STATE OF WISCONSIN
CONTINUING DISCLOSURE
ANNUAL REPORT

Filed Pursuant to Undertakings Provided to Permit Compliance With
Securities Exchange Commission Rule 15c2-12

GENERAL OBLIGATIONS
(Base CUSIPs 977053, 977055, 977056, and 97705L)

MASTER LEASE CERTIFICATES OF PARTICIPATION
(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS
(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS
(Base CUSIP 977092)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS
(Base CUSIP 977109)

GENERAL FUND ANNUAL APPROPRIATION BONDS
(Base CUSIP 977100)

DECEMBER 23, 2004

JIM DOYLE
GOVERNOR

MARC J. MAROTTA
SECRETARY

Division of Executive Budget and Finance
Capital Finance Office
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WISCONSIN DEPARTMENT OF ADMINISTRATION

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December 23, 2004

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2004 (**Annual Report**).

The Annual Report provides information on different securities that the State issues and fulfills the State's continuing disclosure undertakings. These undertakings of the State are intended to help dealers and brokers comply with Rule 15c2-12 under the Securities Exchange Act of 1934. As of this date, the State has filed the Annual Report with each nationally recognized municipal securities information repository using the central post office provided by the Texas Municipal Advisory Council.

Official Statements for securities that the State issues during the next year may incorporate parts of this Annual Report by reference.

Organization of the Annual Report

The Annual Report is divided into eight parts. The first two parts present general information.

- **Part I** presents the **State's continuing disclosure undertakings**. A Master Agreement on Continuing Disclosure establishes a general framework. Separate addenda describe the information to be provided for specific types of securities.

- **Part II** presents **general information about the State**, including its operations and financial results. This part includes the audited basic financial statements for the fiscal year ending June 30, 2004 and the State Auditor's report. This part also includes the results of the 2003-04 fiscal year and the current status of the budget for the 2004-05 fiscal year.

The remaining parts present information about different types of securities that the State issues.

- **Part III — General obligations (including bonds, commercial paper, and extendible municipal commercial paper)**
- **Part IV — Master lease certificates of participation**
- **Part V — Transportation revenue obligations (including bonds and commercial paper)**
- **Part VI — Clean water revenue bonds**
- **Part VII — Petroleum inspection fee revenue obligations (including bonds and extendible municipal commercial paper)**
- **Part VIII – General fund annual appropriation bonds (including bonds and auction rate certificates)**

Please note that certain terms may have different meanings in different parts.

Ratings on the State's Securities
The following chart presents a summary of the long-term ratings currently assigned to different types of securities that the State issues.

Security	Fitch Ratings	Moody's Investors Service, Inc.	Standard & Poor's Ratings Services
General Obligations	AA-[1]	Aa3 [2]	AA–
Master Lease Certificates of Participation	A+ [1]	A1 [2]	A+
Transportation Revenue Bonds	AA	Aa3	AA–
Clean Water Revenue Bonds	AA+	Aa2	AA+
Petroleum Inspection Fee Revenue Bonds	AA–	Aa3	AA–
General Fund Annual Appropriation Bonds	A+ [1]	A1 [2]	A+

(1) On March 2, 2004, Fitch Ratings downgraded the State's general obligations from "AA" to "AA-" and downgraded the State's master lease certificates of participation and general fund annual appropriation bonds from "AA-" to "A+".

(2) Moody's has assigned a negative outlook on the State's long-term general obligation bonds, master lease certificates of participation, and general fund annual appropriation bonds.

How to Get Additional Information

If you are interested in information about securities that the State issues, please contact the Capital Finance Office. *The Capital Finance Office is the only party authorized to speak on the State's behalf about the State's securities.*

The Capital Finance Office maintains a web site that provides access to both disclosure and non disclosure information.

www.doa.wi.gov/capitalfinance

The Capital Finance Office posts to this web site monthly general fund cash flow reports. The Capital Finance Office also posts to this web site all information and material event filings that it makes with each nationally recognized municipal securities information repository.

We welcome your comments or suggestions about the format and content of the Annual Report. The general telephone number of the Capital Finance Office is (608) 266-2305. The e-mail address is **capfin@doa.state.wi.us.**

Sincerely,

Frank R. Hoadley
Capital Finance Director

SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 1, 2004

	Principal Balance 12/1/2003	Principal Issued 12/1/2003 – 12/1/04	Principal Matured, Redeemed, or Defeased 12/1/2003 – 12/1/04	Principal Balance 12/1/2004
		GENERAL OBLIGATIONS[a]		
Total	**$4,370,162,682**	**$1,386,275,689**	**$879,978,030**	**$4,876,460,340**
General Purpose Revenue (GPR)	3,301,980,073	659,393,045	736,065,302	3,225,307,815
Self-Amortizing: Veterans	413,275,000	22,000,000	65,335,000	369,940,000
Self-Amortizing: Other	654,907,609	704,882,644	78,577,728	1,281,212,525
		MASTER LEASE CERTIFICATES OF PARTICIPATION		
Total	**$ 115,140,426**	**$18,033,274**	**$51,070,895**	**$82,102,804**
		TRANSPORTATION REVENUE OBLIGATIONS[a]		
Total	**$1,442,078,000**	**$95,905,000**	**$161,240,000**	**$1,376,743,000**
		CLEAN WATER REVENUE BONDS		
Total	**$ 620,480,000**	**$116,795,000**	**$54,340,000**	**$682,935,000**
		PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS[a]		
Total	**$ 317,290,000**	**$140,470,000**	**$109,305,000**	**$348,455,000**
		TAXABLE GENERAL FUND ANNUAL APPROPRIATION BONDS[a]		
Total	**$1,794,850,000**	**—**	**—**	**$1,794,850,000**

(a) This table includes variable rate obligations that have been issued by the State. Please see the respective part of this Annual Report for more information on the variable rate obligations issued for each credit.

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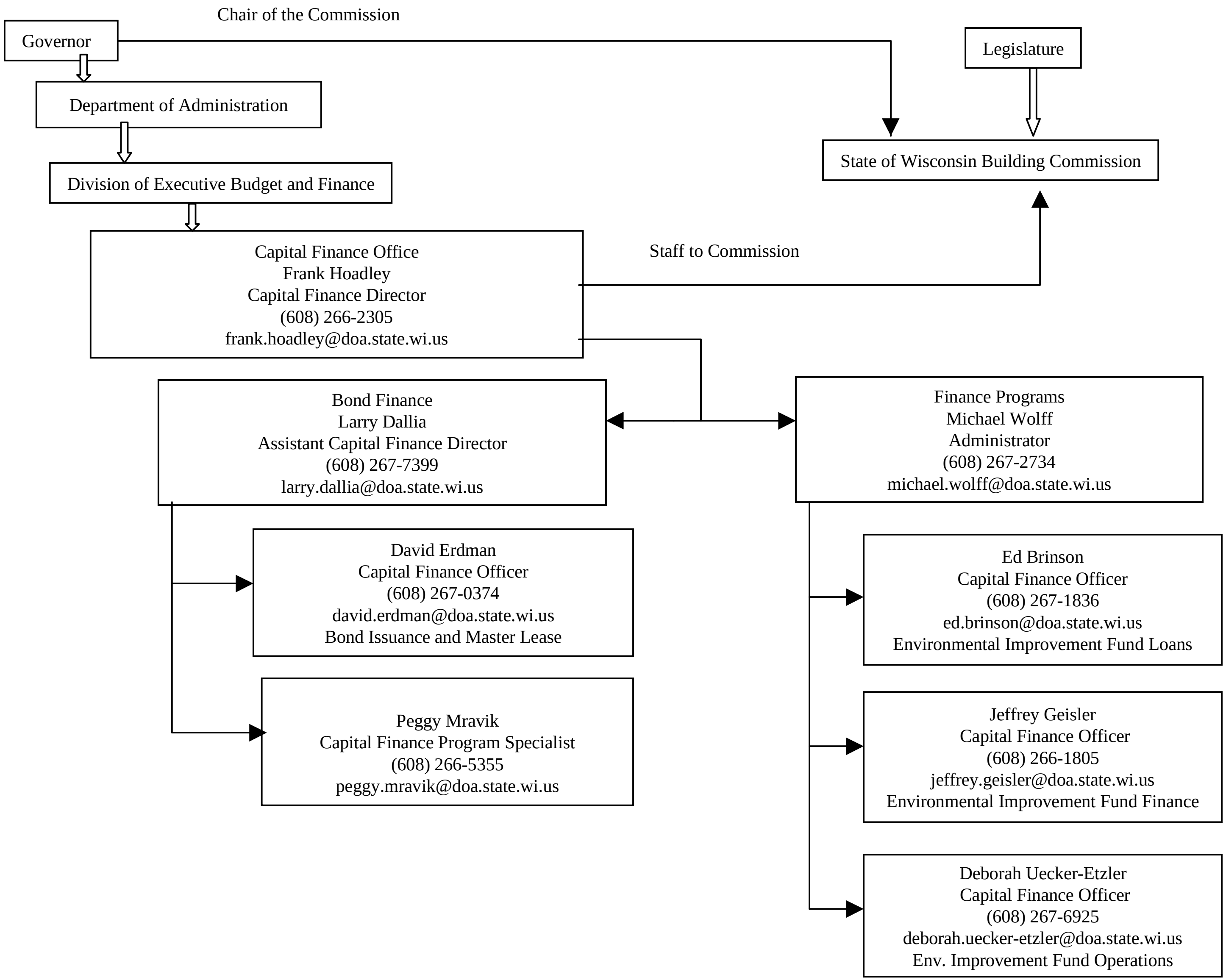
Capital Finance Office Staff (As of December 1, 2004)



STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF BONDS AND NOTES

BUILDING COMMISSION MEMBERS

Voting Members	**Term of Office Expires**
Governor Jim Doyle, Chairperson	January 8, 2007
Senator Fred A. Risser, Vice-Chairperson	January 3, 2005
Senator Robert Cowles	January 3, 2005
Senator Carol Roessler	January 3, 2005
Representative Spencer Black	January 3, 2005
Representative Jeff Fitzgerald	January 3, 2005
Representative Daniel Vrakas	January 3, 2005
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Dave Haley, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert G. Cramer, Administrator Division of State Facilities Department of Administration	At the pleasure of the Building Commission and the Secretary of Administration

OTHER PARTICIPANTS

Ms. Peggy A. Lautenschlager State Attorney General	January 8, 2007
Mr. Marc J. Marotta, Secretary Department of Administration	At the pleasure of the Governor

DEBT MANAGEMENT AND DISCLOSURE

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Capital Finance Office
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PART VI

CLEAN WATER REVENUE BONDS

This part provides information about clean water revenue bonds issued by the State of Wisconsin **(State)**.

Total Outstanding Balance (12/1/2004)	$682,935,000
Amount Outstanding—Fixed Rate Obligations	$682,935,000
Amount Outstanding—Variable Rate Obligations	$ 0
Percentage of Outstanding Obligations in form of Variable Rate Obligations	0.00%
Bond Ratings (Fitch/Moody's/Standard & Poor's)	AA+/Aa2/AA+

APPENDIX A includes the independent auditor's report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2004 and 2003, along with supplemental information as of June 30, 2004, and independent auditor's report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2004. The State of Wisconsin Building Commission (**Commission**) has supervision over all matters relating to the State's issuance of revenue obligations. The Capital Finance Office, which is part of the Department of Administration's Division of Executive Budget and Finance, is responsible for managing the State's borrowing programs.

Clean water revenue bonds are issued pursuant to the Clean Water Revenue Bond General Resolution adopted by the Commission on March 7, 1991, as amended (**Program Resolution**). U.S. Bank National Association serves as Trustee for the clean water fund program (**Trustee**) as well as registrar and paying agent. The law firm of Michael Best & Friedrich LLP provides bond counsel services to the State for issuance of clean water revenue bonds.

Requests for additional information about clean water revenue bonds may be directed as follows:

Contact: Capital Finance Office
Attn: Capital Finance Director
Phone: (608) 266-2305
Mail: 101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
E-mail: capfin@doa.state.wi.us
Web site: www.doa.wi.gov/capitalfinance

This Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of terms used in this Part VI of the Annual Report may differ from that of terms used in another part. See "GLOSSARY" for the definition of capitalized terms used in this Part VI of the Annual Report. Any information or resource referred to in this Annual Report is not part of this Annual Report unless expressly included by reference.

OUTSTANDING BONDS

The State has issued the clean water revenue bonds **(Bonds)** shown in Table VI-1. The table also includes the outstanding principal balances as of December 1, 2004. The State has entered into a bond purchase agreement for the sale of $107,025,000 Clean Water Revenue Refunding Bonds, 2004 Series 2. The dated date and delivery of these bonds is expected to be January 25, 2005. Upon the closing of these bonds, $109,185,000 of Outstanding Bonds will be defeased. Since the dated date and delivery of these bonds is not expected until January 25, 2005, this Part VI of the Annual Report does not take into account this refunding transaction.

Table VI-1
OUTSTANDING CLEAN WATER REVENUE BONDS
BY ISSUE
(As of December 1, 2004)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
1991, Series 1	3/1/91			
Serial Bonds		1994-2008	$167,555,000	$ -0-
Term Bonds		2011	57,445,000	57,445,000
1993, Series 1	8/15/93	1996-2013	84,345,000	-0-
1993, Series 2	8/15/93	1994-2008	81,950,000	45,035,000
1995, Series 1	7/1/95	1997-2015	80,000,000	4,365,000 [(a)]
1997, Series 1	1/15/97	1999-2017	80,000,000	10,915,000 [(a)]
1998, Series 1	1/15/98	1999-2018	90,000,000	65,780,000 [(a)]
1998, Series 2	8/15/98			
Serial Bonds		1999	1,800,000	-0-
Serial Bonds		2003	12,160,000	-0-
Serial Bonds		2009-17	90,400,000	90,400,000
1999, Series 1	8/15/99			
Serial Bonds		2001-18	67,965,000	38,705,000 [(a)]
Term Bonds		2020	12,035,000	12,035,000
2001, Series 1	4/2/01	2002-21	70,000,000	62,825,000
2002, Series 1	5/1/02	2003-23	100,000,000	94,295,000
2002, Series 2	8/1/02	2003-16	85,575,000	84,340,000
2004, Series 1	3/3/04	2006-24	116,795,000	116,795,000
Total Clean Water Revenue Bonds			$1,198,025,000	$682,935,000

[(a)] Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due, and those bonds will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is not treated as outstanding for purposes of this table.

ENVIRONMENTAL IMPROVEMENT FUND

The Environmental Improvement Fund provides for three separate environmental financing programs.

- Clean Water Fund Program. The Clean Water Fund Program is a municipal financial assistance program for water pollution control projects and has been in existence since 1990 and includes the State's implementation of a Federal State Revolving Fund Program under the Federal Water Quality Act of 1987 **(Water Quality Act)**.
- Safe Drinking Water Loan Program. The Safe Drinking Water Loan Program is a municipal loan program for drinking water projects and includes the State's implementation of the federal Safe Drinking Water Act Amendments of 1996.
- Land Recycling Loan Program. The Land Recycling Loan Program is a municipal loan program for remediation of contaminated lands.

Under current law the State is authorized to issue revenue obligations only to fund loans under the Clean Water Fund Program. As of September 30, 2004, the State has made approximately $115 million of Safe Drinking Water Loans. The Safe Drinking Water Loans are primarily funded from federal capitalization grants, required State match, and recycled State Drinking Water Loan payments. If changes occur to the Wisconsin Statutes, Bond proceeds may be used to make loans under the Safe Drinking Water Loan Program and Land Recycling Loan Program.

CLEAN WATER FUND PROGRAM

Overview

The Water Quality Act established a joint federal and state program commonly referred to as the State Revolving Fund (**Federal SRF**) Program. Under the Federal SRF Program, the United States Environmental Protection Agency (**EPA**) is authorized to make grants (**Capitalization Grants**) to states to assist in providing financial assistance to municipalities within the state for governmentally-owned wastewater projects and other water pollution abatement projects. As a condition to receipt of a Capitalization Grant, a state is required to establish a perpetual Federal SRF into which the Capitalization Grant must be deposited, and to provide state matching funds equal to 20% of the Capitalization Grant (**State Match**) for deposit in the Federal SRF. Funds in a Federal SRF are permitted to be applied to provide financial assistance to municipalities for governmentally-owned wastewater projects and other water pollution abatement projects in a number of ways, provided that such assistance is not in the form of a grant.

The State has created the Clean Water Fund Program (which was subsequently placed within the Environmental Improvement Fund) for purposes of providing financial assistance to Municipalities for constructing or improving water treatment facilities. In addition to funding that the State provides through the Federal SRF (Direct Loan Portfolio), the State uses proceeds of the Bonds and its general obligation bonds to fund additional loans in the Leveraged Loan and Proprietary Loan Portfolios. Other sources of funding, such as investment earnings or money contributed from other State sources, may be used to fund loans in any of the loan portfolios.

Leveraged Loan Portfolio

Loans funded with proceeds of the Bonds are referred to as Leveraged Loans, or Loans, and are segregated in a portfolio referred to as the Leveraged Loan Portfolio. Bond proceeds, when available, are deposited in the Loan Fund established by the General Resolution. Loans in the Leveraged Loan Portfolio must meet applicable State requirements. Payments of principal of and interest on Leveraged Loans (**Leveraged Loan Repayments** or **Loan Repayments**) are pledged to the Trustee to secure the Bonds. The EPA Capitalization Grants, the State Match and payments of principal of and interest on loans in the Direct Loan and Proprietary Loan Portfolios are not pledged to secure the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS" for a further description of the Leveraged Loan Portfolio.

