



STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

January 4, 2005

Senator Carol A. 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) 2003-04 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 opinions on them are included in the Investment Board's 2004 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 had a net asset balance of \$5.6 billion as of June 30, 2004, which was the same as its balance as of June 30, 2003. Net investment income earned by the State Investment Fund continued to decrease in FY 2003-04 because of lower interest rates in the markets. Specifically, net investment income declined 33.1 percent, from \$96.5 million in FY 2002-03 to \$64.6 million in FY 2003-04.

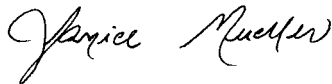
The retirement funds, which include the Fixed Retirement Trust Fund and the Variable Retirement Trust Fund, experienced significant increases in their assets in FY 2003-04 because of double-digit positive investment returns. The Fixed Retirement Trust Fund also received \$1.5 billion from the State and various municipalities for the payment of unfunded pension and accumulated sick leave conversion liabilities. The Fixed Retirement Trust Fund reported net investment income of \$8.2 billion in FY 2003-04, or almost four times the \$2.1 billion reported in FY 2002-03. Similarly, the Variable Retirement Trust Fund reported net investment income of \$1.1 billion in FY 2003-04, which was a significant improvement from the \$146.4 million loss in FY 2002-03. After factoring in net investment income, net contribution receipts, and benefit disbursements in FY 2003-04, the net asset balances of the retirement funds as of June 30, 2004, was \$59.1 billion for the Fixed Retirement Trust Fund and \$5.8 billion for the Variable Retirement Trust Fund.

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The Investment Board is also responsible for investing the assets of five insurance and trust funds: 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. 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 Injured Patients and Families Compensation Fund, had net assets totaling \$695.6 million as of June 30, 2004. Net investment income was significantly lower for all but the Historical Society Trust Fund in comparison to FY 2002-03.

Government Auditing Standards require us to provide an auditor's report on internal control over financial reporting and on compliance and other matters, which accompanies this letter. As noted in the report, we did not identify any control or compliance concerns that are required to be reported under these standards.

Sincerely,

A handwritten signature in cursive script that reads "Janice Mueller".

Janice Mueller
State Auditor

JM/DA/ss

Enclosure