



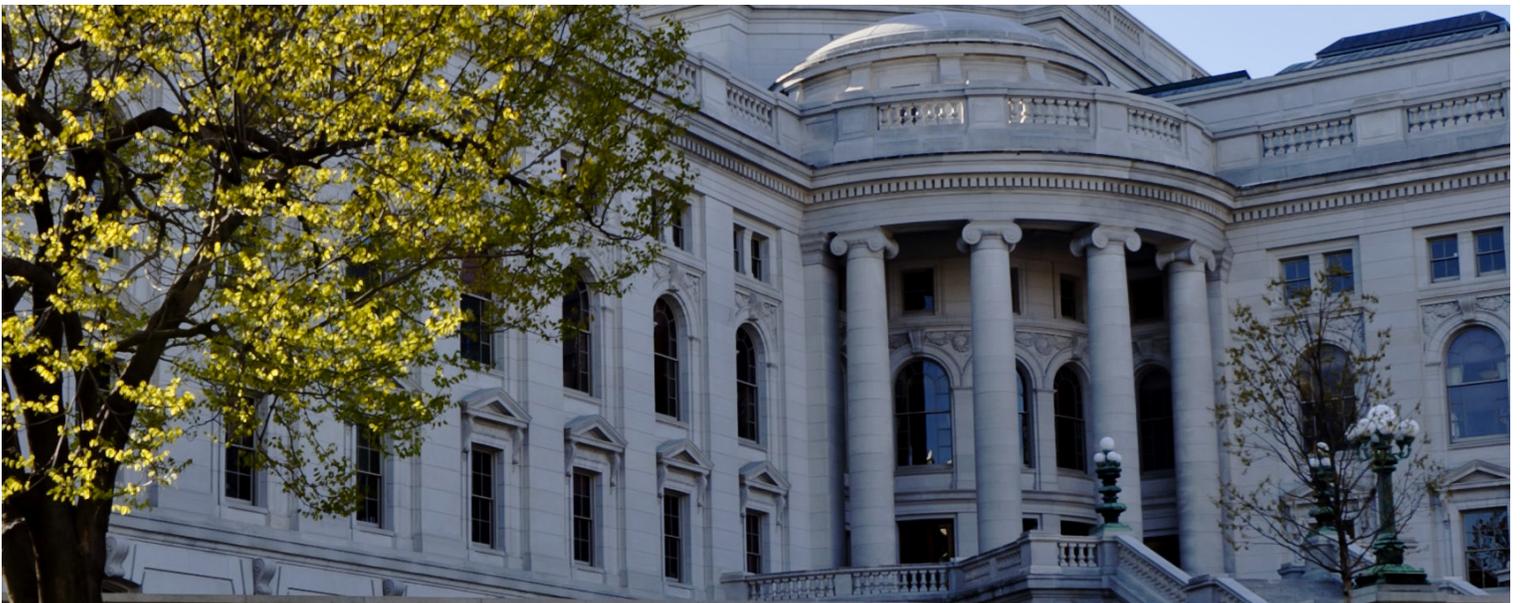
STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 22-22
December 2022

State Investment Fund

Fiscal Year 2021-22

State of Wisconsin Investment Board



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State Investment Fund
Fiscal Year 2021-22

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Legislative Audit Bureau

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Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

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Appendix

Participants in the State Investment Fund

Opinion Published Separately

The financial statements and our opinion on them are included in the State of Wisconsin Investment Board's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2022.



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

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December 6, 2022

Senator Robert Cowles, Co-chairperson
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles:

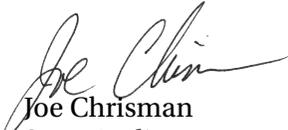
As required by ss. 13.94 (1) (df) and 25.17 (51), Wis. Stats., we have completed a financial audit of the State Investment Fund (SIF) administered by the State of Wisconsin Investment Board (SWIB) as of and for the year ended June 30, 2022. The financial statements, related notes, and our unmodified opinion on them are included in SWIB's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2022, which may be found on SWIB's website.

