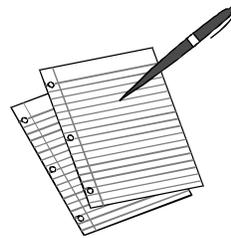
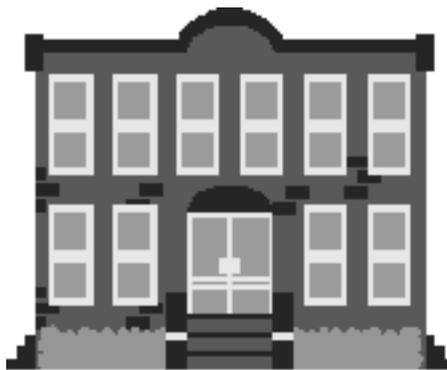


## Segregated Funds





## Local Government Property Insurance Fund (Fund)

The purpose of the Fund is to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries, and motor vehicles. The Fund provides policy and claim service to the policyholders.

As of June 30, 2002, the Fund insured 1,183 policyholders: 72 counties, 323 schools, 162 cities, 268 towns, 247 villages, and 111 miscellaneous (libraries, etc.). The number of policyholders increased by 50 (4.4%) since the previous fiscal year-end. Two graphs are included that reflect growth in the Fund's policyholder base and growth in its insurance coverage in force.

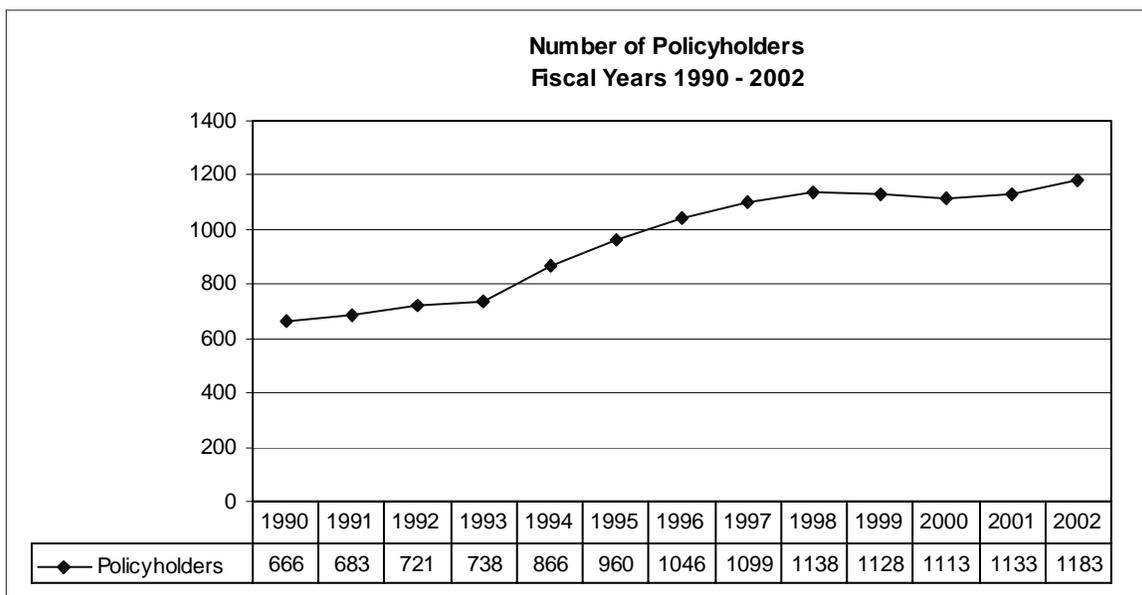
The Fund's insurance in force represents property that is insured against loss. The more property insured, the greater the potential for a loss. The total amount of insurance in force as of June 30, 2002, was \$29.7 billion, up from \$27.6 billion as of the previous fiscal year-end. The Fund's total insurance in force increased \$2.1 billion over the June 30, 2001, level while its surplus (total assets minus total liabilities) actually decreased approximately \$3.9 million, over the same time period.