Direct Loan Portfolio

Loans funded through the Federal SRF are referred to as Direct Loans and are segregated in a portfolio referred to as the Direct Loan Portfolio. Federal SRF funds, when available, are deposited in a separate account within the Clean Water Fund Program. Loans in the Direct Loan Portfolio are required to comply with EPA eligibility and reporting requirements, as well as applicable State requirements. Payments of principal of and interest on Direct Loans are either deposited in the Federal SRF to fund additional Direct Loans or are used to pay debt service on the State general obligation bonds issued to provide the State Match. No proceeds of the Bonds will be applied to make Direct Loans, and payments of principal of and interest on Direct Loans are not pledged as security for the Bonds.

Proprietary Loan Portfolio

Loans funded primarily by proceeds of State general obligation bonds are referred to as Proprietary Loans and are segregated in a portfolio referred to as the Proprietary Loan Portfolio. Loans in the Proprietary Loan Portfolio must meet applicable State requirements. Payments of principal of and interest on Proprietary Loans are deposited in the same account for further loans or grants under the Proprietary Loan Portfolio. No proceeds of the Bonds will be applied to make Proprietary Loans, and payments of principal of and interest on Proprietary Loans are not pledged as security for the Bonds.

Interest Subsidy

In addition to lending money to directly fund project costs, the Clean Water Fund Program is authorized to subsidize the interest cost on loans made by the State Board of Commissioners of Public Lands to municipalities for construction or improvement of their wastewater facilities. This subsidy is only available on loans of $1,000,000 or less. The Clean Water Fund Program makes payments to municipalities in March of each year to reduce the municipalities' interest cost on their loans. As of December 1, 2004 the Clean Water Fund Program has outstanding agreements with 42 municipalities to provide an annual interest subsidy. Proceeds of the Bonds are not used for this purpose.

Plan of Finance

Under a Financial Assistance Agreement, a Municipality may receive one or more of the following: a Leveraged Loan, a Direct Loan, or a Proprietary Loan. A separate accounting of the loan balances in each portfolio is maintained for each project. The receipts relating to Leveraged Loan Repayments are pledged as security for the Bonds. In any situation where an applicant qualifies for a loan through the Leveraged Loan Portfolio, the Direct Loan Portfolio, or the Proprietary Loan Portfolio, the State may choose whether and to what extent the loan is made through the Leveraged Loan Portfolio. The same general loan underwriting standards are applied to all loans regardless of the portfolio to which they will be assigned.

The State expects to continue to make most of the Leveraged Loans, Direct Loans, and Proprietary Loans to Municipalities at interest rates that are below market rates. As a consequence, Leveraged Loan Repayments are not expected to be sufficient to pay principal of, interest on, or redemption price of the Bonds as they become due. The State has provided additional funds, and expects to continue to provide additional funds, to provide sufficient revenues to fund the difference between debt service payments due on the Bonds and revenues to be derived from Leveraged Loan Repayments. The funds include State general obligation bonds that are purchased by the Environmental Improvement Fund and deposited into the Subsidy Fund.

As additional security for the Bonds, the State has funded and expects to continue to fund a Loan Credit Reserve Fund that will provide funds in the event of a default on a Loan payment. For further information about the Subsidy Fund and the Loan Credit Reserve Fund, see "SECURITY AND SOURCE OF PAYMENT FOR BONDS".

Financial Assistance

Leveraged Loans, Direct Loans, and Proprietary Loans are each made at varying interest rates determined by project type. Currently, projects are segregated into five different project-type categories. The interest rate for each type of project is determined by statute and, except for Transition Projects, is based on the Clean Water Fund Program's cost of borrowing, as determined by reference to a particular Series of Bonds. Setting interest rates by type of project is designed to provide greater incentives for compliance with environmental requirements than for new sewer systems or correcting discharge permit violations.

- *Transition Projects*–Projects that would have otherwise qualified for grants under prior EPA or State grant programs but were unable to receive grant funding because of unavailability of grant funds or failure to adhere to a schedule approved by DNR. The Act authorizes Transition Projects to receive loans that will bear interest at a statutorily designated rate of 2 ½% per annum.
- *Compliance Maintenance Projects*–Projects that are necessary to maintain compliance with permit requirements or to implement new or changed effluent limits required by DNR. These projects may receive loans that bear interest at a per annum rate equal to 55% of the Clean Water Fund Program's cost of borrowing.
- *Stormwater & Nonpoint Projects*–Projects pertaining to urban stormwater and nonpoint pollution sources. These projects may receive loans that bear interest at a per annum rate equal to 65% of the Clean Water Fund Program's cost of borrowing.
- *Unsewered Projects*–Projects involving unsewered areas within Municipalities. These projects may receive loans that bear interest at a per annum rate equal to 70% of the Clean Water Fund Program's cost of borrowing. More than two-thirds of the initial flow must be from wastewater originating from residences in existence before October 17, 1972 in order to qualify for this type of project.
- *Industrial, Violator, & New Growth Projects*–Projects that address violations of a DNR discharge permit or that provide industrial or reserve capacity, or that involve certain other capital costs attributed to industrial or commercial needs, or involve unsewered areas where residences were not in existence before October 17, 1972. These projects may receive loans that bear interest at a per annum rate equal to 100% of the Clean Water Fund Program's cost of borrowing.

In the event a Municipality proposes a project that includes more than one of the above categories, the respective portions of the project may be allocated accordingly, resulting in a loan with a blended interest rate.

In a limited number of cases, the Clean Water Fund Program may provide additional financial assistance in the form of grants or loans with interest rates lower than those indicated above for qualifying projects. Under current law, the maximum amount of financial assistance that any Municipality may receive is a grant equal to 70% of project costs and an interest-free loan for the remaining 30% of project costs. State law allows that, during each biennium, 15% of the present value of all Clean Water Fund Program subsidies may be awarded as grants or further subsidized loans. Between October 1, 1989 and September 30, 2004, agreements to fund $176 million in project costs with such grants or further subsidized loans have been entered into.

The majority of Loans made from Bond proceeds have been for Transition Projects and Compliance Maintenance Projects.

Funding Levels

For the period from the commencement of the Clean Water Fund Program through June 30, 2004, the State has identified $2.153 billion of projects likely to receive funding. The Legislature has authorized $1.616 billion of revenue bonds (other than revenue bonds issued for refunding purposes) and $638 million of general obligations for the Clean Water Fund Program.

As of September 30, 2004, the State had closed Leveraged Loans, Direct Loans, and Proprietary Loans totaling $2.087 billion. Of this amount a total of $1.969 billion had been disbursed. Of the amounts disbursed, $844 million were for Leveraged Loans. The amount remaining to be disbursed, $118 million, will be disbursed for Leveraged Loans, Direct Loans, or Proprietary Loans.

Capitalization Grants

The federal government has authorized appropriations for Capitalization Grants for federal fiscal years 1989 through 2003. As of September 30, 2004, the State has been awarded Capitalization Grants from EPA aggregating approximately $737 million for federal fiscal years 1989 through 2004. The amount of federal funding available in the future may affect the amount of Leveraged Loans, Direct Loans or Proprietary Loans to be made by the Clean Water Fund Program and the amount of Bonds to be issued by the State. As of September 30, 2004, the State had issued $240 million in general obligation bonds for the State Match with respect to the Capitalization Grants received as of such date.

Management of Clean Water Fund Program

Management responsibilities for the Clean Water Fund Program are shared between two State agencies. DNR is responsible for the environmental and programmatic management of the Clean Water Fund Program. DOA is responsible for the financial and investment management of the Clean Water Fund Program. DNR and DOA have agreed upon the division of responsibilities and joined in a memorandum of understanding that detail their respective roles. Joint responsibilities between DNR and DOA include issuing Notices of Financial Assistance Commitment (**Commitments**) and entering into Financial Assistance Agreements with Municipalities to finance eligible wastewater projects. DOA and DNR also jointly prepare biennial finance plans which include the estimated wastewater facility needs of municipalities in the State, the amount of financial assistance projected to be provided, the sources of the funding projected to be provided, and the estimated present value of subsidies for all Clean Water Fund Program financial assistance expected to be provided.

Operating Agreement with EPA

In connection with receipt of Capitalization Grants, the State, acting through DNR, has entered into an Operating Agreement with EPA. The Operating Agreement sets forth the objectives and structure, as designed to meet the objectives, of the Clean Water Fund Program and sets forth the responsibilities of DNR and DOA. Among these responsibilities are:

- Financial management
- Management of the environmental and project construction aspects
- Preparation of an intended use plan, setting forth the projects the State expects to finance under the Clean Water Fund Program.

SECURITY AND SOURCE OF PAYMENT FOR BONDS

Revenue Obligations

Each Series of Bonds is issued on a parity with all other Bonds previously issued or to be issued from time to time under the General Resolution. See "OUTSTANDING BONDS". The Bonds are special obligations of the State, payable solely from the revenues, receipts, funds, and moneys pledged therefor under the General Resolution. *The State is not obligated to pay the principal of, interest on, or redemption price of the Bonds from any funds of the State other than those pledged pursuant to the General Resolution, and neither the full faith and credit nor the taxing power of the State or any agency, instrumentality, or political subdivision thereof is pledged to the payment of the principal of, interest on, or redemption price of the Bonds.*

Pledge of Revenues

Pursuant to the General Resolution, the State has pledged the following to the Trustee for the benefit of the Bondowners and any owner of a Parity Reimbursement Obligation for the payment of the principal of, interest on, and redemption price of the Bonds in accordance with the terms and provisions of the General Resolution and the payment of any Parity Reimbursement Obligation:

(1) all Pledged Receipts, which are defined in the General Resolution as follows:

- All Leveraged Loan Repayments, including both timely and delinquent payments
- Fees and Charges held or collected by the State
- Any State payments intercepted by DOA and taxes collected by county treasurers, upon a default under a Municipal Obligation
- Any moneys made available to the Leveraged Loan Portfolio pursuant to a State "moral obligation" for individual Loans
- Any moneys collected by recourse to collateral and security devices under the Municipal Obligations
- Any other moneys held or received by the State or the Trustee relating to the Municipal Obligations; and

(2) all funds and accounts established in connection with the issuance of the Bonds including the Loan Fund, the Subsidy Fund and the Loan Credit Reserve Fund (but not including the Rebate Fund or the State Equity Fund).

Prior to the issuance of additional parity Bonds the State must certify that upon the delivery of such Bonds there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

For a detailed description of the various funds, accounts and revenues securing the Bonds, see "SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION". For further discussion of State payments to Municipalities intercepted by DOA, the taxes collected by county treasurers and the State "moral obligation" on individual Loans, see "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers".

Loans

The proceeds of Bonds and other amounts deposited into the Loan Fund are used for the purpose of making Loans to Municipalities. Each Loan must meet the criteria described under "LOANS; Lending Criteria" and must be evidenced by a Municipal Obligation. As of September 30, 2004, $844 million has been disbursed for Loans from the Leveraged Loan Portfolio and $584 million is the principal balance of these Loans. In addition, $62 million remain in the Loan Fund.

Table VI-2 identifies all Municipalities that have entered into Financial Assistance Agreements under the Environmental Improvement Fund, the amount that has been disbursed to each Municipality as of September 30, 2004, and the amount that remains to be disbursed pursuant to its Financial Assistance Agreement. Table VI-2 also provides information as to the principal balance outstanding under the Financial Assistance Agreement for each Municipality.

Table VI-2 includes Municipalities that have received loans from the Leveraged, Direct, and Proprietary Portfolios along with Municipalities that have received loans from the Safe Drinking Water Loan Program. Table VI-2 first presents the Municipalities in order of outstanding Leveraged Loans as of September 30, 2004. Municipalities that do not have Leveraged Loans are then listed alphabetically at the end of Table VI-2. This order will change as Leveraged Loans are disbursed and new Leveraged Loans are originated or as loans are transferred into the Leveraged Loan Portfolio, or as Loans are transferred out of the Leveraged Loan Portfolio. Table VI-2 also provides information as to each Municipality's total debt service (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) as a percentage of the total debt service on the Outstanding Bonds. These percentages will vary after the disbursement of any remaining proceeds of previously issued Outstanding Bonds.

Leveraged Loan Repayments are the majority of the revenues available to pay debt service on the Bonds. To the extent that one Municipality's Leveraged Loan Repayments represent a greater or lesser percentage of the debt service than another Municipality's, the failure of such Municipality to make its Leveraged Loan Repayments will have a greater or lesser impact on the Clean Water Fund Program's ability to pay debt service on the Bonds than the failure of another Municipality. The State believes that the security provisions of the Financial Assistance Agreements, as well as the amounts available from the Loan Credit Reserve Fund and the Subsidy Fund, will limit the effect on Bondowners of a failure by one or more Municipalities to pay debt service on their Loans. Revenues available from amounts in the Subsidy Fund will not be directly affected by the failure of any Municipality to pay debt service on its Loan. However, a persistent failure by one or more Municipalities to pay debt service on Leveraged Loans may adversely affect the ability of the Clean Water Fund Program to pay debt service on the Bonds.

The Milwaukee Metropolitan Sewerage District (**MMSD**) is currently the largest borrower in the Leveraged Loan Portfolio with $162 million in principal amount of Loans outstanding as of September 30, 2004. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Other Information". Other Municipalities had Leveraged Loans in outstanding principal amounts ranging from $43 thousand to $53 million as of the same date. For a discussion regarding the information that is available on the Municipalities, see "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Additional Information".

If used in Table VI-2, "SD" refers to a sanitary district, "SC" to sewerage commission, "MSD" to a metropolitan sewerage district, "TPC" to a treatment plant commission, "RD" to a rehabilitation district, "CWC" to a clean water commission, "PCC" to a pollution control commission, "WPCC" to a water pollution control center, and "MD" to a management district. Due to rounding, rows and columns may not add to the totals shown.

Table VI-2
STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND
OUTSTANDING LOANS
September 30, 2004
(Amount in Thousands)

Municipality[a]	FAA Loan Amount[b]	Total Loan Disbursed	Leveraged Balance[c]	Non-Leveraged Balance	Total Outstanding Balance[c]	Loan Remaining to Fund[d]	% of Revenue Bond Payment[e]
Leveraged Loans							
Milwaukee Metropolitan Sewerage District	$592,558	$519,921	$161,591	$208,606	$370,197	$65,594	20.1%
Madison Metropolitan Sewerage District	95,410	75,262	53,104	3,595	56,699	16,964	6.9%
City of Manitowoc	22,018	21,512	17,964	-	17,964	-	2.3%
Green Bay Metropolitan Sewerage District	52,754	48,693	10,742	16,649	27,391	-	1.3%
Village of Saukville	11,332	10,692	9,202	-	9,202	-	1.2%
Delafield - Hartland Pollution Control Commission	10,000	8,888	8,888	-	8,888	1,112	1.2%
City of Racine	103,820	94,709	8,009	80,530	88,539	8,450	1.0%
Village of Union Grove	8,706	8,335	7,259	-	7,259	344	1.0%
City of Waupaca	12,261	11,444	7,093	752	7,845	350	0.9%
City of Stevens Point	13,560	13,117	6,998	-	6,998	-	0.8%
City of Fort Atkinson	14,594	14,266	6,748	-	6,748	-	0.8%
City of Menomonie	8,732	8,653	6,452	-	6,452	-	0.9%
City of Stoughton - Utilities	9,463	8,820	6,062	128	6,190	445	0.8%
City of Brookfield	30,606	29,304	5,999	17,141	23,140	-	0.8%
City of Mineral Point	6,884	6,244	5,990	-	5,990	-	0.8%
City of Waupun	6,249	5,937	5,734	-	5,734	312	0.8%
Village of Marshall	7,744	7,507	5,643	-	5,643	-	0.7%
City of Ripon	6,337	5,773	5,537	-	5,537	564	0.7%
Village of Sussex	11,029	10,605	5,286	-	5,286	-	0.6%
Village of Twin Lakes	5,941	5,941	5,024	-	5,024	-	0.7%
City of Bloomer	6,694	6,690	4,972	-	4,972	-	0.6%
Village of Jackson	6,130	6,130	4,816	-	4,816	-	0.6%
City of Brodhead	6,549	6,284	4,725	-	4,725	-	0.6%
Green Lake Sanitary District	8,674	8,388	4,649	-	4,649	-	0.5%
City of South Milwaukee	6,413	6,344	4,558	-	4,558	-	0.6%
City of Sparta	15,726	14,502	4,508	4,003	8,511	542	0.5%
City of Hudson	6,165	5,823	4,369	-	4,369	-	0.5%
Village of Deerfield	5,070	4,506	4,324	-	4,324	565	0.6%
Town of Salem	6,359	6,193	4,307	-	4,307	-	0.5%
City of Richland Center	6,998	6,660	4,286	-	4,286	-	0.6%
City of Dodgeville	4,995	4,995	4,095	-	4,095	-	0.5%
City of Oconomowoc	5,449	5,414	4,007	-	4,007	-	0.5%
City of Milton	4,328	4,083	3,921	-	3,921	245	0.5%
Norway Sanitary District #1	5,547	4,424	3,689	-	3,689	-	0.5%
Village of West Salem	4,990	4,634	3,561	-	3,561	-	0.4%
City of Chippewa Falls	7,593	7,252	3,489	1,905	5,394	-	0.4%
City of Edgerton	5,016	4,371	3,457	-	3,457	-	0.4%
Village of Lake Delton	9,612	9,371	3,419	5,346	8,765	113	0.4%
City of De Pere	8,892	7,994	3,379	3,458	6,837	453	0.4%
Village of Black Creek	4,332	4,332	3,031	-	3,031	-	0.4%
City of Janesville	6,897	5,805	2,955	2,080	5,035	997	0.4%
City of Antigo	4,317	4,286	2,928	-	2,928	-	0.4%
City of Chilton	3,945	3,843	2,834	425	3,259	101	0.4%
City of Lodi	4,050	3,907	2,737	-	2,737	-	0.3%
Village of Plover	6,730	6,730	2,698	2,949	5,647	-	0.3%
Town of Caledonia	4,175	3,635	2,671	683	3,354	540	0.3%
City of Rhinelander	5,136	5,123	2,654	-	2,654	-	0.3%
City of Marshfield	24,170	22,996	2,441	16,154	18,595	-	0.3%
Village of Luxemburg	3,178	2,931	2,419	-	2,419	90	0.3%
City of Mauston	2,905	2,759	2,389	-	2,389	-	0.3%
City of New Richmond	3,320	3,202	2,371	-	2,371	-	0.3%
City of Viroqua	4,080	3,609	2,368	585	2,953	432	0.3%
Village of Somerset	2,981	2,744	2,332	-	2,332	-	0.3%
City of Sheboygan	13,517	11,238	2,288	6,377	8,665	2,279	0.3%
City of Neillsville	3,238	3,210	2,245	-	2,245	-	0.3%
Village of Allouez	3,072	3,062	2,141	-	2,141	-	0.3%
Town of Bristol	4,211	3,995	2,096	-	2,096	-	0.3%
City of Monroe	3,470	2,956	2,071	-	2,071	-	0.3%
Village of North Fond du Lac	2,592	2,590	2,065	-	2,065	-	0.3%
Village of Silver Lake	2,318	2,318	1,991	-	1,991	-	0.3%
City of Cuba City	2,562	2,316	1,982	-	1,982	-	0.3%
City of Ashland	14,010	13,595	1,972	5,011	6,983	134	0.2%
City of Tomahawk	3,026	2,864	1,932	-	1,932	-	0.2%
City of Wautoma	6,848	6,847	1,891	2,485	4,376	-	0.2%
Village of Reedsville	2,768	2,755	1,871	-	1,871	-	0.2%
Freedom Sanitary District #1	2,748	2,645	1,846	-	1,846	-	0.2%
City of Adams	2,464	2,238	1,846	-	1,846	-	0.2%
Village of Slinger	2,633	2,059	1,842	-	1,842	573	0.2%
Village of New Glarus	3,503	3,434	1,802	-	1,802	-	0.2%
City of Merrill	4,044	4,033	1,783	-	1,783	-	0.2%
Village of Howards Grove	2,102	1,905	1,766	-	1,766	-	0.2%