SWIB invests the excess operating cash balances of State of Wisconsin agencies, the Wisconsin Retirement System, and the Wisconsin Local Government Investment Pool in the SIF. The net position of the SIF increased from \$19.5 billion as of June 30, 2021, to \$20.2 billion as of June 30, 2022, or by \$698.2 million. Net position remained high from June 30, 2021, to June 30, 2022, due to federal funding received by the State of Wisconsin agencies and certain local governments under the federal American Rescue Plan Act (ARPA).

Net investment income increased from \$14.8 million for the year ended June 30, 2021, to \$28.8 million for the year ended June 30, 2022. This increase in net investment income reflects the increase in the federal funds rate that began during the second half of fiscal year (FY) 2021-22. A large portion of the SIF is invested in U.S. Treasury obligations, which have investment returns closely aligned with the federal funds rate. The investment return for the SIF increased from 0.09 percent for FY 2020-21 to 0.21 percent for FY 2021-22.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 11.

Respectfully submitted,


Joe Chrisman
State Auditor

JC/CS/ss

Introduction

The State of Wisconsin Investment Board (SWIB) invests the excess operating cash balances of state and local governments in the State Investment Fund (SIF). Wisconsin Statutes enumerate the types of investments in which the SIF can invest. The investment objectives of the SIF, in order of priority, are to provide safety of principal, liquidity to fund participants, and a competitive rate of return within the parameters of its investment guidelines. The financial statements of the SIF are included in SWIB's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2022, which may be found on SWIB's website. These financial statements are prepared by SWIB using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB).

Participants

The SIF invests the excess operating cash balances of State of Wisconsin agencies, the Wisconsin Retirement System, and the Wisconsin Local Government Investment Pool.

The SIF was created under s. 25.14, Wis. Stats., and invests the excess operating cash balances of State of Wisconsin agencies, the Wisconsin Retirement System, and the Wisconsin Local Government Investment Pool. The Wisconsin Local Government Investment Pool includes the assets of more than 1,300 local units of government that have chosen to invest in the SIF rather than in other options available for the investment of cash balances. Participants in the SIF hold shares in the pool of investments. These shares are valued based on amortized costs and do not include undistributed, unrealized investment gains and losses.

4 > INTRODUCTION

State of Wisconsin agencies held 61.2 percent of the total participant shares in the SIF as of June 30, 2022.

As shown in Table 1, total participant shares held by State of Wisconsin agencies increased from \$10.1 billion as of June 30, 2021, to \$12.4 billion as of June 30, 2022, and were 61.2 percent of the total participant shares in the SIF. The participants and participant shares in the SIF as of June 30, 2022, are shown in the Appendix.

Table 1

Participant Shares¹ by Participant Group

Participant Group	As of June 30, 2021		As of June 30, 2022	
	Participant Shares	Percentage of Total	Participant Shares	Percentage of Total
State of Wisconsin Agencies ²	\$ 10,055,149,000	51.6%	\$ 12,368,719,000	61.2%
Wisconsin Retirement System	4,055,397,000	20.8	1,793,826,000	8.9
Wisconsin Local Government Investment Pool ³	5,370,810,000	27.6	6,032,289,000	29.9
Total	\$19,481,356,000		\$20,194,834,000	

¹ Participant shares are valued based on amortized costs and do not include undistributed, unrealized investment gains and losses.

² As of June 30, 2022, 63 funds administered by State of Wisconsin agencies were in the SIF, as shown in the Appendix.

³ As of June 30, 2022, 1,373 local units of government had excess operating cash balances invested in the SIF.

The increase in participant shares for State of Wisconsin agencies is largely driven by increases in cash balances in the General Fund and the Budget Stabilization Fund, which is the State's rainy day fund. The General Fund cash balance increased from \$6.5 billion as of June 30, 2021, to \$7.5 billion, as of June 30, 2022. The Budget Stabilization Fund increased from \$762.4 million as of June 30, 2021, to \$1.7 billion as of June 30, 2022. These increases largely reflect state tax collections in excess of what was budgeted for the past two fiscal years.