Two pie charts reflecting premium earned distribution by type of policyholder and the breakdown by type of policy purchased are also attached. The majority of the Fund's insureds are using the valuation project service that began in 1988. This unique method of valuing buildings, contents, property in the open and contractor's equipment was developed to promote equity in premiums and the proper reporting of values.

Participants not only have broader coverage, but also enjoy the benefits of automatic computer-generated statements of values.

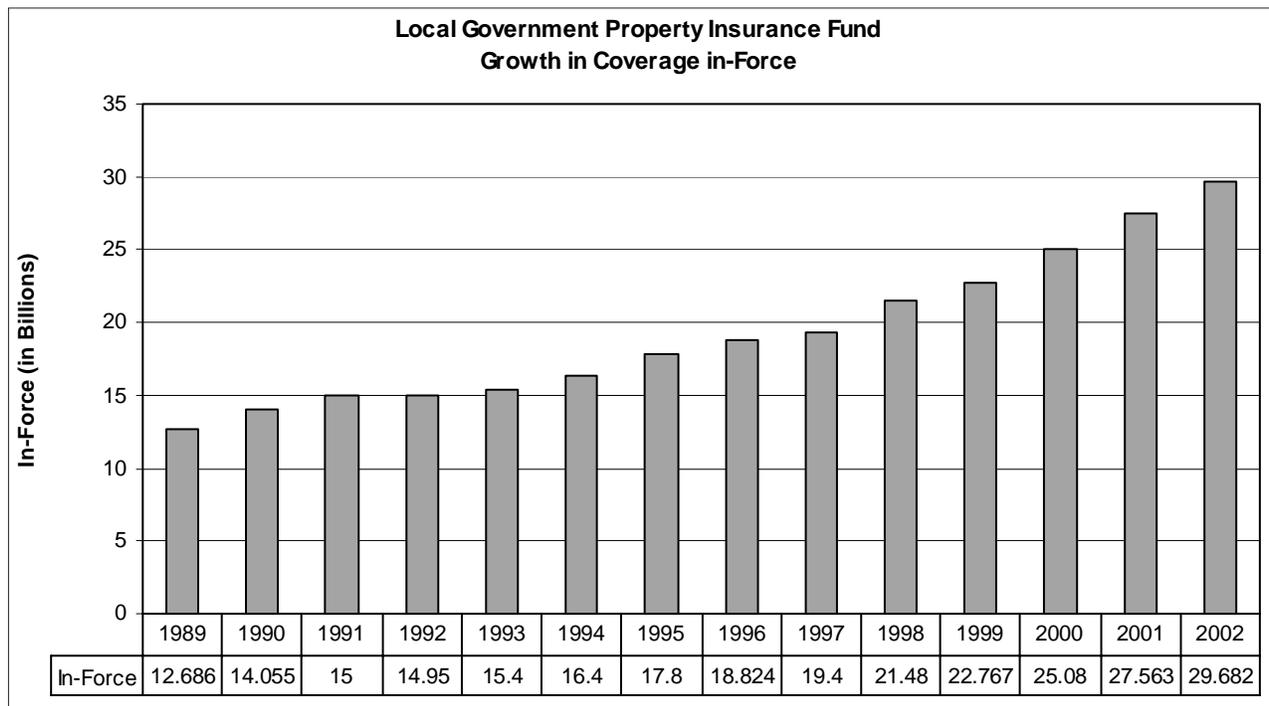
During 1998 the Fund modified its valuation policy form coverage with respect to replacement coverage for fine arts, collectible items, and museum collections. These changes were necessary to permit the Fund to better assess its exposure relative to fine arts, collectible items, and museum collections, which can have substantial replacement costs. Effective January 1, 1999, the most the Fund will pay for any one item is \$50,000. If the insured desires higher amounts of coverage on a per item basis, it must either schedule the individual property and provide an estimated replacement value, or purchase an endorsement that offers coverage subject to per item, per exhibit, and per occurrence limitations. Also as of January 1, 2002 the Fund changed the contract administrator to The ASU Group. As a result of this change, the policy and claims administration services office has been relocated to Madison, Wisconsin.