Table VI-2 - Continued
STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND
OUTSTANDING LOANS
September 30, 2004
(Amount in Thousands)

Municipality[(a)]	FAA Loan Amount[(b)]	Total Loan Disbursed	Leveraged Balance[(c)]	Non-Leveraged Balance	Total Outstanding Balance[(c)]	Loan Remaining to Fund[(d)]	% of Revenue Bond Payment[(e)]
Village of Shorewood	2,512	2,298	1,732	-	1,732	-	0.2%
Village of Belleville	2,563	2,413	1,684	-	1,684	-	0.2%
City of Colby	2,837	2,647	1,600	-	1,600	-	0.2%
City of Amery	3,060	2,909	1,586	391	1,977	147	0.2%
Rib Mountain Metro Sewerage District	1,977	1,782	1,566	-	1,566	-	0.2%
City of Oshkosh	57,410	54,160	1,444	39,292	40,736	1,982	0.2%
City of Delafield	1,556	1,556	1,438	-	1,438	-	0.2%
City of Weyauwega	3,285	3,108	1,425	-	1,425	-	0.2%
Village of Footville	2,131	2,097	1,408	435	1,843	-	0.2%
Chain O'Lakes Sanitary District #1	2,082	2,063	1,392	-	1,392	-	0.2%
City of Kenosha	33,144	29,370	1,385	14,956	16,341	-	0.2%
Village of Poynette	2,288	2,112	1,372	-	1,372	-	0.2%
Village of Bangor	1,587	1,584	1,340	-	1,340	-	0.2%
Village of Pewaukee	8,191	7,695	1,316	4,429	5,745	-	0.2%
Village of Fremont	1,867	1,815	1,272	-	1,272	-	0.2%
City of Baraboo	2,382	2,276	1,249	-	1,249	-	0.1%
City of Kewaunee	1,684	1,684	1,226	-	1,226	-	0.2%
Village of Monticello	2,345	2,319	1,222	-	1,222	-	0.1%
Ixonia Sanitary District #1	1,340	1,308	1,216	-	1,216	-	0.2%
City of Jefferson	7,534	6,924	1,147	5,295	6,442	433	0.1%
Black Wolf Sanitary District #1	4,327	4,065	1,114	-	1,114	-	0.1%
City of Whitewater	1,564	1,564	1,093	-	1,093	-	0.1%
Village of Wrightstown	1,427	1,427	1,064	-	1,064	-	0.1%
Village of Iron Ridge	1,441	1,254	1,051	-	1,051	-	0.1%
Village of Trempealeau	1,559	1,544	1,051	-	1,051	-	0.1%
Village of Lake Nebagamon	1,539	1,456	1,048	-	1,048	-	0.1%
City of Lake Mills	1,246	1,165	1,034	-	1,034	-	0.1%
Village of Newburg	1,549	1,430	1,027	-	1,027	-	0.1%
City of Crandon	1,537	1,454	1,013	-	1,013	-	0.1%
City of Two Rivers	5,878	4,689	991	3,305	4,296	965	0.1%
Wisconsin Dells - Lake Delton Sewerage Commission	1,935	1,892	980	-	980	-	0.1%
City of Lancaster	1,688	1,601	974	-	974	-	0.1%
Village of Mount Horeb	3,436	3,338	958	539	1,497	-	0.1%
Town of Menasha	1,659	1,642	954	-	954	-	0.1%
Village of Dane	1,228	1,228	938	-	938	-	0.1%
City of Manawa	1,408	1,391	912	-	912	-	0.1%
City of Brillion	1,064	1,061	903	-	903	-	0.1%
City of Beloit	2,927	2,610	898	-	898	-	0.1%
City of Tomah	17,480	16,483	885	12,254	13,139	132	0.1%
Potosi/Tennyson Sewerage Commission	1,543	1,543	852	-	852	-	0.1%
Village of Valders	1,538	1,538	851	74	925	-	0.1%
City of New Holstein	1,100	990	838	-	838	-	0.1%
City of Mayville	1,006	1,006	826	-	826	-	0.1%
City of Columbus	1,235	1,235	801	-	801	-	0.1%
City of Watertown	30,535	28,454	789	26,341	27,130	2,040	0.1%
City of Mosinee	1,383	1,297	781	-	781	-	0.1%
City of Fond du Lac	2,022	1,732	776	-	776	-	0.1%
City of Boscobel	1,337	1,182	770	-	770	-	0.1%
Village of Mount Calvary	1,430	1,430	767	-	767	-	0.1%
Village of Bay City	1,224	1,200	756	-	756	-	0.1%
Western Racine County Sewerage District	1,312	744	744	-	744	568	0.1%
Village of Blue Mounds	1,152	1,064	744	-	744	-	0.1%
Village of Fontana	2,725	2,652	740	1,327	2,067	-	0.1%
City of Black River Falls	1,894	1,767	726	-	726	-	0.1%
Village of Hewitt	1,467	1,298	685	-	685	-	0.1%
Village of Cross Plains	896	887	675	-	675	-	0.1%
City of River Falls	1,009	1,009	659	-	659	-	0.1%
City of Cumberland	928	808	632	-	632	-	0.1%
Village of Mishicot	718	679	627	-	627	-	0.1%
Wrightstown Sanitary District #1	1,081	1,036	623	-	623	-	0.1%
Village of Rockland	967	867	623	-	623	-	0.1%
Village of Spring Green	950	920	620	-	620	-	0.1%
Village of Muscoda	898	777	609	-	609	-	0.1%
Village of Argyle	1,467	1,380	579	-	579	-	0.1%
Village of Brokaw	772	718	577	-	577	-	0.1%
Village of Highland	825	784	564	-	564	-	0.1%
City of Galesville	1,143	1,111	548	-	548	-	0.1%
Brazeau Sanitary District #1	793	758	542	-	542	-	0.1%
Wolf Treatment Plant Commission	12,847	12,377	541	9,255	9,796	-	0.1%
Mercer Sanitary District #1	787	787	516	-	516	-	0.1%
Village of Montfort	779	756	492	-	492	-	0.1%
Village of Rosholt	662	649	483	-	483	-	0.1%

Table VI-2 - Continued
STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND
OUTSTANDING LOANS
September 30, 2004
(Amount in Thousands)

Municipality[a]	FAA Loan Amount[b]	Total Loan Disbursed	Leveraged Balance[c]	Non-Leveraged Balance	Total Outstanding Balance[c]	Loan Remaining to Fund[d]	% of Revenue Bond Payment[e]
Silver Lake Sanitary District	1,063	1,063	478	-	478	-	0.1%
City of Shullsburg	687	626	472	-	472	-	0.1%
Village of Redgranite	2,303	2,303	461	1,158	1,619	-	0.0%
Iron River Sanitary District #1	717	710	456	-	456	-	0.1%
City of Cudahy	886	839	454	-	454	-	0.1%
Village of Knapp	669	616	453	-	453	53	0.1%
City of Abbotsford	722	660	447	-	447	-	0.1%
City of Plymouth	5,848	5,422	420	2,911	3,331	149	0.1%
Sextonville Sanitary District	589	564	408	-	408	-	0.1%
Village of Brownsville	1,017	907	404	373	777	56	0.0%
City of Beaver Dam	819	798	396	-	396	-	0.0%
City of Chetek	528	512	386	-	386	-	0.0%
Neenah Sanitary District #2	1,057	1,057	377	-	377	-	0.0%
Silver Lake Sanitary District-Waushara Cty.	722	722	348	-	348	-	0.0%
Laona Sanitary District #1	746	746	337	-	337	-	0.0%
City of Prescott	5,349	4,956	322	2,682	3,004	-	0.0%
City of New Lisbon	5,845	5,434	314	4,777	5,091	136	0.0%
Village of Kohler	401	367	306	-	306	-	0.0%
Village of Prentice	544	447	300	-	300	-	0.0%
City of Westby	417	395	297	-	297	-	0.0%
Village of Almond	530	504	291	-	291	-	0.0%
Village of Campbellsport	405	359	290	-	290	-	0.0%
Village of North Freedom	498	473	276	-	276	-	0.0%
Village of Linden	389	369	275	-	275	-	0.0%
Village of Mattoon	628	586	273	174	447	-	0.0%
Village of Cottage Grove	506	360	271	-	271	-	0.0%
Village of Pulaski	483	483	264	-	264	-	0.0%
Village of Belmont	458	416	261	-	261	-	0.0%
Village of Ellsworth	373	373	244	-	244	-	0.0%
Village of Random Lake	464	441	242	-	242	-	0.0%
Iowa County	486	486	241	-	241	-	0.0%
Village of Wyocena	389	298	238	-	238	-	0.0%
Village of Walworth	332	305	227	-	227	-	0.0%
Goodman Sanitary District #1	1,074	1,074	221	506	727	-	0.0%
Village of Cassville	442	401	218	-	218	-	0.0%
City of Montello	260	256	207	-	207	-	0.0%
Village of Pepin	363	281	203	-	203	-	0.0%
Village of Coleman	507	449	201	-	201	-	0.0%
City of Prairie du Chien	4,645	4,590	196	2,334	2,530	-	0.0%
Village of Osceola	298	298	195	-	195	-	0.0%
Village of Potosi	291	260	188	-	188	23	0.0%
City of Shawano	252	225	179	-	179	-	0.0%
Sunset Point Sanitary District	686	655	175	-	175	-	0.0%
Village of Baldwin	262	262	172	-	172	-	0.0%
Village of Hustisford	1,503	1,000	168	593	761	495	0.0%
Village of Plum City	249	249	146	-	146	-	0.0%
Grand Chute - Menasha West Sewerage Commission	12,747	11,958	142	6,940	7,082	181	0.0%
Village of Blue River	281	272	139	-	139	-	0.0%
Village of Prairie du Sac	205	183	131	-	131	-	0.0%
Village of Gays Mills	180	173	124	-	124	-	0.0%
Village of Hancock	151	131	111	-	111	-	0.0%
City of Hillsboro	160	129	93	-	93	-	0.0%
Little Elkhart Lake Rehabilitation District	217	217	87	-	87	-	0.0%
Village of Webster	204	194	85	-	85	-	0.0%
Village of Spring Valley	120	120	79	-	79	-	0.0%
Village of Roberts	81	81	54	-	54	-	0.0%
Village of Bowler	794	495	43	389	432	290	0.0%
Direct, Proprietary, and Drinking Water Loans							
Village of Adell - Onion River	721	721	-	293	293	-	
Village of Adell	566	566	-	230	230	-	
Village of Albany	536	472	-	384	384	-	
Algoma Sanitary District #1	8,029	6,911	-	6,911	6,911	1,118	
City of Algoma	5,547	5,432	-	2,440	2,440	-	
City of Appleton	16,474	13,989	-	7,023	7,023	-	
City of Arcadia	1,078	869	-	869	869	209	
Village of Arena	1,486	1,449	-	1,123	1,123	-	
Village of Arlington	1,662	1,608	-	1,298	1,298	-	
Aurora Sanitary District #1	15	15	-	5	5	-	
Village of Avoca	359	344	-	224	224	-	
Village of Bagley	229	218	-	174	174	-	
City of Bayfield	276	212	-	187	187	-	

Table VI-2 - Continued
STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND
OUTSTANDING LOANS
September 30, 2004
(Amount in Thousands)

Municipality[a]	FAA Loan Amount[b]	Total Loan Disbursed	Leveraged Balance[c]	Non-Leveraged Balance	Total Outstanding Balance[c]	Loan Remaining to Fund[d]	% of Revenue Bond Payment[e]
Village of Bayside	1,612	1,342	-	1,342	1,342	270	
Village of Bear Creek	432	387	-	260	260	-	
Village of Belgium	3,855	3,838	-	3,525	3,525	-	
Town of Beloit	956	843	-	812	812	112	
Village of Benton	1,702	1,702	-	1,545	1,545	-	
Village of Black Earth	4,278	4,125	-	3,383	3,383	-	
Village of Boaz	106	106	-	42	42	-	
Bohner's Lake Sanitary District #1	8,007	7,857	-	3,441	3,441	-	
Brookfield Sanitary District #4	5,750	5,608	-	4,268	4,268	-	
Village of Brooklyn	641	615	-	592	592	-	
Brule Sanitary District	367	299	-	208	208	-	
City of Burlington	18,488	17,855	-	7,767	7,767	-	
Butte des Morts Consolidated Sanitary District #1	2,144	2,144	-	476	476	-	
Calumet Sanitary District #1	505	505	-	46	46	-	
Village of Cameron	365	365	-	349	349	-	
Caroline Sanitary District	83	83	-	33	33	-	
Village of Cedar Grove	577	573	-	526	526	-	
Christmas Mountain Sanitary District	1,659	1,614	-	1,368	1,368	-	
Village of Cleveland	3,610	3,452	-	2,240	2,240	-	
Village of Clinton	4,962	4,877	-	4,288	4,288	-	
City of Clintonville	1,035	381	-	381	381	655	
Cloverleaf Lakes Sanitary District #1	1,022	977	-	395	395	-	
Village of Cochrane	454	441	-	366	366	-	
Consolidated S.D. No. 1	155	155	-	64	64	-	
Crestview Sanitary District	290	238	-	210	210	-	
Village of Crivitz	1,725	1,725	-	814	814	-	
Village of Curtiss	157	36	-	36	36	121	
Cushing Sanitary District #1	116	116	-	85	85	-	
City of Darlington	3,650	3,650	-	3,220	3,220	-	
Village of Denmark	2,241	2,223	-	1,186	1,186	-	
Village of Dickeyville	1,078	1,017	-	939	939	-	
Town of Dover	1,787	1,507	-	1,450	1,450	280	
Dyckesville Sanitary District	1,476	1,476	-	664	664	-	
City of Eagle River	3,563	3,401	-	2,130	2,130	-	
Village of Eagle	2,161	2,035	-	1,961	1,961	126	
Village of Eastman	323	323	-	130	130	-	
Edgewood-Shangri La Sanitary District	1,011	996	-	455	455	-	
Village of Egg Harbor	508	504	-	381	381	-	
Elcho Sanitary District #1	956	956	-	633	633	-	
Village of Elk Mound	350	349	-	219	219	-	
Village of Fairchild	740	719	-	558	558	-	
Village of Fairwater	1,554	1,444	-	1,444	1,444	110	
Village of Forestville	585	552	-	443	443	-	
City of Fountain City	451	399	-	399	399	51	
Fulton Sanitary District No. 2	211	211	-	200	200	-	
Village of Genoa City	4,227	4,015	-	3,706	3,706	212	
Germantown Sanitary District	34	34	-	14	14	-	
Gibbsville Sanitary District	1,518	357	-	357	357	1,162	
Gordon Sanitary District #1	395	395	-	166	166	-	
Village of Gratiot	724	723	-	694	694	-	
Green Valley Sanitary District #1	188	188	-	119	119	-	
Greenville Sanitary District No. 1	351	275	-	275	275	76	
Harmony Grove - Okee Sewerage Commission	2,327	2,137	-	2,050	2,050	190	
City of Hartford	13,168	13,081	-	9,701	9,701	-	
Hatfield Sanitary District #1	1,135	1,135	-	555	555	-	
Village of Haugen	285	285	-	237	237	-	
Village of Hilbert	2,502	2,496	-	1,622	1,622	-	
Village of Hingham - Onion River	227	227	-	97	97	-	
Holland Sanitary District #1	1,380	1,380	-	1,249	1,249	-	
Hub-Rock Sanitary District No. 1	494	494	-	339	339	-	
Village of Ironton	107	107	-	29	29	-	
Island View Sanitary District	2,764	2,480	-	1,205	1,205	-	
Ithaca Sanitary District #1	412	412	-	280	280	-	
City of Juneau	271	237	-	170	170	-	
Kelly Lake Sanitary District #1	2,439	2,413	-	2,034	2,034	-	
City of Kiel	2,470	2,470	-	1,792	1,792	-	
Lake Como Sanitary District #1	4,459	4,459	-	3,121	3,121	-	
Lake Tomahawk Sanitary Dist #1	1,317	1,313	-	1,073	1,073	-	
Village of Lannon	2,982	2,982	-	1,909	1,909	-	
Lisbon Sanitary District #1	2,849	2,706	-	1,126	1,126	-	
Little Green Lake Protection & Rehab District	1,898	1,734	-	1,528	1,528	-	
Little Suamico Sanitary District #1	622	603	-	456	456	-	