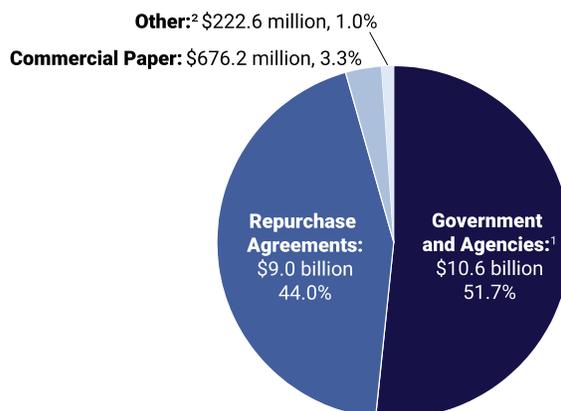
Investments

As of June 30, 2022, 51.7 percent of the investments in the SIF were in U.S. Treasury obligations and securities of federal agencies.

Wisconsin Statutes enumerate the types of investments in which the SIF can be invested, and SWIB has established investment guidelines for its investment staff to follow. As of June 30, 2022, 51.7 percent of the investments in the SIF were in U.S. Treasury obligations and securities of federal agencies, as shown in Figure 1. U.S. Treasury obligations are backed by the full faith and credit of the federal government, and securities of federal agencies, such as the Federal Home Loan Bank, are backed by the federal government although not by its full faith and credit.

Figure 1

Types of Investments in the SIF
As of June 30, 2022



¹ Includes U.S. Treasury obligations and securities of federal agencies, such as the Federal Home Loan Bank.

² Includes time deposits of \$150.0 million, banker's acceptances of \$50.0 million, and corporate notes of \$22.6 million.

SWIB also invested in repurchase agreements, which accounted for \$9.0 billion, or 44.0 percent of total investments in the SIF as of June 30, 2022. Repurchase agreements, which are a form of short-term lending, are used in the SIF to earn additional return while maintaining liquidity. With a repurchase agreement, SWIB enters into a contract and lends cash to another party in return for collateral typically in the form of U.S. Treasury securities. Upon settlement, SWIB returns the collateral and the other party returns the cash plus interest. As discussed in Note 5B to the financial statements, one of the repurchase agreements held by the SIF as of June 30, 2022, was a \$4.7 billion repurchase agreement with the Core Retirement Investment Trust Fund, which is also administered by SWIB.

Investment Income

Net investment income increased from \$14.8 million for the year ended June 30, 2021, to \$28.8 million for the year ended June 30, 2022.

Net investment income increased from \$14.8 million for the year ended June 30, 2021, to \$28.8 million for the year ended June 30, 2022. This increase in net investment income reflects the increase in the federal funds rate that began in the second half of fiscal year (FY) 2021-22. The federal funds rate is the target interest rate set by the Federal Open Market Committee based on prevailing economic conditions and is a reflection of the short-term investment market. A large portion of the SIF is invested in U.S. Treasury obligations, which have investment returns closely aligned with the federal funds rate. The average federal funds rate

increased from 0.08 percent in FY 2020-21 to 0.26 percent in FY 2021-22. The investment return for the SIF increased from 0.09 percent for FY 2020-21 to 0.21 percent for FY 2021-22. As of June 30, 2022, the SIF underperformed its one-year benchmark of 0.28 percent and exceeded its five-year and ten-year benchmarks.

Net Position

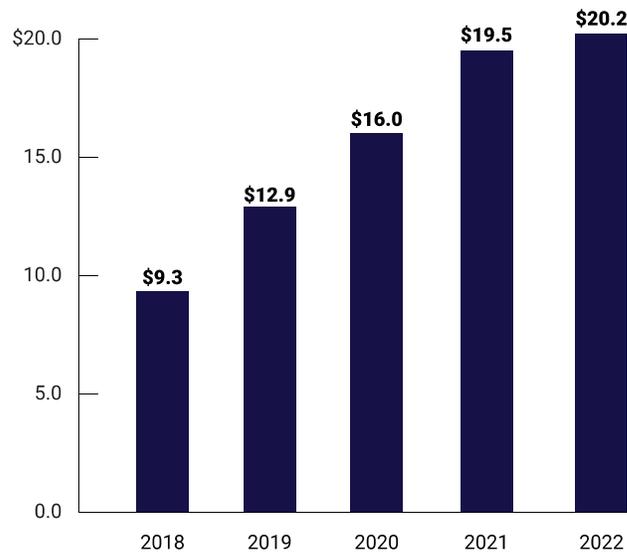
The net position of the SIF increased from \$19.5 billion as of June 30, 2021, to \$20.2 billion as of June 30, 2022, or by \$698.2 million.