The Fund's balance sheet and income statement for the fiscal year ending June 30, 2002, are included with this report. The Fund experienced an underwriting loss of \$5.2 million and a net loss of almost \$3.9 million after investment income was taken into consideration. Rates prior to 2001 had remained relatively stable. However, due to the anticipated net loss and changes in the Fund's reinsurance program's retention levels, the Fund implemented a 24% increase in building and content rates effective July 1, 2001, with an additional rate

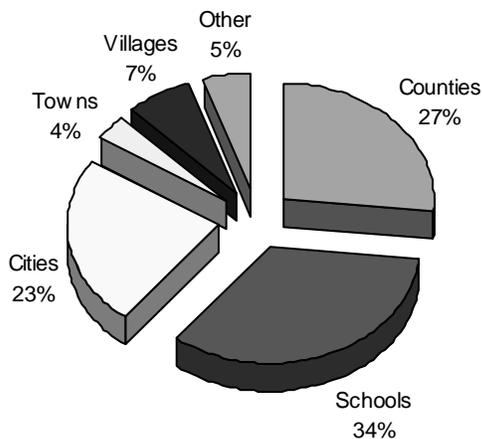


increase of 24% for all lines of coverage to be effective July 1, 2002. In addition, as of the year-end 2001, the Fund engaged an independent actuarial consulting firm to assist it with loss analysis and rating issues. A preliminary recommendation is pending for an overall 89% rate increase to be effective January 1, 2003, which will be updated in next year's fiscal year 2003 report.

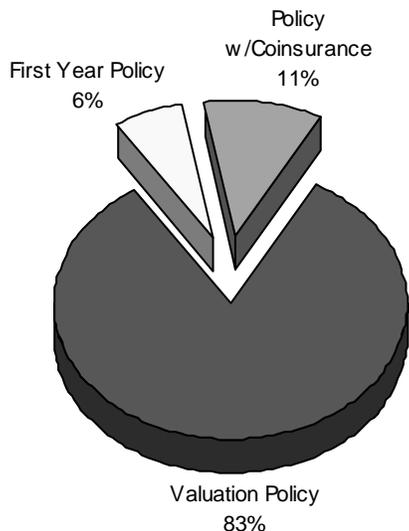
Fund management will continue to monitor insurance in force, claims trends and Fund surplus when evaluating the Fund's rating structure. Claims costs coupled with higher self-insured Fund reinsurance retention levels and higher reinsurance premium continue to be a factor in the rate-setting analysis.



