, which was recently issued.

The State Investment Fund invests the excess operating funds of State of Wisconsin agencies, the retirement funds, and the Wisconsin Local Government Investment Pool. The State Investment Fund's net asset balance of \$5.6 billion as of June 30, 2003, was slightly lower than the previous year's balance of \$5.9 billion. Net investment income earned by the State Investment Fund has decreased significantly over the last two years because of lower interest rates in the markets. Specifically, it declined from \$344.4 million during FY 2000-01 to \$160.3 million during FY 2001-02, and to \$96.5 million during FY 2002-03.

The retirement funds, which include the Fixed Retirement Trust Fund and the Variable Retirement Trust Fund, also have been affected by recent market conditions. Following two years of investment losses totaling \$5.8 billion, the Fixed Retirement Trust Fund reported net investment income of \$2.1 billion during FY 2002-03. The Variable Retirement Trust Fund continued to report a net investment loss, but the \$146.4 million loss reported in FY 2002-03 is significantly less than the \$994.9 million loss reported in FY 2001-02. After factoring in net investment income or losses and net benefit disbursements during FY 2002-03, the net asset balances of the retirement funds as of June 30, 2003, was \$50.3 billion for the Fixed Retirement Trust Fund and \$5.1 billion for the Variable Retirement Trust Fund.

The Investment Board is responsible for investing the assets of five insurance and trust funds: the Patients Compensation Fund (recently renamed to the Injured Patients and Families Compensation Fund), the State Life Insurance Fund, the Local Government Property Insurance Fund, the EdVest Tuition Trust Fund, and the Historical Society Trust Fund. The Investment Board was also

responsible for investing the funds of the Tobacco Permanent Endowment Fund until its assets were used to make shared revenue payments to county and municipal governments in November 2002. Each of these funds has different investment policies, as established by the agency responsible for the fund and the Investment Board. The largest fund, the Patients Compensation Fund, had net assets totaling \$666.0 million as of June 30, 2003. All of the funds had positive investment earnings during FY 2002-03.

*Government Auditing Standards* require us to provide an auditor's report on compliance and on internal control over financial reporting, which accompanies this letter. As noted in the report, we did not identify any compliance or control concerns that are required to be reported under these standards. Furthermore, we note that the Investment Board continues to improve its valuation process for private equity investments, which can be difficult to value. In past audits, we expressed concerns about a lack of timeliness, completeness, and communication of valuation information for private equity investments. We have been pleased with the Investment Board's recent progress in improving this process, which we will continue to monitor in future financial audits.

Sincerely,



Janice Mueller  
State Auditor

JM/DA/bm

Enclosure

cc: Senator Robert Cowles  
Senator Alberta Darling  
Senator Jeffrey Plale  
Senator Julie Lassa

Representative Samantha Kerkman  
Representative Dean Kaufert  
Representative David Cullen  
Representative Mark Pocan