Net position, which is the investments and other assets less liabilities, is a measure of overall financial condition. The net position is made up of the state and local government participant shares in the SIF and the undistributed, unrealized investment gains and losses, which are the increases and decreases in the value of an investment that has not been sold. Net position will fluctuate depending on the excess operating cash invested in the SIF by participants. As shown in Figure 2, the net position of the SIF increased from \$19.5 billion as of June 30, 2021, to \$20.2 billion as of June 30, 2022, or by \$698.2 million.

Figure 2

Net Position of the SIF

As of June 30
(in billions)



Net position remained high from June 30, 2021, to June 30, 2022, due to federal funding received by the State of Wisconsin agencies and certain local governments under the federal American Rescue Plan Act (ARPA). The State of Wisconsin and local governments were advanced federal funding under ARPA in both FY 2020-21 and FY 2021-22 to aid

in addressing the effects of the public health emergency. A large portion of this funding was not yet spent as of June 30 each year and was invested in the SIF.

Audit Results

We provided an unmodified opinion on the financial statements of the SIF as of and for the year ended June 30, 2022.

As required by Wisconsin Statutes, we have completed an audit of the financial statements and related notes of the SIF as of and for the year ended June 30, 2022. The financial statements include information on the financial activity of the SIF, including disclosures, such as those related to deposit and investment risk, and fair value measurements as of June 30, 2022. To complete our audit of the financial statements, we reviewed SWIB's internal control over financial reporting, tested financial transactions, and reviewed the financial statements, notes, and required supplementary information, which were prepared by SWIB management. We provided an unmodified opinion on the financial statements and related notes as of and for the year ended June 30, 2022.

We also issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, and begins on page 11.

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Auditor's Report



STATE OF WISCONSIN
Legislative Audit Bureau

Report 22-22

Joe Chrisman
State Auditor

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles, Co-chairperson
Joint Legislative Audit Committee

Members of the Board of Trustees and
Mr. Edwin Denson, Executive Director/Chief Investment Officer
State of Wisconsin Investment Board

We have audited the financial statements and the related notes of the State Investment Fund administered by the State of Wisconsin Investment Board (SWIB) as of and for the year ended June 30, 2022, and have issued our report thereon dated December 1, 2022. 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*, which is issued by the Comptroller General of the United States. The financial statements and related auditor's opinion have been included in the *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2022.

Report on Internal Control over Financial Reporting

Management of SWIB is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered SWIB's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWIB's internal control. Accordingly, we do not express an opinion on the effectiveness of SWIB's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the State Investment Fund financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Investment Fund financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering SWIB's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of SWIB's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



December 1, 2022

Appendix

Appendix

Participants in the State Investment Fund¹

As of June 30, 2022

Fund	Agency or Department	Participant Shares
STATE OF WISCONSIN AGENCIES		
General Fund	Administration	\$ 7,448,294,000
Budget Stabilization Fund	Administration	1,732,128,000
Transportation Fund	Transportation	1,135,397,000
Medical Assistance Trust Fund	Health Services	450,430,000
Building Trust Fund	Building Commission	307,177,000
Capital Improvement Fund	Building Commission	234,525,000
Conservation Fund	Natural Resources	204,231,000
Hospital Assessment Fund	Health Services	179,204,000
Injured Patients and Families Compensation Fund	Commissioner of Insurance	106,615,000
Universal Service Fund	Public Service Commission	57,337,000
Common School Fund	Board of Commissioners of Public Lands	53,955,000
Environmental Fund	Natural Resources	53,323,000
Lottery Fund	Revenue	49,965,000
Uninsured Employer Fund	Workforce Development	36,878,000
Work Injury Supplemental Benefit Fund	Workforce Development	36,753,000
University Trust—Income Fund	University of Wisconsin System	28,581,000
Waste Management Fund	Natural Resources	23,677,000
Unemployment Program Integrity Fund	Workforce Development	23,595,000
Support Collections Trust Fund	Children and Families	23,014,000
Petroleum Inspection Fund	Natural Resources	21,285,000
College Savings Program Trust Fund	Financial Institutions	20,782,000
Utility Public Benefits Fund	Administration	17,723,000
Agrichemical Management Fund	Agriculture, Trade and Consumer Protection	14,920,000
Public Employee Trust Fund	Employee Trust Funds	13,192,000
Agricultural Producer Security Fund	Agriculture, Trade and Consumer Protection	12,145,000
Common School Income Fund	Board of Commissioners of Public Lands	10,435,000
University Trust—Principal Fund	University of Wisconsin System	10,321,000
Environmental Improvement Fund	Natural Resources	9,355,000
Election Administration Fund	Wisconsin Elections Commission	6,467,000
Police and Fire Protection Fund	Public Service Commission	6,404,000
Normal School Fund	Board of Commissioners of Public Lands	5,805,000