**Direct Premium Earned by Entity Type  
Fiscal Year Ending June 30, 2002**



**Percent of Policies by Policy Type**



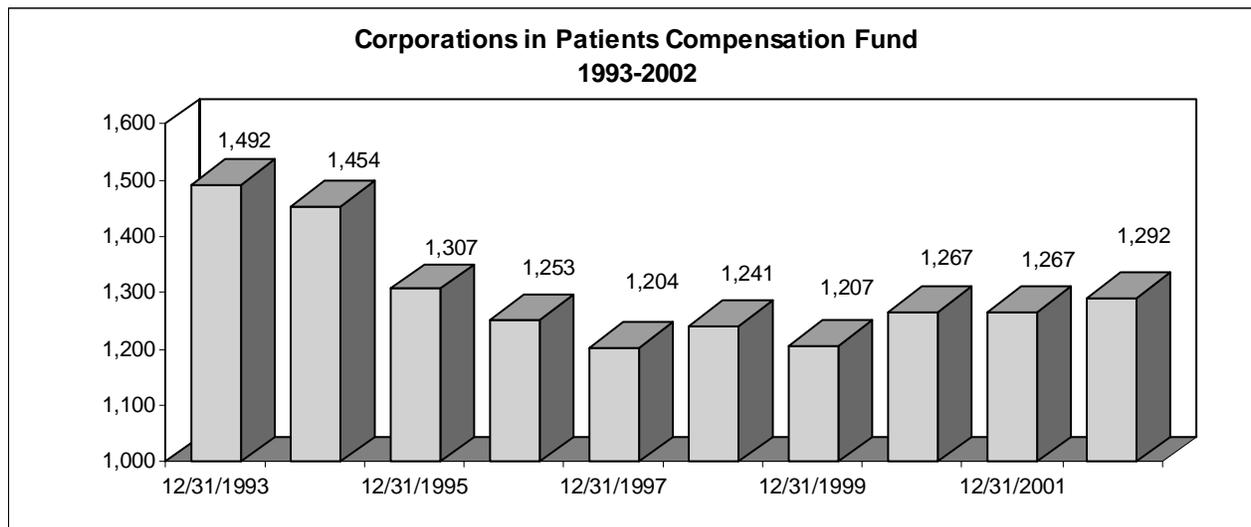
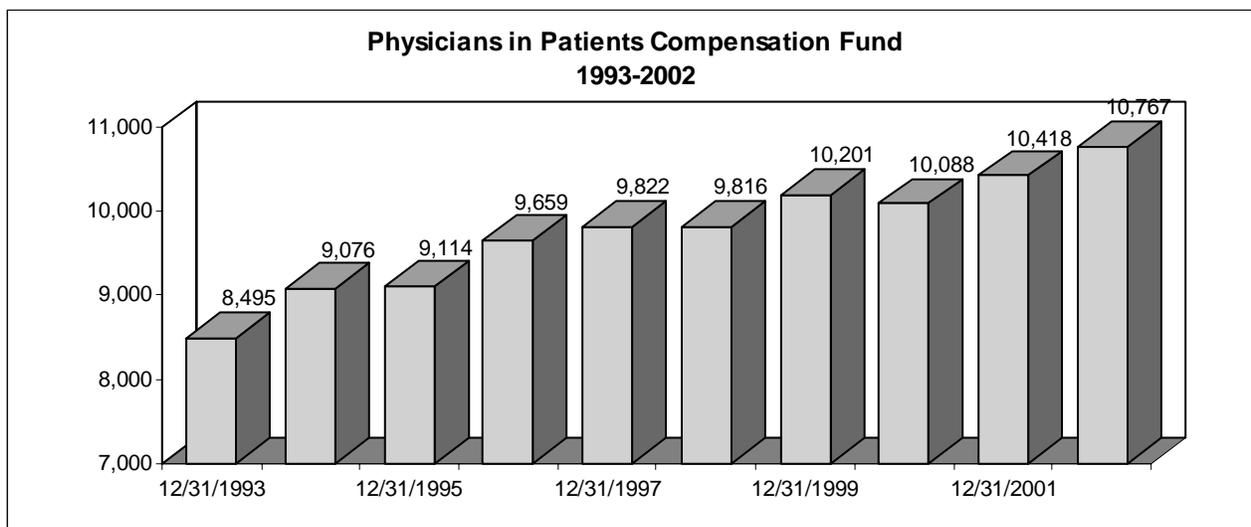