Table VI-2 - Continued
STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND
OUTSTANDING LOANS
September 30, 2004
(Amount in Thousands)

Municipality[a]	FAA Loan Amount[b]	Total Loan Disbursed	Leveraged Balance[c]	Non-Leveraged Balance	Total Outstanding Balance[c]	Loan Remaining to Fund[d]	% of Revenue Bond Payment[e]
Village of Lomira	1,932	1,784	-	1,078	1,078	-	
Village of Lyndon Station	615	583	-	470	470	-	
Village of Marathon City	1,890	1,853	-	1,494	1,494	-	
City of Marinette	5,511	3,753	-	3,604	3,604	1,758	
Village of Mazomanie	4,753	4,553	-	3,733	3,733	-	
Village of Menomonee Falls	887	869	-	661	661	-	
Village of Milltown	337	302	-	219	219	-	
City of Milwaukee - Waterworks	19,358	17,559	-	13,745	13,745	-	
Morrisonville Sanitary District #1	278	278	-	196	196	-	
Village of Mount Hope	386	205	-	205	205	182	
Village of Mukwonago	2,514	2,271	-	1,910	1,910	-	
Village of Necedah	2,937	2,937	-	2,696	2,696	-	
City of Nekoosa	6,709	6,405	-	5,571	5,571	274	
Village of Nelson	640	640	-	384	384	-	
City of Niagara	181	181	-	74	74	-	
Village of Oakdale	45	45	-	16	16	-	
Village of Oakfield	2,200	2,200	-	2,115	2,115	-	
Town of Oconomowoc	6,819	6,169	-	5,413	5,413	650	
City of Oconto Falls	528	435	-	385	385	-	
City of Oconto	3,844	3,725	-	2,242	2,242	-	
Ogema Sanitary District #1	190	181	-	92	92	-	
Village of Oliver	588	588	-	409	409	-	
Omro Sanitary District #1	992	992	-	584	584	-	
Oneida Tribe of Indians	1,210	1,210	-	446	446	-	
Village of Oregon	7,217	7,073	-	4,216	4,216	-	
Orihula Sanitary District	2,522	2,485	-	1,257	1,257	-	
City of Osseo	1,575	1,575	-	1,398	1,398	-	
Packwaukee Sanitary Dist No. 1	242	242	-	183	183	-	
City of Park Falls	1,469	1,469	-	1,223	1,223	-	
Pell Lake Sanitary District #1	5,917	5,917	-	4,404	4,404	-	
Pensaukee Sanitary District #1	1,279	1,279	-	808	808	-	
City of Pewaukee	8,049	7,831	-	5,957	5,957	-	
City of Phillips	2,233	2,189	-	1,936	1,936	45	
Pleasant Springs Sanitary District #1	1,029	934	-	601	601	-	
City of Port Washington	3,404	3,404	-	3,043	3,043	-	
City of Portage	4,341	4,272	-	3,355	3,355	-	
Portland Sanitary District #1	295	280	-	280	280	15	
Poy Sippi Sanitary District	223	223	-	197	197	-	
Richmond Sanitary District #1	5	5	-	1	1	-	
Rockland Sanitary District #1	222	222	-	78	78	-	
Roxbury Sanitary District #1	940	914	-	728	728	-	
Village of Sharon	635	633	-	562	562	-	
Village of Sheldon	292	250	-	250	250	42	
Village of Sherwood	2,711	2,688	-	2,179	2,179	-	
Village of South Wayne	1,388	1,266	-	834	834	-	
Village of Stetsonville	1,141	1,141	-	964	964	-	
Town of Summit	7,832	7,695	-	7,101	7,101	136	
Village of Union Center	299	299	-	252	252	-	
Valley Ridge Clean Water Commission	749	749	-	296	296	-	
Village of Vesper	1,724	612	-	612	612	1,112	
Walworth County Metropolitan Sewerage District	19,994	19,088	-	11,435	11,435	-	
Village of Warrens	584	474	-	474	474	110	
City of Waukesha	42,072	40,531	-	19,378	19,378	-	
Village of Wausaukee	1,662	1,662	-	834	834	-	
Village of Wauzeka	128	107	-	72	72	-	
Westboro Sanitary District #1	51	51	-	32	32	-	
Village of Whitelaw	1,494	1,489	-	1,319	1,319	5	
Village of Williams Bay	885	836	-	635	635	-	
Winneconne Sanitary District #3	2,079	1,985	-	952	952	-	
Village of Winneconne	1,644	1,494	-	1,176	1,176	-	
City of Wisconsin Rapids	11,670	11,348	-	5,271	5,271	-	
Village of Withee	120	120	-	120	120	-	
Totals	$2,042,155	$1,867,557	$584,164	$764,086	$1,348,250	$117,870	73.5%

(a) Municipalities that have received Financial Assistance Agreements that are funded with both Leveraged Loans and Direct Loans or Proprietary Loans are included in their entirety within the group of Leveraged Loans.

(b) The amount of financial assistance depicts only loans. Grants awarded in the aggregate amount of $100 million are not included.

(c) The principal balance may be less than the total amount disbursed due to repayment of loans.

(d) "Loan Remaining to Fund" is the "FAA Loan Amount" less "Total Loan Disbursed", except for Loans that have been closed-out or paid-off, in which case the "Loan Remaining to Fund" is zero.

(e) Total loan repayments of outstanding Leveraged Loans (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) are shown as a percentage of total 1991 Series 1 Bonds, 1993 Series 1 and 2 Bonds, 1995 Series 1 Bonds, 1997 Series 1 Bonds, 1998 Series 1

Bonds, 1998 Series 2 Bonds, 1999 Series 1 Bonds, 2001 Series 1 Bonds, 2002 Series 1 Bonds, 2002 Series 2 Bonds, and 2004 Series 1 Bonds less those Bonds that are defeased. Loans with amortization periods of shorter duration than the Bonds will reflect a lower comparative percentage of the Bonds' debt service. Other revenues expected to be available for payment of the Bonds consist of Subsidy Fund transfers and repayments on Loans to be originated in the future from the remaining undisbursed 2004 Series 1 Bond proceeds.

Subsidy Fund

Loans are made pursuant to the Clean Water Fund Program to certain Municipalities at interest rates below the Clean Water Fund Program's cost of borrowing. To supplement revenues produced by Leveraged Loan Repayments, the General Resolution creates a Subsidy Fund, a Subsidy Fund Requirement and a Subsidy Fund Transfer Amount.

The Subsidy Fund Requirement is that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing after an interest payment date and ending on the next interest payment date (**Period**) which is at least equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of:

- Scheduled disbursements from the Capitalized Interest Account, and
- Leveraged Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund

In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if:

- Such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds
- Such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Leveraged Loan Repayments; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement

The Subsidy Fund Transfer Amount is that amount equal to the amount by which Aggregate Debt Service payable during a Period exceeds the sum of:

- Leveraged Loan Repayments scheduled to be received and delinquent Leveraged Loan Repayments actually received during the Period
- Earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period
- Any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period
- Any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and
- Amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period

On or before the business day preceding each interest payment date, the Trustee shall transfer the Subsidy Fund Transfer Amount from the Subsidy Fund to the Debt Service Fund.

Whenever the money in the Debt Service Fund and money available in the Loan Credit Reserve Fund are insufficient to pay the principal of and interest on the Bonds, the Trustee shall transfer amounts from the Subsidy Fund to the Debt Service Fund to the extent necessary to cure the deficiency.

The General Resolution permits the issuance of a Series of Bonds only if, upon such issuance, an Authorized Officer certifies to the Trustee that upon delivery of such Bonds there will be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement. In addition, except in the case of a default in payment of the Bonds, the General Resolution permits disbursements from the Loan Fund only upon receipt of a certificate from an Authorized Officer stating that after taking into account the disbursement there is on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement.

As of September 30, 2004, the Environmental Improvement Fund has purchased $157 million of State general obligation bonds that were deposited into the Subsidy Fund and the amortized balance was $117 million.

Loan Credit Reserve Fund

As additional security for the Bonds there has been established a Loan Credit Reserve Fund which will, upon the issuance of any Series of Bonds, be funded in an amount at least equal to the Loan Credit Reserve Fund Requirement. The Loan Credit Reserve Fund Requirement means and is calculated as follows:

- Upon the issuance of the first Series of Bonds or disbursements of funds for Loans from the Loan Fund, an Authorized Officer delivered to the Trustee a schedule of credit quality categories and loan credit reserve fund requirements for each Rating Agency (**Schedule**) approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency. For a description of the Schedules currently in effect, see "LOAN CREDIT RESERVE FUND SCHEDULES".
- The amount required in the Schedules for each disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the **Contribution Amount**.
- The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

The Trustee may not disburse moneys from the Loan Fund unless, prior to such disbursement, there is deposited in the Loan Credit Reserve Fund concurrently with the disbursement an amount equal to the Contribution Amount, provided, however, that if the amount on deposit would be in excess of the Loan Credit Reserve Fund Requirement, the Contribution Amount may be reduced in an amount equal to such excess. If upon the issuance of a Series of Bonds, there is on deposit in the Loan Credit Reserve Fund an amount in excess of the Loan Credit Reserve Fund Requirement (such excess being the **Funded Amount**), any Contribution Amount required to be deposited into the Loan Credit Reserve Fund upon a disbursement from the Loan Fund shall be deemed to be made from such Funded Amount until the Funded Amount is exhausted. Any Funded Amount shall be available until issuance of a subsequent Series of Bonds, whereupon a new Funded Amount is calculated. The Loan Credit Reserve Fund Requirement is calculated based on disbursements from the Loan Fund. Upon issuance of an additional Series of Bonds, additions to the Loan Credit Reserve Fund Requirement will be zero prior to any additional Loan disbursement. Failure to make deposits in the Loan Credit Reserve Fund (including deemed deposits from the Funded Amount) would consequently preclude making any subsequent disbursements from the Loan Fund.

Whenever moneys in the Debt Service Fund are insufficient to pay the principal of or interest on the Bonds, the Trustee will apply amounts from the Loan Credit Reserve Fund to the extent necessary to cure the deficiency. Except in the event of the issuance of additional Bonds, the State is not required to replenish the Loan Credit Reserve Fund following creation of a deficiency therein, except from surpluses in the Subsidy Fund being transferred to the State Equity Fund.

Whenever moneys and securities in the Loan Credit Reserve Fund (excluding earnings required to be transferred to the Revenue Fund) shall exceed the Loan Credit Reserve Fund Requirement, the Trustee is required, at the written direction of an Authorized Officer, subject to certain conditions, to transfer all or any portion of such surplus from the Federal SRF Account to any account within the Clean Water Fund Program or from the Non-SRF Account to the Revenue Fund. Any withdrawal of surpluses from the Loan Credit Reserve Fund shall reduce the Funded Amount by an amount equal to the amount of such withdrawal.

On October 14, 2004, the Environmental Improvement Fund replaced certain investments in the Loan Credit Reserve Fund with a Debt Service Reserve Insurance Policy **(Surety Bond)** issued by XL Capital Assurance Inc. **(XL Capital)** in the amount of $17 million. The Surety Bond is an asset of the Loan Credit Reserve Fund. As of October 14, 2004, the Loan Credit Reserve Fund balance was approximately $76 million, which included approximately $59 in cash and investments and the $17 million Surety Bond. This balance exceeded the Loan Credit Reserve Fund Requirement as of that date, which was approximately $71 million.

As of October 14, 2004, the $59 million of cash and investments in the Loan Credit Reserve Fund was invested as follows:

- $21 million were invested in an investment agreement with AIG Matched Funding Corp. (**AIGMFC**) with the payment obligations of AIGMFC guaranteed by American International Group, Inc., which policy does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State.
- $6 million were invested in an investment agreement with MBIA Investment Management Corp. (**IMC**) with the payment obligations of IMC guaranteed by the MBIA Insurance Corporation, which policy does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State.
- $8 million were invested in a collateralized investment repurchase agreement with Bayerische Landesbank Girozentrale (**Bayerische**), with the collateral held by Wells Fargo Bank, as custodian and as successor to Norwest Bank Minnesota, National Association.

- $21 million were invested in direct obligations of the United States under three forward delivery agreements with Wachovia Bank, National Association, as successor to First Union National Bank of North Carolina (**Wachovia**).
- $2 million were invested in a forward delivery agreement with Westduetche Landesbank Girozentrale **(West LB)**.
- $1 million were invested in a pool managed by the State of Wisconsin Investment Board (**SWIB**).

The investment agreement with AIGMFC, the investment agreement with IMC, the investment repurchase agreement with Bayerische, the forward delivery agreements with Wachovia, and the forward delivery agreement with West LB each provide for liquidation of the investments if and when required by the terms of the General Resolution.

If one or more Municipalities fail to make their Leveraged Loan Repayments, and the amount of the delinquent payments is in excess of the amount available from the Loan Credit Reserve Fund, this may adversely affect the ability of the Clean Water Fund Program to make timely payments of the principal of, interest on, or redemption price of the Bonds.

Surety Bond

The termination date of the Surety Bond is the earlier of June 1, 2024 or when all the Bonds are no longer Outstanding. The Surety Bond provides that XL Capital will unconditionally and irrevocably deposit funds with the Trustee, subject to the terms of the Surety Bond, that portion of the principal of and interest on the Bonds that is due for payment but is unpaid, but in no event exceeding the amount of the Surety Bond. The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

Statutory Powers

The Act includes several provisions that may provide additional security for payment of the principal of, interest on, or redemption price of the Bonds. These provisions include state aid intercept, collection through county treasurers, and state moral obligation, if designated.

State Aid Intercept

The Act confers an "intercept power" upon DOA. If a Municipal Obligation to the State is in default, DOA, which is the paying agent for State moneys payable to Wisconsin municipalities, is required to place on file a certified statement of all amounts due under the loan. Thereafter, DOA is authorized to collect all amounts due under the loan by deducting those amounts from any State payments due the Municipality. The State has covenanted in the General Resolution to exercise this intercept power to the extent State payments are available. Certain Municipalities, including town sanitary districts, public inland lake protection rehabilitation districts, metropolitan sewage districts, and intergovernmental cooperation commissions do not receive such State payments. The amount of money realized by the Clean Water Fund Program from the exercise of the intercept power will depend on the level of State payments to the Municipality in relation to the size of the loan. The level of State payments to Municipalities may vary in the future. Although State payments can be intercepted by the State for certain other purposes, current administrative rules require DOA to exercise the Clean Water Fund Program intercept as a first charge against State payments due a particular Municipality.

Collection Through County Treasurers

If a Municipal Obligation to the State is in default, the Act gives DOA the authority, after placing on file the certified statement of amounts due under a loan, to add the amount due on the loan as a special charge to the amount of taxes levied upon the county in which the defaulting Municipality is located. In turn, the county treasurer is required to apportion the amount of such special charges to "any town, city, or village," and the special charges are then collected with the annual property tax. The word "town" in a statute may be construed as including cities, villages, wards and districts, although metropolitan sewerage districts and town sanitary districts are not specifically mentioned. The enforceability of this procedure for collection of special charges has not been tested in court. Accordingly, no assurance can be given as to the enforceability of this procedure.

State Moral Obligation (If Designated)

At the time a loan is made, the Commission may by resolution designate the loan as one to which the State "moral obligation" applies. If such "moral obligation" applies, the Act provides that, if at any time the payments received or expected to be received from a Municipality on any loan are insufficient to pay when due the principal of and interest on such loan, DOA shall certify the amount of such insufficiency to the Secretary of Administration, the Governor, and the Joint Committee on Finance. The Joint Committee on Finance is then required to introduce a bill appropriating the amount so requested for the purpose of payment of the Municipal Obligation secured thereby. Recognizing its "moral obligation" to do so, the Legislature has expressed its expectation and aspiration that, if ever called upon to do so, it would make the appropriation. The "moral obligation" applies to individual loans and not to the Bonds. In addition, the loans to which a "moral obligation" applies must be specifically designated by the Commission at the time the loan is made.