Fund	Agency or Department	Participant Shares
STATE OF WISCONSIN AGENCIES		
<i>(continued)</i>		
Economic Development Fund	Wisconsin Economic Development Corporation	\$ 4,722,000
Land Information Fund	Administration	4,404,000
State Life Insurance Fund	Commissioner of Insurance	3,640,000
Agricultural Chemical Cleanup Fund	Agriculture, Trade and Consumer Protection	3,354,000
Workers Compensation Benefit Fund	Workforce Development	3,247,000
Bond Security and Redemption Fund	Building Commission	3,088,000
Critical Access Hospital Assessment Fund	Health Services	2,480,000
History Preservation Partnership Trust Fund	Wisconsin Historical Society	2,449,000
Veterans Trust Fund	Veterans Affairs	1,856,000
Heritage State Parks and Forests Trust Fund	Natural Resources	1,223,000
Tuition Trust Fund	Financial Institutions	1,009,000
Transportation Infrastructure Loan Fund	Transportation	788,000
Self-Insured Employers Liability Fund	Workforce Development	466,000
Military Family Relief Fund	Revenue	465,000
Dry Cleaner Environmental Response Fund	Revenue	405,000
Historical Society Trust Fund	Wisconsin Historical Society	353,000
State Capitol Restoration Fund	State Capitol and Executive Residence Board	195,000
Agricultural College Fund	Natural Resources	121,000
University Fund	Board of Commissioners of Public Lands	96,000
Working Lands Fund	Agriculture, Trade and Consumer Protection	94,000
Investment and Local Impact Fund	Investment and Local Impact Fund Board	82,000
Mediation Fund	Director of State Courts	80,000
Historical Legacy Trust Fund	Wisconsin Sesquicentennial Commission	77,000
Unemployment Interest Payment Fund	Workforce Development	59,000
Governor's Read To Lead Development Fund	Governor's Office	27,000
Children's Trust Fund	Child Abuse and Neglect Prevention Board	14,000
Benevolent Fund	Administration	14,000
Permanent Endowment Fund	Administration	-
Farms for the Future Fund	Agriculture, Trade and Consumer Protection	-
Vendornet Fund	Administration	-
Industrial Building Construction Loan Fund ²	Wisconsin Economic Development Corporation	(1,000)

Fund	Agency or Department	Participant Shares
STATE OF WISCONSIN AGENCIES		
<i>(continued)</i>		
Local Government Property Insurance Fund ²	Commissioner of Insurance	\$ (1,000)
STATE OF WISCONSIN AGENCIES SUBTOTAL		\$ 12,368,719,000
WISCONSIN RETIREMENT SYSTEM		
Core Retirement Investment Trust		\$ 1,415,985,000
Variable Retirement Investment Trust		377,841,000
WISCONSIN RETIREMENT SYSTEM SUBTOTAL		\$ 1,793,826,000
WISCONSIN LOCAL GOVERNMENT INVESTMENT POOL		\$ 6,032,289,000
TOTAL		\$20,194,834,000

¹ As reported by the Department of Administration in the June 2022 Monthly Statement of Receipts and Disbursements by Fund report.

² As discussed in Note 5A to the financial statements, these negative balances reflect interfund loans allowed under s. 20.002 (11), Wis. Stats.