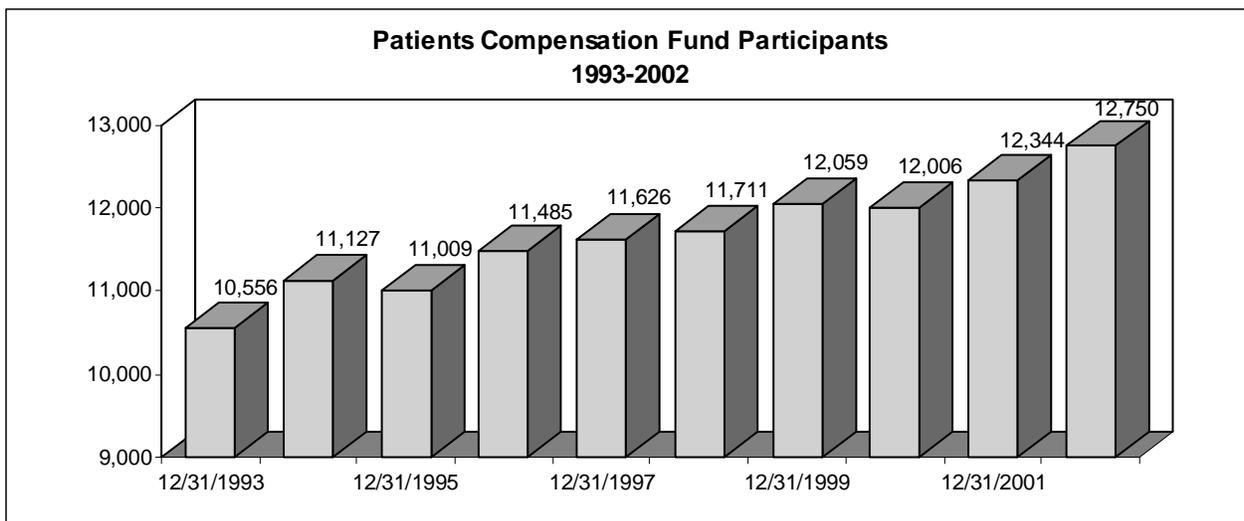
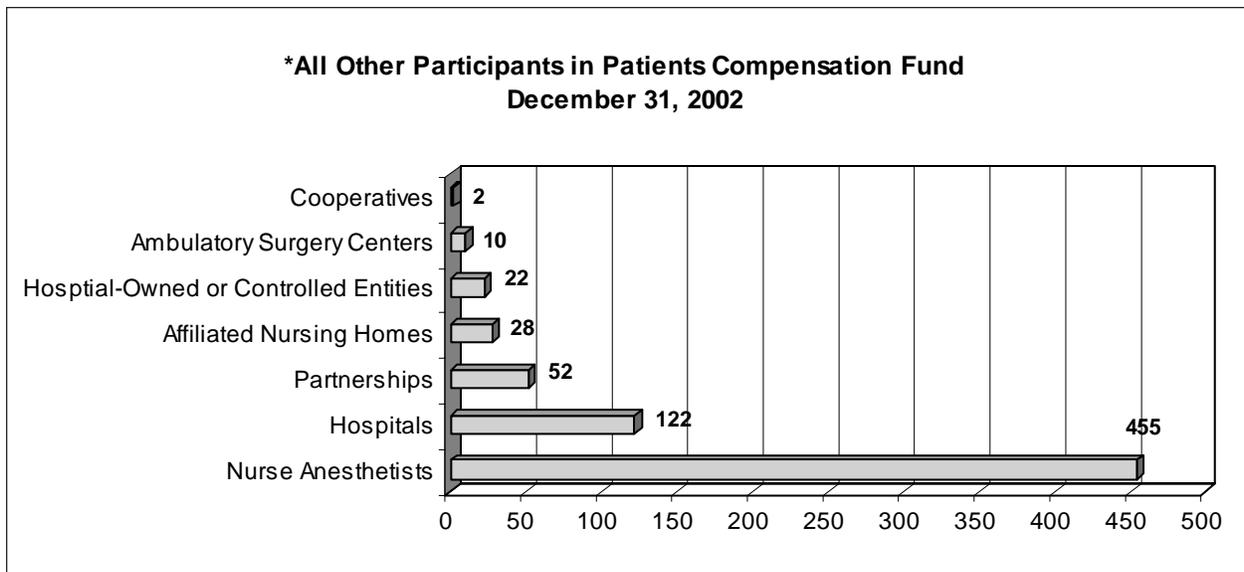
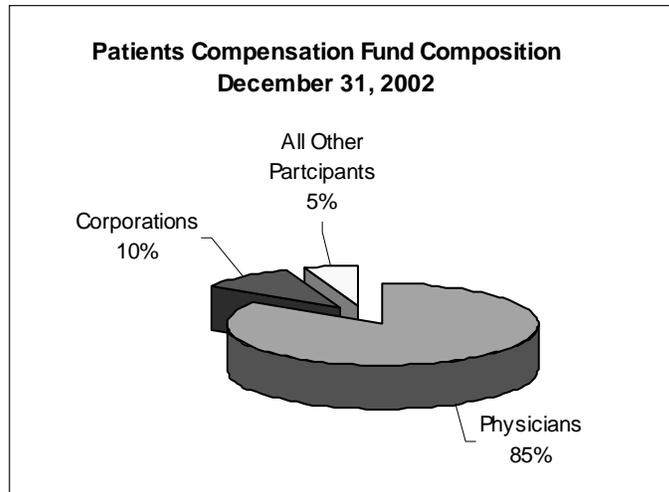
### Patients Compensation Fund (Fund)