No loan currently financed or expected to be financed from proceeds of the Bonds is expected to be designated as a "moral obligation" Loan. In the opinion of Bond Counsel, the provisions of the Act relating to the State's "moral obligation" do not violate the constitution of the State or any other law of the State, but such provisions do not constitute a legally enforceable obligation or create a debt on behalf of the State.

State Financial Participation

The State has funded and intends to continue to fund all or a substantial portion of the Subsidy Fund through the issuance of State general obligation bonds. Such State general obligation bonds will be sold to the Clean Water Fund Program for deposit in the Subsidy Fund as and when required to meet the Subsidy Fund Requirement. The State general obligation bonds are issued such that the principal and interest will be due and payable on such bonds at the times and in the amounts as are required to satisfy the Subsidy Fund Requirement. The State has authorized the issuance of additional general obligation bonds in an amount expected to exceed the Subsidy Fund Requirement necessary to disburse all Bond proceeds. However, failure of the State to fund the Subsidy Fund at the Subsidy Fund Requirement will preclude the disbursement of Bond proceeds from the Loan Fund (except to pay interest on the Bonds) and preclude the issuance of additional Bonds. Such a failure could adversely affect the ability of the Clean Water Fund Program to make timely payments of the principal of, interest on, or redemption price of the Bonds.

Although the State has no present intent to cause this to happen, State general obligation bonds may also be sold to the Clean Water Fund Program for deposit in the Loan Credit Reserve Fund to meet the Loan Credit Reserve Fund Requirement.

Additional Information

As of September 30, 2004, MMSD is expected to provide approximately 20 percent of the gross cash flow servicing the Bonds. The MMSD Comprehensive Annual Financial Report for the year ended December 31, 2003 (**MMSD CAFR**) is included by reference as part of this part of the Annual Report. The MMSD CAFR has been filed with each nationally recognized municipal securities information repository **(NRMSIR)** and should be consulted only with respect to MMSD. No representation is made as to the accuracy or completeness of the information included in the MMSD CAFR, or that there has been no material change since its date.

Copies of the MMSD CAFR can be obtained from:

Mark T. Kaminski, Acting Controller/Treasurer
Milwaukee Metropolitan Sewerage District
260 West Seeboth Street
Milwaukee, Wisconsin 53204-1446
(414) 225-2050
bgraffin@mmsd.com

The State, which has issued its general obligation bonds that are currently held in the Subsidy Fund, is expected to provide approximately 19 percent of the gross cash flow servicing the Bonds. Information about the State, including its financial statements, is included in Part II of this Annual Report.

Information about Municipalities, other than the amounts of their loans and annual repayments, and the MMSD CAFR, is not made part of this Annual Report, however, financial statements are required to be provided to the Clean Water Fund Program by any Municipality which has received a Direct Loan, Proprietary Loan or Leveraged Loan.

Additional Bonds

The General Resolution permits the issuance of additional Bonds, without limitation as to amount, except for any statutory limitations on the aggregate authorized amount of revenue bonds that can be issued for the Program. As of September 30, 2004, $707 million of Bonds are legislatively authorized but unissued. Proceeds of these Bonds, if issued, may be used to provide funds for Clean Water Fund Program purposes, including making Loans. As a condition to the issuance of additional Bonds, the General Resolution requires that there will be delivered to the Trustee a certificate of an Authorized Officer that, upon the issuance of such Bonds, there will be in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement and that there will be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement.

Any additional Bonds issued under the General Resolution will be on a parity with any other Bonds previously issued, and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the State set forth in the General Resolution (except for funds pledged to defease any specific Bonds).

Disposition of Loans

The State may sell, assign, transfer, or otherwise dispose of any loan and the Municipal Obligations evidencing such loan (free and clear of the pledge of the General Resolution or subject to the lien of the General Resolution, at the discretion of the State), at such price as the Commission shall determine, provided that prior to y such sale, assignment, transfer, or disposition the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such sale, assignment, transfer, or disposition, there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there will be on deposit in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State may sell, assign, transfer, or otherwise dispose of any loan and the Municipal Obligation evidencing such loan (but not free and clear of the General Resolution), at such price as the Commission shall determine provided that prior to such sale, assignment, transfer, or disposition the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such sale, assignment, transfer or disposition and the deposit of the proceeds thereof in the applicable account, there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there will be on deposit in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State may sell, assign, transfer, or otherwise dispose of any loan and the Municipal Obligation evidencing such loan (but not free and clear of the General Resolution) and deposit the proceeds thereof in the applicable account if such Loan and such Municipal Obligation is delinquent in payments of principal or interest and if, in the reasonable opinion of the State, as evidenced by a certificate of an Authorized Officer, the proceeds of such sale, assignment, transfer, or disposition are not less than the fair market value of such delinquent Loan or Municipal Obligation.

The State may consent to prepayment of any Loan and the Municipal Obligation evidencing such Loan provided that, prior to such prepayment, the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such prepayment and deposit of the proceeds thereof to the applicable fund or account, the Subsidy Fund Requirement has not been increased.

LOAN CREDIT RESERVE FUND SCHEDULES

Introduction

The General Resolution establishes the amount and timing of funds and securities required to be deposited or on deposit in the Loan Credit Reserve Fund, based on Schedules reviewed by no less than two Rating Agencies. The State, with the consent of a Rating Agency, may from time to time change the Schedule previously approved by such Rating Agency so long as the change does not adversely affect the then-current rating on the Bonds. To the extent the amount of the deposit or amount on deposit required by the Schedule approved by one Rating Agency differs from the amount required by the Schedule approved by another Rating Agency, the larger amount is required As of October 14, 2004, the amount held in the Loan Credit Reserve Fund consisted of $59 million in cash and investments and the $17 million Surety Bond issued by XL Capital Assurance Inc. This balance of $76 million exceeds the amount required on such date, which was approximately $71 million.

Current Schedules

The Bonds are currently rated AA+ by Fitch Ratings (**Fitch**), Aa2 by Moody's Investors Service, Inc. (**Moody's**) and AA+ by Standard & Poor's Ratings Services (**S&P**). Each of the following Schedules has been approved by the respective Rating Agency indicated.

Fitch Ratings

Based on certain credit characteristics, each Loan will be assigned to one of six credit categories, which are explained below. Any assignment of a Loan to a credit category other than "Not Rated; Interceptable State Aid Factor 2.0 or Greater" or "Not Rated; Interceptable State Aid Factor Less Than 2.0" is subject to review by Fitch. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular Loan and any amounts disbursed under that Loan differs, depending on the borrower. The Municipality with total outstanding General Resolution Leveraged Loans in a credit category below that of the Bonds, such that the Municipality's outstanding Loan amount is larger than that of any other Municipality with outstanding Loans in credit categories below that of the Bonds, is the "Largest Borrower Below Bond Credit Quality". The required deposit attributable to the Largest Borrower Below Bond Credit Quality shall equal the total of all debt service payments attributable to the Loan or Loans to that Borrower over the four-year period in which such debt service payments are the greatest. For any Loans to borrowers other than the Largest Borrower Below Bond Credit Quality, the required deposit shall equal the product of the total of all debt service payments attributable to such Loans over the four-year period in which such debt service payments are the greatest times the factor, described below, assigned to Loans of the applicable credit category.

Loans are currently assigned to credit categories based on one or more of the following characteristics; (1) the Fitch rating given to the Municipal Obligation (or its lack of a Fitch rating), (2) the credit quality estimate for the Municipal Obligation based on information available to Fitch from sources it believes to be reliable, or (3) the anticipated amount of annual State payments that can potentially be intercepted by DOA.

The State recognizes that the credit quality estimate, or "shadow rating", is not necessarily the official or public Fitch ratings for the Municipal Obligation and are used solely for purposes of analyzing the credit quality of the Bonds. The intercept power is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Aid Intercept". If the Municipal Obligation is not rated by Fitch, the State may request that Fitch assign a credit quality estimate, or "shadow rating", for the Municipal Obligation.

Credit categories to which Loans may be assigned by Fitch currently include the following:

"AAA" Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of the highest credit quality, denoting the lowest expectation of credit risk. Assignments to this category are made only in cases of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

"AA" Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of very high credit quality, denoting a very low expectation of credit risk. Assignments to this category are made in cases of very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

"A" Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of high credit quality, denoting a low expectation of credit risk. Assignments to this category are made in cases of strong capacity for timely payment of financial commitments. Nevertheless, this capacity may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher credit quality categories.

"BBB" Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of good credit quality, denoting a currently low expectation of credit risk. Assignments to this category are made in cases of adequate capacity for timely payment of financial commitments. Adverse changes in circumstances and in economic conditions are more likely to impair this capacity than is the case for higher credit quality categories.

Not Rated; Interceptable State Aid Factor 2.0 or Greater. The anticipated amount of annual State payments that can potentially be intercepted by the State is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality: State shared revenue. A Loan is currently assigned to this category if its related Municipal Obligation is: (1) not rated by Fitch or categorized as being of speculative grade credit quality by Fitch, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the maximum annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Interceptable State Aid Factor Less Than 2.0. A Loan is currently assigned to this category if its related Municipal Obligation is: (1) not rated by Fitch or categorized as being of speculative grade credit quality, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the maximum annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The following chart shows the current factor assigned to each of the six credit categories by Fitch.

Category	Factor
‘AAA’ Credit Quality Category	0%
‘AA’ Credit Quality Category	0
‘A’ Credit Quality Category	6
‘BBB’ Credit Quality Category	12
Not Rated; Interceptable State Aid Factor 2.0 or Greater	6
Not Rated; Interceptable State Aid Factor Less Than 2.0	34

The State recognizes that lower factors may be assigned to Loans related to Municipal Obligations that are deemed by Fitch to be general obligations secured by the Municipality’s full faith and credit, based on Fitch’s current rating guidelines for leveraged municipal loan pools. However, the State does not currently opt to assign such lower factors to such Loans, since the above factors result in a more conservative level of funding for the Loan Credit Reserve Fund.

The State recognizes that Fitch’s rating on the Bonds is based only in part upon the level of funding in the Loan Credit Reserve Fund and the credit quality of Municipalities receiving Loans. Other factors upon which the Bonds’ rating is based currently include, but are not limited to, Fitch’s general obligation bond rating for the State of Wisconsin, as well as structural and legal characteristics of the Clean Water Fund Program, Clean Water Fund Program management, Clean Water Fund Program loan underwriting practices, Clean Water Fund Program loan monitoring practices, and permitted Clean Water Fund Program investments. The State recognizes that factors upon which the Bonds’ rating is based may change in the future. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the Clean Water Fund Program, and the State recognizes that the rating maintained by Fitch may be based on the maintenance of amounts greater than the amounts required under this particular Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same credit rating category as the Bonds. The State further agrees that, if practicable, it will provide Fitch with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

Moody’s Investors Service, Inc.

As part of the Schedule submitted to Moody’s, the State has indicated that it will maintain the Loan Credit Reserve Requirement at a level that corresponds to certain Loan portfolio credit characteristics. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund is the product of the average annual debt service of the outstanding, disbursed Loans times a factor of 120%, and is based on an evaluation of the Loans shown in “SECURITY AND SOURCE

OF PAYMENT FOR BONDS; Loans". A different factor may be applied if Loan portfolio credit characteristics change.

Standard & Poor's Ratings Services

Based on certain credit characteristics, each Loan will be assigned one of five categories, which are explained below. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular disbursement from the Loan Fund is the product of the maximum annual debt service payment on the Loan attributable to the disbursement times the factor assigned to that particular category.

The following chart shows the current factor assigned to each of the five categories by S&P. Following the chart is an explanation of the characteristics of each category.

Category	Factor
Higher Investment Grade Rating	0%
Medium Investment Grade Rating	40
Lower Investment Grade Rating	64
Not Rated; Greater State Aids	40
Not Rated; Lesser State Aids	140

Loans are categorized based on two characteristics: (1) the rating given to the Municipal Obligation (or its lack of a rating), and (2) the anticipated amount of annual State payments that can potentially be intercepted by DOA.

The intercept power is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers". If the Municipal Obligation is not rated by S&P, the State may request permission from S&P to assign the Municipal Obligation to a particular category.

The anticipated amount of annual State payments that can potentially be intercepted by DOA is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality–State shared revenue.

Higher Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in either of the two highest rating categories (AAA;AA).

Medium Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the third highest rating category (A). S&P may also permit a Loan to be assigned to this category, regardless of whether or not the Municipal Obligation is rated, in the event the State designates the Loan as one to which the State "moral obligation" applies. The State "moral obligation" is described in "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers".

Lower Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the minimum investment grade rating category (BBB).

Not Rated; Greater State Aids. A Loan is assigned to this category if the Municipal Obligation is: (1) either is not rated or rated below investment grade, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Lesser State Aids. A Loan is assigned to this category if the Municipal Obligation is: (1) either is not rated or rated below investment grade, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The State recognizes that the rating maintained by S&P is based in part upon the level of funds available in the Loan Credit Reserve Fund. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the Clean Water Fund Program, and the State recognizes that the rating maintained by S&P may be based on the maintenance of amounts greater than the amounts required under this Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same rating category as the Bonds. The State further agrees that, if practicable, it will provide S&P with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

The State agrees that if the rating on or ratability of an investment in the Loan Credit Reserve Fund is based on either a credit enhancement policy or financial guarantee, the State will notify S&P not less than 30 days prior to the expiration of such policy and indicate what action, if any, is expected to be taken with respect to the credit quality of the investment.

Ratings on Municipal Obligations

Any explanation of the significance of a rating with respect to a Municipal Obligation may only be obtained from the Rating Agency furnishing the rating. There is no assurance that the rating given to a Municipal Obligation will be maintained for any period of time; a rating may be lowered or withdrawn entirely by the Rating Agency if in its judgment circumstances warrant.

MUNICIPALITIES

Pursuant to the Act, the Clean Water Fund Program is authorized to provide financial assistance in the form of loans to any Municipality. A Municipality may be any city, town, village, county, town sanitary district, public inland lake protection and rehabilitation district, metropolitan sewerage district, or federally recognized American Indian tribe or band located in the State. Due to the diversity of the types of potential recipients of financial assistance, the manner in which the Municipalities raise revenues and issue and secure debt will vary.

Prospective municipal borrowers fall into three general categories

- *General purpose Municipalities*, such as counties, cities, villages, towns and Indian tribes and bands. General purpose Municipalities may borrow for a variety of public purposes, including the construction or improvement of wastewater facilities. Such general purpose Municipalities may incur long-term obligations in the form of general obligation debt secured by property tax levies, revenue obligations secured by user fees and special assessments, and installment lease contracts.
- *Special purpose Municipalities*, such as town sanitary districts, public inland lake protection rehabilitation districts and metropolitan sewage districts. Special purpose Municipalities may borrow for the purpose for which they are created, primarily wastewater facilities. Debt may be incurred by special purpose Municipalities in generally the same forms as may be incurred by general purpose Municipalities. Town utility districts may be utilized by towns to allocate tax levies, but the town is the actual borrower; and any general obligation issued by a town utility district is secured by the full faith and credit of the entire town.
- *Intergovernmental Cooperation Commissions*, which are special purpose intergovernmental bodies formed by agreements authorized under State law between two or more Municipalities. Intergovernmental Cooperation Commissions differ from

general purpose Municipalities and special purpose Municipalities in that joint utility systems do not have general taxing powers and typically depend upon their contracting members to collect revenues via user fees or tax levies from individual users of wastewater facilities. In most cases, loans will be made to the individual Municipalities that comprise the Intergovernmental Cooperation Commission.

Constitutional and Statutory Requirements

Municipal powers are derived in some instances from the State Constitution and from a variety of sources within the Wisconsin Statutes. To the extent not inconsistent with the State Constitution and State law, Municipalities may adopt and amend local laws and ordinances relating to their property, affairs or government.

In general, the State Constitution and State law limit the power of Municipalities to issue Municipal Obligations and to otherwise contract indebtedness. As a condition for making a Loan, the State will require an opinion of counsel to the effect that (subject to certain exceptions for bankruptcy, insolvency and similar laws affecting creditors' rights or remedies and equitable principles) the Financial Assistance Agreement and the Municipal Obligation evidencing the Loan constitute legal, valid and binding obligations of the Municipality enforceable against the Municipality in accordance with their respective terms.

Limitations on Indebtedness

Generally, the aggregate general obligation debt that may be incurred by a Municipality may not exceed 5% of the equalized value of all real estate in the Municipality. Municipalities are not limited as to the amount of revenue obligations that they may incur. However, as described under "LOANS; Lending Criteria", the Act requires that a Municipality must comply with a number of requirements, including but not limited to establishing a dedicated source of revenue for the repayment of financial assistance and developing and adopting a system of equitable user charges.

Revenues

Revenues of counties, cities, villages, and towns are principally derived from property taxes, state and federal aids and fees and charges. Counties may levy a sales tax of up to a 0.5% rate. See "Collection of Real Property Taxes and Assessments" below for a discussion of real property taxes and special assessments.

Counties, cities, villages and towns receive financial assistance from the State (**State Aid**). The State is not constitutionally obligated to maintain or continue State Aid. Accordingly, no assurance can be given that present State Aid levels will be maintained in the future. The payment of State Aid by the State is subject to appropriations being made by the Legislature. As discussed in more detail under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers", DOA may intercept State Aid payable to certain types of Municipalities if such a Municipality defaults on a Loan.