The Fund was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. The Fund is governed by a 13-member Board of Governors (Board) that consists of 3 insurance industry representatives, a member named by the Wisconsin Academy of Trial Lawyers, a member named by the State Bar Association, 2 members named by the State Medical Society of Wisconsin, a member named by the Wisconsin Hospital Association, 4 public members appointed by the Governor, and the Commissioner of Insurance who serves as the chair. The Fund's administrative staff is provided by OCI.

The Board is assisted by an Underwriting and Actuarial Committee, a Legal Committee, a Claims Committee, an Investment/Finance and Audit Committee, a Risk Management Steering Committee, and a Peer Review Council. The Board and its committees meet quarterly.

The Fund operates on a fiscal year basis—July 1 through June 30. Administrative costs, operating costs, and claim payments are funded through assessments on participating health care providers.



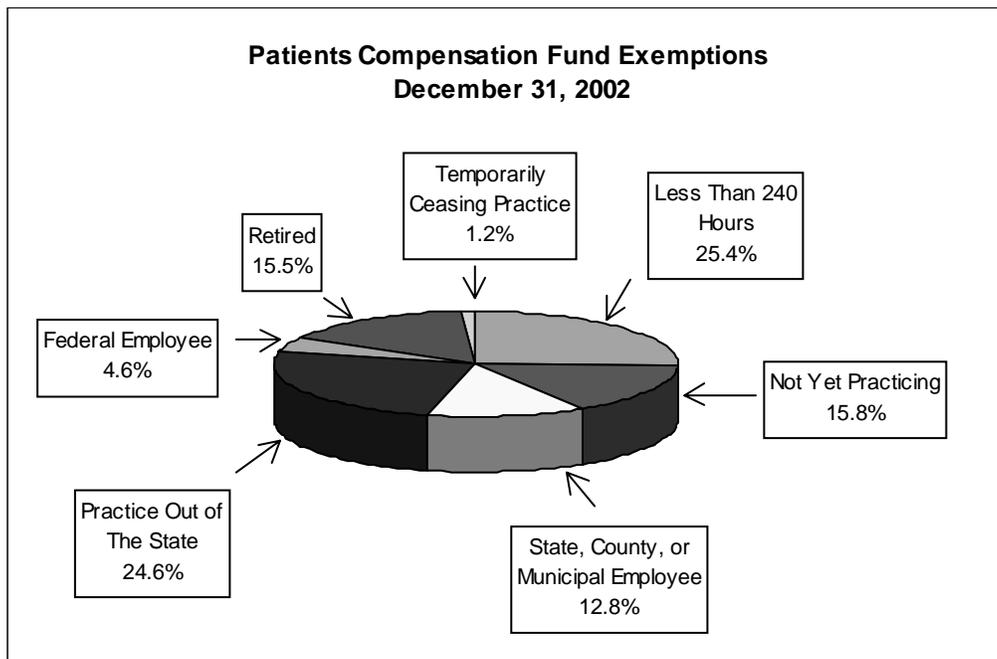


As of December 31, 2002, the vast majority of Fund participants were physicians at 85% with corporations comprising another 10% and the remaining 5% comprised of various other participant types, as illustrated in the chart on the previous page. At year-end 2002, Fund participants totaled 12,750 comprised of 10,767 physicians, 1,292 corporations, 455 nurse anesthetists, 122 hospitals with 28 affiliated nursing homes, 52 partnerships, 22 hospital-owned or controlled entities, 10 ambulatory surgery centers, and 2 cooperatives.