Certain Municipalities receive financial assistance from the federal government and have in the past received directly or indirectly significant federal aid for the construction of sewer and water improvements. However, other than as discussed under "CLEAN WATER FUND PROGRAM; Overview", significant federal aid is not expected to be available to Municipalities for the purpose of repaying Loans.

A Municipal Obligation to the State may take several forms. See "LOANS; Lending Criteria".

Collection of Real Property Taxes and Assessments

Real property taxes, special assessments, and special charges are collected by the county treasurer and remitted to the proper taxing authority. Special assessments may be levied generally by a taxing authority as an assessment against property to compensate for all or part of the costs of a public work or improvement which benefits the property. The right to levy special assessments may be made under the taxing power of the Municipality or the police power of the Municipality. The clearest difference between the two types of special assessments are that under the taxing power, the amount of the special assessment may not exceed the benefit conferred on the property, while under the police power, the amount of the special assessment need only be determined upon a reasonable basis as determined by the governing body of the Municipality. Costs of any work or improvements that may be reflected in whole or in part by special assessments may include the direct and indirect costs thereof and the anticipated interest on a Municipal Obligation issued in anticipation of the collection of the assessments. Special assessments are collected by county treasurers along with general property taxes.

Although general property taxes may be paid in installments in the year following the levy thereof (so long as all installments are paid no later than July 31) special assessments and special charges that are included in the tax roll must be paid in full on or before January 31, and even though a person elects to pay general property taxes in installments, if any special assessment or special charge entered on the tax roll is delinquent because it is not paid by January 31, the entire annual amount of real property taxes on that parcel that is unpaid becomes delinquent as of February 1. If the county treasurer receives a payment that is not sufficient to pay all general property taxes, special assessment and special charges, the county treasurer applies the payments to the amounts due, including interest and penalties, in the following order:

- Special charges
- Special assessments
- Special taxes
- General property taxes

The county treasurer settles with the appropriate taxation district on January 15 of each year for all payments received through the previous December 31, and on February 15 for all payments received through January 31, including all special assessments and special charges received.

Counties are authorized, but not required, to settle in full with all taxing jurisdictions for special assessments and special charges, and if so directed by the County Board, August 15 would be the date upon which the Municipality would receive the cash in settlement of unpaid special assessments and special charges.

As discussed under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers", if a Municipality is in default of payment on its Municipal Obligation, the State may, pursuant to the Act, add a special charge to the amount of State taxes levied upon the county. The enforceability of such a procedure has not been tested in court. Therefore, no assurance can be given as to the enforceability of this procedure.

A Municipality issuing a general obligation to the State must levy sufficient taxes, upon the adoption of the resolution authorizing the Municipal Obligation, to pay debt service on the Municipal Obligation, which tax levy will be collected along with other real estate taxes as discussed above. A Municipality may abate such levy, however, to the extent it deposits amounts in its statutorily required debt service fund before the date it carries the levy unto the tax roll. A Municipality issuing a revenue obligation may rely entirely upon user charges to pay the

Municipal Obligation or, alternately, may in addition levy special assessments upon property within the boundaries of the Municipality in an amount sufficient to pay all or part of the Municipal Obligation.

LOANS

Requirements Under the Act

The Act sets forth certain requirements for eligibility of a Municipality to receive financial assistance from the Clean Water Fund Program. Each Municipality must be one of the types of governments specified by the Act. The Act further requires that the Municipality comply with a number of other requirements, including, but not limited to, establishing a dedicated source of revenue for the repayment of the financial assistance, complying with the requirements of the Water Quality Act, developing a program of water conservation as required by DNR, and developing and adopting a system of equitable user charges. While the Act permits financial assistance to take forms other than loans, such as guaranteeing or purchasing insurance for Municipal Obligations, awarding grants to certain hardship Municipalities, or subsidizing the interest cost on certain other loans, the State currently makes financial assistance available from the Clean Water Fund Program primarily by making loans to Municipalities at interest rates which are at or below market rates as specified in the Act. For a summary of permissible interest rates, see "CLEAN WATER FUND PROGRAM; Financial Assistance". Although the requirements set forth in the Act and the application process developed by DOA and DNR apply to all loans made under the Clean Water Fund Program, only repayments from Leveraged Loans are pledged to secure the Bonds, and hence the following discussion focuses on Loans.

DNR is responsible for establishing eligibility criteria for determining which applicants and which projects are eligible to receive financial assistance. Among the criteria DNR considers are water quality and public health. A Municipality is eligible for financial assistance from the Clean Water Fund Program for a wastewater project that corrects a DNR discharge violation.

Loan Application Process

The Departments of Administration and Natural Resources have developed an application form for Municipalities to apply for financial assistance from the Clean Water Fund Program. The application form requires the Municipality to provide technical information regarding the proposed project and the existing wastewater system, a project schedule, financial information relating to the project, and financial and other information relating to the Municipality. The application is reviewed by DNR for items pertaining to technical, administrative and environmental matters, including project eligibility and determination of the interest rate category for which the project is eligible. The application is reviewed by DOA to determine, among other things:

- The financial capability of the applicant to repay its Loan
- The financial terms and conditions of the Loan
- The security that will be required to be pledged by the Municipality for the Loan, and
- Such other special financial conditions as DOA may require

No Loans are made if DOA determines that the Municipality is unlikely to be able to repay the Loan.

Lending Criteria

DOA, in consultation with DNR, has the statutory responsibility to establish the financial terms and conditions of Loans, including what type of Municipal Obligation is required. In establishing these terms and conditions, DOA may consider factors that it finds relevant, including the type of Municipal Obligation or the Municipality's creditworthiness. DOA must be satisfied that the Municipality has the financial capacity to assure sufficient revenues to operate and maintain the project for its useful life and to pay debt service on the Loan according to its terms.

The following is a summary of the current lending criteria of DOA. DOA may change its lending criteria from time to time.

DOA requires each Loan to be evidenced by one of three types of Municipal Obligations:

- A revenue obligation secured by a covenant to assess user fees and a pledge of the utility's revenues
- A revenue obligation secured by special assessments and other utility revenue and a pledge of the utility's revenues, or
- A general obligation secured by a tax levy and a pledge of all available financial resources of the Municipality.

Some Loans may be evidenced by more than one type of Municipal Obligations.

Revenue Obligations

When a local government issues a revenue obligation, the obligation is a limited obligation of the government. Only revenues that are specifically pledged are available to pay the principal of and interest on the revenue obligation.

So long as the following criteria can be met, DOA will accept revenue obligations from all types of Municipalities (except counties and metropolitan sewerage districts). Under the State constitution a county's issuance of revenue obligations is treated as public debt. A metropolitan sewerage district will be required to provide general obligations unless the rating from each Rating Agency on its revenue obligations is equal to or greater than the current rating on the Bonds.

Coverage Ratio For a revenue obligation, DOA will require the Municipality to covenant to generate "net revenues" each year, that is utility revenues after deducting operating and maintenance expenses (but not deducting depreciation, debt service, tax equivalents, and capital expenditures), equal to at least 110% of the annual principal of and interest on the Loan and other revenue obligations payable from the revenues of the utility (**110% Coverage**). The net revenues from the existing utility revenues or projected net revenues from a newly imposed user fee rate structure may establish the "net revenues". If the Municipality does not have outstanding any other obligations with a lien on pledged revenues, DOA will require the Municipality to covenant to generate "net revenues" sufficient to provide 110% Coverage. In the event the Municipality has other obligations outstanding with a lien on pledged revenues, DOA will require that the Municipality covenant to generate "net revenues" at least equal to the highest level of debt service coverage (but not less than 110% Coverage) then in effect. In the event an outstanding obligation requires a debt service reserve fund for a parity obligation or requires payment dates that do not match the Loan payment dates, or requires other conditions which prevent the Loan from being a parity obligation, DOA will accept a subordinate obligation but will normally require any additional revenue obligations (whether superior, subordinate or on a parity) to meet a coverage test equal to the highest ratio then in effect on any other obligations (including the Loan). During construction periods when the annual principal and semiannual interest payments are based on cumulative amounts drawn under the Financial Assistance Agreement, user fees may be assessed such that the level of coverage available is estimated based on debt service projections.

In the event a Municipality breaches any of the covenants described above, it would be subject to a suit for mandamus to compel performance of such covenants. However, enforcement of the covenants through a suit for mandamus would likely be subject to the delays and costs inherent in litigation.

Collection of Delinquent Sewer User Charges. The Clean Water Fund Program loan documents require that the Municipality take all actions permitted by law to certify any delinquent user fees to the County Treasurer in order that such unpaid user fees will be added as a special charge to the property tax bill of the user.

Senior Revenue Bonds. In most instances the Clean Water Fund Program loan documents limit a Municipality's ability to issue additional bonds payable out of the revenues of the wastewater system that have payment priority over the bonds sold to the Clean Water Fund Program. In some situations this provision has been modified by the Clean Water Fund Program to allow additional senior bonds if the Municipality can demonstrate to the satisfaction of DOA that, following the issuance of the senior bonds, the rating of the Municipality's senior revenue obligations will be no lower than one letter grade below the ratings on the Bonds.

Service Contract. DOA will also require the Municipality to agree to pay for the value of sewerage services provided to it and to stipulate that the value equals any unpaid debt service on the Loan or debt coverage short fall. Although such provisions are often used in revenue obligations from Wisconsin local governments, their enforceability has not been tested in court. Accordingly, no assurance can be given as to the enforceability of such a service contract. Moreover, the Wisconsin Statutes or local law may limit the value of the sewerage service and, unless the Municipality has already appropriated money for such payment, it would be necessary for the Municipality to levy and collect a tax, which could result in some delay in payment. In addition, a levy limit applicable to counties may diminish the ability of a county to levy taxes for this purpose.

No Debt Service Reserve Fund or Mortgage. Although Wisconsin municipalities issuing revenue obligations typically establish a debt service reserve fund and often pledge a mortgage to secure the revenue obligations, the current policy of DOA does not permit a debt service reserve fund to be established and DOA will not require a mortgage on the property the Municipality uses to operate its wastewater facilities.

Special Assessment-Secured Revenue Obligations

Special assessments may be levied by a Municipality to pay the costs of a public improvement. Payments to the Municipality of such special assessments may be used to repay a revenue obligation. The special assessments are paid in annual installments as established by the Municipality. Because special assessments under State law may not exceed the cost of the project, the regularly scheduled special assessment revenue alone will typically not meet the 110% Coverage test. In the event the Municipality receives prepayments of its special assessment installments, or the term of the Clean Water Fund Program loan exceeds the term of the special assessments, or the interest rate on the special assessment exceeds the interest rate on the Clean Water Fund Program loan, the Municipality may have more special assessment revenue in a year than required for debt service on its Clean Water Fund Program loan. In general, excess special assessment revenue collected by the Municipality will be applied to reduce debt incurred for the public improvement project. If special assessments are levied to secure revenue obligations, payments on the special assessments are deposited in the funds and accounts of the revenue-generating enterprise.

Collection of Delinquent Special Assessments. When it secures a revenue obligation, a special assessment constitutes a lien on the property against which it is levied on behalf of the local government that levies it. Delinquent special assessment payments are entered on the tax roll as a delinquent tax on the property against which they are levied and are subject to the same proceedings for collection, return and sale of property that apply to delinquent real estate taxes.

General Obligations

When a local government issues a general obligation, its full faith and credit are pledged to secure payment when due of the principal of and interest on the obligation. State law requires the local government to levy taxes that will be collected in amounts and at times sufficient to make these payments (or to appropriate available funds for payments that are required to be made before taxes can be levied and collected). If the government fails to make a payment when due, the owner of a general obligation can bring a suit for mandamus to require the tax levy to be collected and applied to debt service. A suit for mandamus would likely be subject to the delays and costs inherent in litigation.

Tax Levy. With respect to general obligations:

- The amount of the general obligation may not exceed the constitutional or statutory limits. For an American Indian tribe or band, the amount of the general obligation may not exceed the amount that would be permitted if the constitutional and statutory limits were to apply to the tribe or band.
- The Municipality must levy taxes sufficient to pay when due the principal of and interest on the Loan.

A levy limit applicable to counties may affect the ability of a county to issue general obligations.

Intergovernmental Cooperation Commissions. Wisconsin law permits the creation of a commission by contract pursuant to an intergovernmental cooperation agreement. The Clean Water Fund Program does not make loans to such commissions. Instead, DOA will analyze each member's credit, and the Loan will be apportioned among its members according to their participation in the project.

Loan Terms

Loan Size. The size of each Loan is determined as follows:

- The principal amount of the Loan will not exceed 100% of the estimated project costs, plus a contingency of up to 10% where applicable, plus any allowable amount of capitalized interest on the Loan.
- A contingency amount may be allowed only if the project has not been completed.
- In general, capitalized interest is only allowed for unsewered municipalities that will not have revenues available for loan debt service until after the project is complete.

Final Maturity and Amortization. The final maturity on a Loan may not exceed 20 years from the date of its origination. DOA requires principal amortization on a level-debt-service basis or, in certain cases, on a level-principal basis, with principal amortization beginning not later than 12 months (except in the case of a refinancing) after the expected date of substantial completion of the Project.

Debt Service Payment Dates. Principal payments are required on May 1 and interest payments on May 1 and November 1. For Loans secured primarily by special assessments, an annual principal and interest payment may be required to match the Municipality's collection of the special assessments and deposit into its debt service fund.

Special Provisions. DOA requires that the Financial Assistance Agreement include certain provisions that apply if there is an event of default. These provisions permit the State to intercept any State aids to the Municipality, appoint a receiver to manage the Municipality's utility operations, and require the Municipality, to the extent it has taxing power, to add delinquent user charges to the tax bill of the respective property.

Levy Limit for Counties

Counties are subject to a tax rate limit. The tax levy of each county is limited, generally to the rate at which taxes were levied in 1992 or a higher rate approved by the voters at referendum. The tax rate limit excludes taxes levied for debt service on general obligations approved by the voters at a referendum or by a three-quarters vote of the county board of supervisors. Further, the tax rate limit excludes taxes levied for debt service on general obligations issued or authorized before the effective date of the legislation. As of September 30, 2004, only a small principal amount $241,000 is outstanding from the one Loan previously made to a county, and no significant amount of additional Loans to counties is anticipated.

Commitments

Upon approval of an application by DNR and DOA, and satisfaction by DOA that the Municipality meets the financial criteria established by DOA, DNR and DOA may issue a Commitment to the Municipality to finance all or part of the project. The Commitment will include an estimated Loan repayment schedule and other terms of the financial assistance. The Commitment may contain certain conditions that the Municipality must meet to secure a Financial Assistance Agreement.

Financial Assistance Agreements

The Financial Assistance Agreement constitutes the agreement by which the Loan is made and is, in effect, a loan agreement. The Financial Assistance Agreement contains the terms and conditions of the Loan, including the final maturity, maximum principal amount, interest rate, procedures for disbursement of funds to the Municipality, agreements of the Municipality to construct the project, and covenants of the Municipality regarding proper use of Loan proceeds and compliance with Clean Water Fund Program requirements.

Certain Provisions of Financial Assistance Agreements

Prior to Loan disbursements, proceeds expected to be loaned to Municipalities are held by the Trustee in the Loan Fund. Interest earnings on proceeds held in the Loan Fund shall be for the benefit of the Clean Water Fund Program. As proceeds are disbursed from the Loan Fund pursuant to a Municipality's Financial Assistance Agreement, interest on the respective Loan shall accrue and be payable on the amount disbursed from the date of disbursement until the date such amount is repaid.

In most instances, the repayment schedule of each loan disbursed is structured to provide level annual debt service from the disbursement date until the final maturity date specified in the respective Municipality's Financial Assistance Agreement. Upon project completion, a Municipality's Loan repayment schedule under its respective Financial Assistance Agreement will reflect the principal amortization of the cumulative disbursements to the Municipality.

If the final audit of the project reveals that the eligible project costs are less than the amount disbursed to the Municipality, the Municipality agrees to reimburse the State within 60 days after DNR or DOA provides a notice of overpayment.

If the Municipality fails to make any payment when due on the Municipal Obligation or fails to observe or perform any other covenant, condition, or agreement on its part under the Financial Assistance Agreement for a period of 30 days after written notice specifying the default and requesting that it be remedied has been given to the Municipality by DNR, the State shall, to the extent permitted by law, have all remedies provided by law and the Financial Assistance Agreement.

The Financial Assistance Agreement may be modified or amended upon a written agreement between the State and the Municipality.

Loans and Municipal Obligations

Upon execution of a Financial Assistance Agreement, each Municipality is required to issue and deliver to the State a Municipal Obligation evidencing the obligation of the Municipality to repay the Loan. The Municipal Obligation will reflect the terms of the Financial Assistance Agreement. Upon execution of a Financial Assistance Agreement and issuance of a Municipal Obligation, a Municipality will be required to deliver an opinion of counsel.

SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION

The General Resolution contains various covenants and security provisions, certain of which are summarized below. Various words or terms used in the following summary are defined in the General Resolution and reference thereto is made for full understanding of their import. See also "GLOSSARY" for definitions of certain capitalized terms.

Resolution to Constitute a Contract

In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of the General Resolution shall be a part of the contract of the State with the Bondowners and shall be deemed to be and shall constitute a contract among the State, the Trustee, and the owners from time to time of the Bonds, and such provisions are covenants and agreements with such Bondowners which the State under the General Resolution determines to be necessary and desirable for the security and payment thereof. The provisions, covenants and agreements set forth in the General Resolution (except for those relating to funds pledged to defease any specific Bonds) to be performed by or on behalf of the State shall be for the equal benefit, protection, and security of the owners of any and all of the Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority, or distinction of any of the Bonds over any other thereof except as expressly provided in the General Resolution.