From July 1, 1975, through December 31, 2002, 4,799 claims had been filed in which the Fund was named. During this period, the Fund's total number of paid claims increased to 597, totaling \$535,168,653. Of the total number of claims in which the Fund has been named, 3,888 claims have been closed with no indemnity payment. Of the remaining open claims reported as of December 31, 2002, 29 cases carried aggregate case reserves of \$32,117,721, while 285 cases had no reserves established.

Major Activities for 2002:

- Fund administration, in conjunction with legal counsel, closely monitored claims filed which challenge the constitutionality of the noneconomic and wrongful death caps. This is an ongoing issue and will be closely monitored.
- Fund administration closely monitored the use of outside counsel. Pursuant to a court decision in 2000, the Fund hires separate defense counsel on each claim. Fund staff monitors the claims and the use of these outside counsel to ensure that while the Fund receives the necessary representation, that legal fees are controlled.
- Extensive work continued during 2002 to verify and process up-to-date exemption status for providers that held a license to practice in Wisconsin but for which a current exemption or certificate was not on file with the Fund. Providers that remain in noncompliance are referred to their respective licensing boards for enforcement action by that board. As of December 31, 2002, 9,577 providers claimed an exemption from the Fund. The various basis for the exemptions are illustrated in the chart below:



*Wisconsin Insurance Report Business of 2002  
Segregated Funds, Patients Compensation Fund*

Following are financial statements—balance sheet and income statement—for the Fund for the fiscal year ending June 30, 2002. The figures reported are on an unaudited basis.

<b>Patients Compensation Fund Balance Sheet June 30, 2002 Unaudited</b>	<b>Patients Compensation Fund Statement of Income June 30, 2002 Unaudited</b>
<b>Assets</b>	<b>Operating Revenues:</b>
Cash \$ 228,563	Assessments Levied (net of unearned) \$ 29,544,069
State Investment Fund Shares (market value) 16,903,518	Investment Income 19,004,469
Long-term Investments (market value) 560,906,806	Unrealized gain (adjustment to market value) 420,742
Bond Investment Income Receivable 8,652,887	Change in Bond Premium (Discount) 1,567,831
Short-term Interest Receivable 36,068	Assessment Interest Income 295,687
Assessments Receivable 200,453	Administrative Fee Income 39,384
Less: Allowance for Uncollectible Accounts (451)	Surcharge Income 0
Prepaid Items 6,499	Other Income <u>402,384</u>
Furniture & Equipment (net of depreciation) 16,460	<b>Total Operating Revenues</b> 51,274,565
Office Supplies 1,415	<b>Operating Expenses:</b>
Other Receivables <u>1,871,210</u>	Underwriting Expenses:
<b>Total Assets</b> <u>\$588,823,428</u>	Net Losses Paid \$ 34,375,725
<b>Liabilities</b>	Interest on Loss Payments 299,935
Loss Liabilities:	LAE Paid 4,087,172
Liability for Incurred But Not Reported Losses \$748,722,897	Risk Mgt Exp 60,264
Liability for Reported Losses 35,421,362	Medical Expense Paid 125,427
Liability for Loss Adjustment Expense <u>34,850,220</u>	Change in Liability for IBNR 47,222,479
Estimated Unpaid Loss Liabilities 818,994,479	Change in Liability for Reported Losses (17,095,592)
Amount Representing Interest <u>239,965,382</u>	Change in Liability for LAE 2,413,756
Discounted Loss Liabilities 579,029,097	Change in Amount Representing Interest 689,492
Liabilities for Future Medical Expenses <u>486,468</u>	Change in Liability for Future Med Expenses <u>(58,371)</u>
<b>Total Loss Liabilities</b> <u>579,515,565</u>	<b>Total Underwriting Expenses</b> 72,120,287
<b>Other Liabilities:</b>	General and Administrative Expenses 817,242
Contributions Being Held 625,000	Depreciation Expense <u>6,040</u>
Unearned Assessments Levied 1,643,638	Net Operating Income (Loss) (21,669,003)
Provider Refunds Payable 230,095	<b>Non-Operating Revenues and Expenses:</b>
Medical Mediation Panels Payable 3,998	Loss on Disposal of Fixed Assets <u>0</u>
Gen & Adm Expense Payable 43,748	Net Gain (Loss) (21,669,003)
Vouchers Payable 133,031	<b>Retained Earnings</b>
Compensated Absences <u>24,252</u>	Retained Earnings, Beginning of Period 28,273,105
<b>Total Liabilities</b> <u>582,219,326</u>	Other Adjustments _____
<b>Fund Balance</b> <u>6,604,102</u>	Retained Earnings, End of Year <u>\$ 6,604,102</u>
<b>Total Liabilities and Fund Balance</b> <u>\$588,823,428</u>	

### State Life Insurance Fund (Fund)

The Fund is a segregated fund located within OCI. The Fund offers a maximum of \$10,000 of life insurance to state residents. Operating as a mutual insurance company, the Fund is supervised by the Commissioner.

Section 607.15, Wis. Stat., requires the Fund to distribute annually among the policyholders its net profits and to the extent practicably possible, maintain a ratio of surplus to assets between 7% and 10%. In 2002, a

distribution of \$3.9 million was paid to policyholders in the form of dividends.

Wisconsin is the only state in the nation that offers a life insurance program to residents. All policies issued are participating and there is no marketing of the Fund. The lapse rate on Fund policies is a low .6%. As of December 31, 2002, there were 30,173 policies in force.

<b>State Life Insurance Fund Balance Sheet December 31, 2002</b>	
<b>Assets</b>	
Bonds	\$66,460,670
Policy Loans	3,774,523
Cash and Bank Deposits	212,613
State Investment Fund	5,804,000
Premiums Deferred & Uncollected	102,271
Investment Income Due & Accrued	1,350,940
Amount Recoverable from Reinsurer	<u>6,569</u>
<b>Total Assets</b>	<b><u>\$77,711,586</u></b>
<b>Liabilities and Surplus</b>	
Reserves for Life Policies & Contracts	\$53,437,583
Interest Maintenance Reserve	1,044,067
Policy Claims	231,818
Dividends Due and Unpaid (2002)	15,094
Dividends - Provision for 2003	3,995,098
Deposit Type Contracts	13,256,269
Unclaimed Property	96,039
Taxes, Licenses, Fees Accrued	500
Suspense and CANC Drafts	82,480
Expenses Due & Accrued	57,299
Back Up Withholding	732
Premiums Received in Advance	39,883
Asset Valuation Reserve	<u>323,306</u>
<b>Total Liabilities</b>	<b>\$72,580,168</b>
Surplus	<u>5,131,418</u>
<b>Total Liabilities and Surplus</b>	<b><u>\$77,711,586</u></b>

<b>State Life Insurance Fund Income Statement December 31, 2002</b>	
<b>Income</b>	
Premiums	\$2,361,403
Investment Income	4,651,473
Miscellaneous Income	1,706
Amortization of Interest Maintenance Reserve	<u>181,710</u>
<b>Total Income</b>	<b>\$ 7,196,292</b>
<b>Expenses</b>	
Death Benefits	936,590
Matured Endowments	243,500
Other Policy Benefits	891,099
Increase in Reserve	1,505,716
General Operating Expense	<u>728,398</u>
<b>Expenses before Dividends</b>	<b><u>4,305,303</u></b>
Net Gain before Dividends	<u>2,890,989</u>
Dividends to Policyholders	<u>3,952,345</u>
<b>Net Gain (Loss) from Operations</b>	<b><u>\$(1,061,356)</u></b>