Pledge

The State pledges under the General Resolution to the Trustee for the benefit of all current and future Bondowners with respect to all Bonds and any owner of a Parity Reimbursement Obligation, the Pledged Receipts, all funds and accounts established in connection with the issuance of such Bonds (but not including the Rebate Fund or the State Equity Fund), the investments thereof and the proceeds of such investments, if any, for the payment of the principal and redemption price of and interest on the Bonds in accordance with the terms and provisions of the General Resolution and the payment of any Parity Reimbursement Obligation, subject only to the provisions of the General Resolution permitting or further limiting the application thereof for the purposes and on the terms and conditions set forth in the General Resolution. Subject to the provisions of the General Resolution providing for defeasance of Bonds, the pledge shall be valid and binding from and after the date of adoption of the General Resolution, and the Pledged Receipts and all other moneys and securities in the pledged funds and accounts established by the General Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and such lien shall be a just lien and shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the State, irrespective of whether such parties have notice thereof.

Establishment of Funds and Accounts

The following funds and accounts are established and required to be maintained pursuant to the provisions of the General Resolution:

(1) Loan Fund

(2) Revenue Fund

(3) Debt Service Fund

(a) Interest Account

(b) Principal Account

(c) Redemption Account

(d) Capitalized Interest Account

(4) Loan Credit Reserve Fund

(a) SRF Account

(b) Non-SRF Account

(5) Subsidy Fund

(6) Administrative Fund

(a) Costs of Issuance Account

(b) Expense Account

(7) State Equity Fund

(8) Rebate Fund

Each of the above funds shall be deposited with and held by a Depository and maintained by the Trustee pursuant to the provisions of the General Resolution, except for the State Equity Fund, which shall be held and maintained by the State.

Loan Fund

There shall be deposited into the Loan Fund the amount of the proceeds of the Bonds of any Series required to be deposited therein and such other State moneys as shall be specified and determined by the Series Resolution authorizing such Series of Bonds. Moneys in the Loan Fund shall be expended only for the Clean Water Fund Program subject to the provisions and restrictions of the General Resolution. Amounts in the Loan Fund shall be expended and applied by the State from time to time as follows:

(1) For financing Loans to Municipalities under the Clean Water Fund Program, including transfers of Loan capitalized interest to the Revenue Fund;

(2) As directed in a certificate of an Authorized Officer, for deposit into the Revenue Fund; and

(3) To the extent that other moneys are not available, for deposit into the Debt Service Fund.

Moneys may be withdrawn from the Loan Fund for financing a Loan upon a requisition of an Authorized Officer certifying: (1) that the aggregate amount of the requisition is equal to the sum of amounts disbursable to Municipalities pursuant to properly submitted and approved requisitions of such Municipalities; (2) that the amount requisitioned for each Municipality does not exceed the amount available to be disbursed pursuant to that Municipality's Financial Assistance Agreement and Municipal Obligation; (3) the identity of the Municipalities receiving disbursements from the requisition, the amount of the requisition allocable to each such Municipality, and the designation of the Municipal Obligations evidencing the applicable Loan; (4) that there is on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement; and (5) that the Contribution Amount has been transferred or deemed transferred to the Loan Credit Reserve Fund. Prior to the initial transfer of amounts to a Municipality with respect to a Loan, the State shall deliver to the Trustee: (1) a copy of the original executed Financial Assistance Agreement evidencing the Loan to be so made, and (2) a copy of the original executed Municipal Obligation evidencing or securing such Loan in an aggregate principal amount equal to the maximum permissible Loan amount.

In addition, money and earnings in the Loan Fund may be transferred to the Revenue Fund, provided that the amount in the Subsidy Fund is at least equal to the Subsidy Fund Requirement.

Revenue Fund

The Trustee shall promptly deposit the following into the Revenue Fund:

- Transfers of Loan capitalized interest from the Loan Fund (which shall be deemed to be Loan disbursements), as directed in a certificate of an Authorized Officer;
- Other transfers of moneys from the Loan Fund;
- All Loan Repayments (excluding prepayments of Loans, which shall be deposited in the Redemption Account of the Debt Service Fund) received by the Trustee; and
- On the business day preceding an interest payment date, interest earned on Investment Obligations in the Loan Credit Reserve Fund (less amounts required to be transferred to the Rebate Fund).

The Revenue Fund shall be applied as follows:

(1) First, to the Interest Account of the Debt Service Fund for the payment of interest due or to become due on the next succeeding interest payment date;

(2) Second, to the Principal Account of the Debt Service Fund for the payment of principal and sinking fund installments, if any, on the next succeeding interest payment date; and

(3) Third, to the Rebate Fund so that the balance in the Fund shall equal the amount required to be deposited therein.

Debt Service Fund

The Trustee shall promptly deposit the following receipts in the Debt Service Fund:

(1) Any accrued interest received as proceeds of a Series of Bonds as set forth in the applicable Series Resolution, which shall be deposited in the Interest Account;

(2) All amounts required to be transferred from the Revenue Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(3) The Subsidy Fund Transfer Amount transferred from the Subsidy Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become

due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(4) All amounts required to be transferred from the Loan Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(5) Any amounts directed by the State to be transferred from the Administrative Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(6) Any amounts received by the Trustee for the purpose of redeeming Bonds, which shall be deposited in the Redemption Account; and

(7) Any portion of Bond proceeds designated by a Series Resolution as capitalized interest on the Bonds, which shall be deposited into the Capitalized Interest Account.

The Trustee shall transfer from the Capitalized Interest Account to the Interest Account on the business day preceding the interest payment date the amount required for the payment of capitalized interest on such Bonds due on such interest payment date.

The Trustee shall pay out of the Interest Account of the Debt Service Fund (1) on each interest payment date, the amount required for the payment of interest on Bonds due on such interest payment date and (2) on any redemption date, the amount required for the payment of accrued interest on Bonds redeemed, unless the payment of such accrued interest shall be otherwise provided for.

The Trustee shall pay out of the Principal Account on each principal payment date or sinking fund redemption date, as applicable (as set forth in a Series Resolution), the amounts required for the payment of such principal on such date or such sinking fund redemption price on such date, as applicable.

The amount accumulated in the Principal Account for each sinking fund redemption may, and if so directed by the State shall, be applied (together with amounts accumulated in the Interest Account of the Debt Service Fund with respect to interest on the Bonds subject to sinking fund redemption) by the Trustee prior to the 45th day preceding the sinking fund redemption date, or such shorter period as shall be acceptable to the Trustee, to:

(1) the purchase of Bonds of the Series and maturity of such Bonds subject to such sinking fund redemption, at prices (including any brokerage and other charges) not exceeding the redemption price payable for such Bonds pursuant to such sinking fund redemption plus unpaid interest accrued to the date of purchase, such purchases to be made as the Trustee shall determine, or

(2) the redemption of such Bonds if then redeemable by their terms, at the redemption price referred to in paragraph (1) above.

Upon any such purchase or redemption of Bonds of any Series and maturity, for which sinking fund installments shall have been established, an amount equal to the applicable redemption prices thereof shall be credited toward any one or more of such sinking fund installments, as directed by the State in an Authorized Officer's certificate, or failing such direction by the 45th day preceding such sinking fund redemption date, toward such sinking fund installments in inverse order of their due dates. The portion of any such sinking fund installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such sinking fund installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such sinking fund installment for the purpose of the calculation of principal installments due on a future date.

Whenever, after all transfers provided for above have been made, the moneys in the Debt Service Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall apply amounts from the following funds to the extent necessary to cure the deficiency in the order of priority as provided below:

(1) First, from the Loan Credit Reserve Fund;

(2) Second, from the Subsidy Fund;

(3) Third, from the Loan Fund, which transfers shall not be deemed to be a Loan disbursement subject to the requirements applicable to Loan disbursements; and

(4) Fourth, from any other fund or account (except the Rebate Fund and the State Equity Fund).

As soon as practicable after the 45th day preceding the date of any sinking fund redemption, the Trustee shall proceed to call for redemption on such redemption date Bonds of the Series and maturity for which such sinking fund redemption was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such sinking fund redemption. The State may designate in an Authorized Officer's certificate the amounts, from the SRF Account and Non-SRF Account, respectively, to be applied by the Trustee for such redemption.

The Trustee shall pay out of the Redemption Account of the Debt Service Fund to Paying Agents on each redemption date (as set forth in a Series Resolution) for any such Bonds for which there has not been made sinking fund installments, the amounts required for the payment of such redemption price on the redemption date and such amounts shall be applied by the Paying Agents to such payments.

Loan Credit Reserve Fund

"Loan Credit Reserve Fund Requirement" means and is calculated as follows:

(1) Upon the issuance of the initial Series of Bonds, an Authorized Officer delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (each a "Schedule") approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule alone will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the "Contribution Amount".

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

Whenever the moneys in the Debt Service Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall apply amounts from the Loan Credit Reserve Fund to the extent necessary to cure the deficiency as provided in the provisions of the General Resolution concerning the Debt Service Fund.

Whenever moneys and securities in the Loan Credit Reserve Fund (excluding earnings required to be transferred to the Revenue Fund) shall exceed the Loan Credit Reserve Fund Requirement, the Trustee may, at the direction of an Authorized Officer, subject to the conditions stated below, transfer all or any portion of such surplus from the SRF Account to any account within the Clean Water Fund or from the Non-SRF Account to the State Equity Fund; provided, however:

(1) If there shall be existing and continuing a default by any Municipality with respect to Loan Repayments, the transfer permitted by this provision shall not be made to the extent it would cause the balance in the Loan Credit Reserve Fund to be less than the sum of the Loan Credit Reserve Fund Requirement plus the amount of Loan Repayments then in default and not otherwise provided for.

(2) Once such defaulting Municipality has cured such default and has fully resumed its payment obligations under the Financial Assistance Agreement, such surplus amounts may be withdrawn from the Loan Credit Reserve Fund.

Subsidy Fund

The Subsidy Fund Requirement is that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing after an interest payment date and ending on the next interest payment date **(Period)** which is at least equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (1) scheduled disbursements from the Capitalized Interest Account and (2) Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund pursuant to the General Resolution. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (2) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

The Subsidy Fund Transfer Amount is that amount equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (1) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (2) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (3) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal

Account of the Debt Service Fund at the beginning of the Period, (4) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (5) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period. On the business day preceding each interest payment date, the Trustee shall transfer the Subsidy Fund Transfer Amount from the Subsidy Fund to the Debt Service Fund.

Whenever the money in the Debt Service Fund and money available in the Loan Credit Reserve Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall transfer amounts from the Subsidy Fund to the Debt Service Fund to the extent necessary to cure the deficiency.

The Trustee shall transfer any amount in the Subsidy Fund above the Subsidy Fund Requirement upon the direction of an Authorized Officer:

(1) First, to the Loan Credit Reserve Fund to replenish the Loan Credit Reserve Fund to the then-current Loan Credit Reserve Fund Requirement; and

(2) Second, to the State Equity Fund or for any Program purpose.

Notes

Whenever the Commission shall authorize the issuance of a Series of Bonds, the Commission is authorized to issue Notes (and renewals thereof) in anticipation of such Series. The principal of and interest on such Notes and renewals thereof shall be payable solely from the proceeds of such Notes or renewals thereof or from the proceeds of the sale of the Series of Bonds in anticipation of which such Notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such Notes, and any such pledge shall have a priority over any other pledge of such proceeds created by the General Resolution. Notes shall not be secured by any fund or account established under the General Resolution.

Issuance of Additional Bonds Other Than Refunding Bonds

The State shall not create or permit the creation of or issue any obligations, other than the initial Series of Bonds or Refunding Bonds, which will be secured by a charge and lien on the Pledged Receipts and any other security pledged under the General Resolution, except that additional Series of Bonds may be issued from time to time on a parity with all other Bonds issued pursuant to the General Resolution and secured by an equal charge and lien on the Pledged Receipts and any other security pledged under the General Resolution.

No additional Series of Bonds shall be issued unless:

(1) The principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law; and

(2) All other requirements applicable to the issuance of Bonds are met including, without limitation, the requirement that there be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there be in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State expressly reserves the right to adopt one or more other general resolutions and reserves the right to issue bonds and notes and any other obligations so long as the same are not a charge or lien on the Pledged Receipts or payable from any fund or account (except for the State Equity Fund or the Rebate Fund) established under the General Resolution.

Refunding Bonds

The General Resolution authorizes the Commission to issue one or more Series of Refunding Bonds to refund all or any part of one or more Series of outstanding Bonds. Refunding Bonds may be issued only upon receipt by the Trustee (in addition to the other requirements applicable to the issuance of Bonds) of:

(1) Irrevocable instructions to the Trustee to give due notice of redemption of all the Bonds which are to be redeemed prior to maturity on the redemption date specified in such instructions;

(2) Irrevocable instructions to the Trustee to give due notice of redemption to the owners of the Bonds being refunded; and

(3) Either (a) obligations described under "Defeasance" in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, or (b) any moneys, as shall be necessary to comply with the defeasance provisions of the General Resolution.

Payment of Bonds

The State shall duly and punctually pay or cause to be paid the principal or redemption price of and interest on the Bonds, but only from the Pledged Receipts and other revenues or receipts, funds or moneys pledged therefor as provided in the Act and the General Resolution, at the dates and places and in the manner provided in the Bonds according to the true intent and meaning thereof, and shall duly and punctually satisfy all sinking fund installments becoming payable with respect to any Series of Bonds.

Power to Issue Bonds and Make Pledges

The State is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the General Resolution and to pledge the Pledged Receipts and other revenues, receipts, funds, or moneys purported to be pledged by the General Resolution in the manner and to the extent provided in the General Resolution. The Pledged Receipts and other revenues, receipts, funds, and moneys so pledged are and will be free and clear of any pledge, lien, charge, or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the General Resolution, and all action on the part of the State to that end has been duly and validly taken. The Bonds and the provisions of the General Resolution are and will be the valid and legally enforceable obligations of the State in accordance with their terms and the terms of the General Resolution. The State shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Receipts and revenues, receipts, funds, or moneys pledged under the General Resolution and all the rights of the Bondowners under the General Resolution against all claims and demands of all persons whomsoever.

Agreement of the State

The State pledges and agrees with the Bondowners that the State will not limit or alter the terms of any agreements made with Bondowners or in any way impair the rights and remedies of the Bondowners until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondowners, are fully met and discharged.

Federal Tax Covenant

The State shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excluded from the gross income of the recipients thereof.

The State shall not permit at any time any of the proceeds of the Bonds or other funds of the State to be used, directly or indirectly, to acquire any asset or obligation the acquisition of which would cause any Note or Bond to be an "arbitrage bond" for the purposes of Section 148 of the Internal Revenue Code of 1986, as amended.

Notwithstanding the foregoing, the State reserves the right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the federal tax covenants contained in the General Resolution shall not apply to such Bonds.

Accounts and Reports

The State shall keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Loan Repayments, Municipal Obligations, the Fees and Charges, if any, and all funds and accounts established by the General Resolution.

The State shall annually, on or before January 1 in each year, file with the Trustee and with the Rating Agencies a copy of the audited financial statement for the preceding Fiscal Year with respect to the Leveraged Loan Program, accompanied by an Accountant's Certificate, setting forth in complete and reasonable detail: (1) its receipts and expenditures during such Fiscal Year in accordance with the categories or classifications established by the State for its operating and capital outlay purposes; (2) its assets and liabilities at the end of such Fiscal Year, including a schedule of its Loan Repayments, Municipal Obligations, Fees and Charges, a list of Municipalities in default and the status of the funds and accounts established by the General Resolution; and (3) a schedule of its Bond and Notes outstanding and other obligations outstanding at the end of such Fiscal Year, together with a statement of the amounts paid, redeemed and issued during such Fiscal Year.

A copy of the independent auditor's report and financial statements for the Environmental Improvement Fund for the year ended June 30, 2004 and 2003 is set forth in APPENDIX A.

Clean Water Revenue Bond Program

In order to provide sufficient moneys with which to pay the principal and interest and sinking fund installments when due and payable on its Bonds, the State shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act and the Water Quality Act as then amended and as interpreted in regulations adopted by the EPA and DNR and in effect and with the provisions of the General Resolution, use and apply the proceeds of the Bonds for the Leveraged Loan Program, to finance Loans pursuant to such Act as so amended and the General Resolution, to earn sufficient interest on its funds and accounts established within the General Resolution to generate income which when combined with moneys received with respect to the Municipal Obligations shall at least equal the principal and interest and sinking fund installments on the Bonds and shall do all such acts and things necessary to receive and collect the Loan Repayments and the interest on all funds and accounts established within the General Resolution and shall diligently enforce, and take all steps, actions, and proceedings for the enforcement of all terms, covenants, and conditions of the Loans for the enforcement of all terms, covenants and conditions of the Loans.

Events of Default

Each of the following events constitutes an "Event of Default":

(1) The State shall default in the payment of the principal or redemption price of any Bond when and as the same shall become due whether at maturity or upon call for redemption; or

(2) The State shall default in the payment of any installment of interest on any Bonds; or

(3) The State shall fail or refuse to comply with the provisions of the Act or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the General Resolution, any Series Resolution, any Supplemental Resolution, or in the Bonds contained, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by the Trustee or the owners of not less than 25% in principal amount of Bonds outstanding.

Remedies

Upon the occurrence and continuance of any Event of Default specified in paragraphs (1) and (2) immediately above, the Trustee shall proceed, or upon the occurrence and continuance of any Event of Default specified in paragraph (3) immediately above, the Trustee may proceed, and upon the written request of the owners of not less than 25% in principal amount of the outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) By mandamus or other suit, action, or proceeding at law or in equity, enforce all rights of the Bondowners, including the right to require the State to collect Loan Repayments adequate to carry out the covenants and agreements as to, and pledge of, such Loan Repayments, and other properties and to require the State to carry out any other covenant or agreement with Bondowners and to perform its duties under the Act;

(2) By bringing suit upon the Bonds;

(3) By action or suit in equity, require the State to account as if it were the trustee of any express trust for the owners of the Bonds; or

(4) By action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Bonds.

In the enforcement of any remedy under the General Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the State for principal, redemption price, interest or otherwise, under any provision of the General Resolution or a Series Resolution or of the Bonds, and unpaid, with interest, if any, on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgment or decree against the State for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Program Expenses

The State covenants to pay all program expenses when due and payable, but only from the sources provided in the General Resolution.

The State covenants to pay to the Fiduciaries from time to time reasonable compensation for all services rendered under the General Resolution, and also all reasonable expenses, charges, counsel fees, and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the General Resolution. The State further agrees to indemnify and save each Fiduciary harmless against any liabilities that it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its willful misconduct, negligence, or bad faith.

Defeasance

If the State shall pay or cause to be paid to the owners of all Bonds then outstanding, the principal or redemption price and interest to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then, at the option of the State, expressed in an instrument in writing signed by an Authorized Officer and delivered to the Trustee, the covenants, agreements, and other obligations of the State to the Bondowners shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the State, execute and deliver to the State all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the State all money, securities, and funds held by them pursuant to the General Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Bonds or interest installments for the payment or redemption of which moneys or securities shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with effect expressed in the immediately preceding paragraph. All outstanding Bonds of any Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the immediately preceding paragraph if:

(1) In case any of said Bonds are to be redeemed on any date prior to their maturity, the State shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to give notice of redemption of such Bonds on said date as provided in the General Resolution

(2) There shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Obligations, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or redemption price and interest on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be

(3) In the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the State shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in Authorized Newspapers a notice to the owners of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price on said Bonds. Neither Investment Obligations nor moneys deposited with the Trustee nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal or redemption price and interest due and to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case

may be, and interest earned from such reinvestment shall be paid over to the State, as received by the Trustee, free and clear of any trust, lien or pledge.

For the purposes of the defeasance provisions of the General Resolution, Investment Obligations shall mean and include direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this paragraph.

Anything in the General Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the State, be repaid by the Fiduciary to the State, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the State for the payment of such Bonds; provided, however, that before being required to make any such payment to the State, the Fiduciary shall, at the expense of the State, cause to be published at least once in Authorized Newspapers, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the State.

GLOSSARY

The following definitions apply to capitalized terms used in this Part VI of the Annual Report.

Accreted Value means, with respect to any Capital Appreciation Bond, the initial principal amount at which such Capital Appreciation Bond is sold to the initial purchaser by the State without reduction to reflect underwriter’s discount, compounded from the date of delivery of such Bonds semiannually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation shall be an interest payment date) at the original issue yield to maturity less, with respect to Bonds with interest payable on a current basis, interest paid and payable during such period plus, if such date of calculation shall not be an interest payment date, a portion of the difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semiannual period in equal daily amounts (based on a 360-day year of twelve 30-day months); provided, however, that the calculation of Accreted Value for purposes of determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution shall be based upon the Accreted Value calculated as of the interest payment date immediately preceding such date of calculation (unless such date of calculation shall be an interest payment date, in which case shall be calculated as of the date of calculation).

Act means Sections 281.58 and 281.59 of the Wisconsin Statutes, as amended.

Administrative Fund means the fund of that name established by the General Resolution.

Aggregate Debt Service for any period means, with respect to the Bonds, as of any date of calculation, the sum of the amounts of Debt Service for such period.

Authorized Officer means the Capital Finance Director of the State and any other person designated in writing to the Trustee by the Capital Finance Director or by the Commission as an Authorized Officer.

Bond or **Bonds** means any bond or bonds, as the case may be, authenticated and delivered under the General Resolution pursuant to a Series Resolution.

Bond Depository means, initially, The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York or any other bond depository appointed by the Commission to act as bond depository for the Bonds in connection with a book-entry-only system of distributing Bonds.

Bondowners or **Owner of Bonds** or **Owner** (when used with reference to Bonds) or any term of similar import means the person or party in whose name the Bond is registered.

Business Day means any day other than a Saturday or Sunday or other day on which commercial banks in the city in which the principal office of the Trustee is located are not open for business, except as may be provided in a Series or Supplemental Resolution.

Capital Appreciation Bond means Bonds that provide for the addition of all or any part of accrued and unpaid interest thereon to the principal due thereon upon such terms and for such periods of time as may be determined by the applicable Series Resolution.

Capitalized Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Clean Water Fund Program means the program established pursuant to the Act and operated and administered as part of the Environmental Improvement Fund.

Code means the Internal Revenue Code of 1986, as amended from time to time, and all regulations promulgated thereunder to the extent applicable to any Bonds, Loans or Municipal Obligations, as the case may be.

Commission means the State of Wisconsin Building Commission or any successor body having the power under the Subchapter II of Chapter 18, as amended, of the Wisconsin Statutes to authorize and direct the issuance of Bonds.

Commitment means a notice of financial assistance commitment entered into between DNR, DOA and a Municipality.

Contribution Amount has the meaning set forth in the definition of "Loan Credit Reserve Fund Requirement."

Costs of Issuance means, except as limited in any Series Resolution, any items of expense directly or indirectly payable by or reimbursable to the State and related to the authorization, sale and issuance of Bonds or Notes and the investment of the proceeds thereof, including, but not limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of Fiduciaries, legal fees and charges, professional consultants' fees, costs of credit ratings, premiums for insurance of the payment of Bonds or Notes, or any fees and expenses payable in connection with any entity insuring the State, the Trustee or the owners of the Bonds or Notes against loss on Loans or Municipal Obligations, fees and charges for execution, transportation and safekeeping of Bonds or Notes, costs and expenses of refunding of Bonds or

Notes, fees and expenses payable in connection with any Credit Facility, remarketing agreements, tender agent agreements or interest rate indexing agreements, and other costs, charges and fees in connection with the original issuance of Bonds or Notes.

Costs of Issuance Account means the account of that name established within the Administrative Fund by the General Resolution.

Counsel's Opinion means an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the State (who may be counsel to the State); provided, however, that for the purposes of Article II of the General Resolution (addressing authorization and issuance of Bonds) such term means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds selected by the State and provided, further, that for the purposes of Section 8.08 of the General Resolution (addressing conditions for delivery of Municipal Obligations), such term means an opinion signed by an attorney or firm of attorneys selected by the Municipality and approved by the State.

Credit Facility means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy, guaranty or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution or the federal government or an agency thereof which (1) provides for payment of all or a portion of the principal of, Redemption Price of, or interest on any Series of Bonds, (2) provides funds for the purchase of such Bonds or portions thereof, (3) provides deposits for a fund or account under the General Resolution, or (4) provides for or further secures payment of Loans or Municipal Obligations, provided that with respect to (3) above, the issuer of which Credit Facility is rated, or the effect of which Credit Facility would cause bonds insured or secured thereby to be rated, in a rating category by each Rating Agency no lower than the then current rating on the Bonds (without such Credit Facility).

Debt Service for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (1) interest payable during such period on Bonds of such Series, (2) that portion of the Principal Installments for such Series which are payable during such period, and (3) any "Reimbursement Obligation" or "Parity Reimbursement Obligation" as defined in the General Resolution. Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Debt Service Fund means the fund of that name established by the General Resolution.

Depository means any bank, trust company, or national banking association, which may be the Trustee, selected by the Commission and approved by the Trustee as a depository of moneys and securities held under the provisions of the General Resolution and its successor or successors.

Direct Loan means loans made primarily from the proceeds of federal Capitalization Grants, the State Match, or repayments of Direct Loans, and excludes any Leveraged Loan.

DNR means the State of Wisconsin Department of Natural Resources.

DOA means the State of Wisconsin Department of Administration.

DTC means The Depository Trust Company, New York, New York.

Environmental Improvement Fund means the nonlapsible trust fund of that name created by Section 25.43, Wisconsin Statutes.

EPA means the United States Environmental Protection Agency.

Expense Account means the account of that name established within the Administrative Fund established by the General Resolution.

Fees and Charges means all fees and charges, if any, charged by the State to Municipalities pursuant to the terms and provisions of Loans or Municipal Obligations but does not include principal of and interest on such Municipal Obligations.

Fiduciary or **Fiduciaries** means the Trustee, any Paying Agent, any Depository or any or all of them, as may be appropriate.

Financial Assistance Agreement means any agreement entered into between DNR, DOA, and a Municipality for financial assistance.

Fiscal Year means any 12 consecutive calendar months commencing with the second day of June and ending on the first day of the following June.

General Resolution means the Clean Water Revenue Bond General Resolution adopted by the Building Commission on March 7, 1991, as amended by a resolution adopted by the Commission on July 30, 2003, as the same may be amended and supplemented from time to time.

Information Services means an institution or other service providing information with respect to called bonds, which shall include but not be limited to those identified in the General Resolution and others designated by an Authorized Officer.

Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Investment Obligation means any of the following that at the time are legal investments for moneys of the State:

(1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as at the time of their purchase such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (1);

(2) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (1) hereof which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (1) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this clause (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a)

of this clause (2), as appropriate, and (d) which at the time of their purchase under the General Resolution bear the highest rating available from each Rating Agency;

(3) bonds, debentures, participation certificates (representing a timely guaranty of principal and interest), notes or similar evidences of indebtedness of any of the following: Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association (excluding "stripped" securities), Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association or Tennessee Valley Authority;

(4) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided, however, that any investment purchased pursuant to this clause shall be rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(5) obligations of any state of the United States of America or of any political subdivision or public agency or instrumentality thereof, including the State, provided that at the time of their purchase under the General Resolution such obligations are rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(6) direct obligations of the State or obligations guaranteed by the State that have the same rating as direct obligations of the State;

(7) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase under the General Resolution the highest rating available from each Rating Agency;

(8) interest-bearing time deposits, certificates of deposit or other similar banking arrangements with banks (which may include any Fiduciary), provided such deposits are made with banks rated by each Rating Agency at the time the deposit is made no lower than the rating assigned to the Bonds by such Rating Agency;

(9) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which are rated at the time of their purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(10) repurchase agreements for obligations of the type specified in clauses (1) and (3) above, provided either (a) the repurchase agreement is an unconditional obligation of the counterparty and such counterparty is rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or (b) the repurchase agreement is an obligation of a counterparty that is rated at the time of its purchase by each Rating Agency in an investment grade category and is collateralized by obligations which are marked to market daily and have a value equal to not less than the percentage of the amount thereby secured specified by each Rating Agency, taking into account the maturity of such obligations;

(11) any investment obligation or deposit the investment in which will not, at the time such investment is made, adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency;

(12) any investment agreement with a bank, bank holding company, insurance company or other financial institution rated at the time such investment is made by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or guaranteed by an entity rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency; and

(13) the Local Government Pooled–investment Fund of the State established under Chapter 25 of the Wisconsin Statutes.

Loan or Leveraged Loan means a loan heretofore or hereafter made by the State to a Municipality from the Loan Fund pursuant to a Financial Assistance Agreement and the Act and funded from the Loan Fund.

Loan Credit Reserve Fund means the fund of that name established by the General Resolution.

Loan Credit Reserve Fund Requirement means and is calculated as follows:

(1) Upon the issuance of the initial Series of Bonds, an Authorized Officer delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (**Loan Credit Reserve Fund Schedule** or **Schedule**) approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each Loan disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the "**Contribution Amount**".

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

Loan Fund means the fund of that name established by the General Resolution.

Loan Repayments or Leveraged Loan Repayments means any payment on a Loan pursuant to a Financial Assistance Agreement, or on the Municipal Obligations evidencing and securing the same, on account of the principal, interest, and premium, if any, due on such Loan, including without limitation scheduled payments of principal and interest on such Loan or Municipal Obligation, any payment made to cure a default, prepayments of principal or interest, and any additional amounts payable upon prepayment of such Loan or Municipal Obligations, and any amounts paid with respect to such Loan or Municipal Obligation on account of (1) acceleration of the due date of such Loan or such Municipal Obligation, (2) the sale or other disposition of such Loan or the Municipal Obligations and other collateral securing such Loan, (3) the receipt of proceeds of any insurance or guaranty of such Loan or Municipal Obligations or any Credit Facility applicable to such Loan or Municipal Obligations, and (4) the exercise of any right or remedy granted to the State and available under law or the applicable Financial Assistance Agreement upon default on such Loan or Municipal Obligations but specifically excluding Fees and Charges.

Municipal Obligations means the bonds, notes, or other evidence of debt issued by any Municipality and authorized by law and which have heretofore been or will hereafter be acquired by the State as evidence of indebtedness of a Loan, Direct Loan, or Proprietary Loan to the Municipality pursuant to the Act. Municipal Obligations may constitute any of a combination of the following: a revenue obligation secured by a covenant to assess user fees and a pledge of the utility's revenues, a revenue obligation secured by special assessments and other utility revenue and a pledge of the utility's revenues, a general obligation secured by a tax levy and a pledge of all available financial resources of the Municipality.

Municipality means a political subdivision of the State constituting a "municipality" within the meaning of the Act, duly organized and existing under the laws of the State and any successor entity or a Federally recognized American Indian tribe or band in the State.

Non-SRF Account means account of that name established within the Loan Credit Reserve Fund.

Notes means any bond anticipation notes issued by the State pursuant to the Act.

NRMSIR means nationally recognized municipal securities information repository.

Outstanding, when used with reference to Bonds, other than Bonds referred to in Section 10.05 of the General Resolution (addressing Bonds owned or held by or for the account of the State), means, as of any date, Bonds theretofore or then being delivered under the provisions of the General Resolution, except: (1) any bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (2) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in Trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the General Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (3) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Resolution, and (4) Bonds deemed to have been paid as provided in Article 12 of the General Resolution (addressing defeasance). In determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution, the principal amount of a Capital Appreciation Bond that shall be deemed Outstanding for such purposes shall be the Accreted Value thereof.

Paying Agent for the Bonds of any Series means the bank, trust company, or national banking association, which may be the Trustee, and its successor or successors, appointed pursuant to the provisions of the General Resolution and a Series Resolution or any other resolution of the Commission adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

Pledged Receipts means:

(1) all Loan Repayments, including both timely and delinquent payments,

(2) Fees and Charges held or collected by the State,

(3) any moneys received by the State under Section 281.59 (11)(b) of the Wisconsin Statutes (that is, State payments intercepted by DOA, and taxes collected by county treasurers) upon a default under a Municipal Obligation,

(4) any moneys made available to the Clean Water Fund Program pursuant to Section 281.59 (13m) of the Wisconsin Statutes (that is, the State "moral obligation" for individual Loans),

(5) any moneys collected by recourse to collateral and security devices under the Municipal Obligations, and

(6) any other moneys held or received by the State or the Trustee relating to the Municipal Obligations.

Principal Account means the account of that name established within the Debt Service Fund by the General Resolution.

Principal Installment means, as of any date of calculation and with respect to any Series of Bonds Outstanding, (1) the principal amount or Accreted Value of Bonds of such Series due on any payment date for which no Sinking Fund Installments have been established, or (2) the Sinking Fund Installment due on a date for Bonds of such Series, or (3) if such dates coincide, the sum of such principal amount or Accreted Value of Bonds and of such Sinking Fund Installment(s) due on such future date; in each case in the amounts and on the dates as provided in the Series Resolution authorizing such Series of Bonds; provided, however, that Principal Installments shall not include the principal of Notes.

Project means any municipal project for the design, acquisition, construction, improvement, repair, reconstruction, renovation, or expansion of any municipal wastewater collection or treatment system or water supply system that is eligible for financing by the State pursuant to the Act.

Proprietary Loan means financial assistance made primarily from the proceeds of State general obligation bonds or repayment of Proprietary Loans, and excludes any Direct Loan or Leveraged Loan.

Rating Agency means a credit rating agency which is nationally recognized for skill and expertise in rating the credit of obligations similar to the Bonds and which has assigned and currently maintains a rating on any Outstanding Bonds at the request of the State (which request may be withdrawn by the State so long as following such withdrawal of request, the Bonds are rated by at least two Rating Agencies), and any successor to any such agency by merger, consolidation or otherwise.

Rebate Fund means the fund of that name established by the General Resolution.

Record Date means, unless otherwise determined by a Series Resolution for a Series of Bonds, the close of business on the 15th day proceeding a payment date or, if such day shall not be a business day, the immediately preceding business day.

Redemption Account means the account of that name established within the Debt Service Fund by the General Resolution.

Redemption Price, when used with respect to a Bond other than a Capital Appreciation Bond, or a portion thereof to be redeemed, means the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof, plus interest to the redemption date, pursuant to the General Resolution and the applicable Series Resolution, but, when used with respect to a Capital Appreciation Bond, "Redemption Price" means the Accreted Value on the date of redemption of such Bond or portion thereof plus the applicable premium, if any.

Refunding Bonds means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance to refund other Bonds.

Revenue Fund means the fund of that name established by the General Resolution.

Series of Bonds or Bonds of a Series or words of similar meaning means the series of Bonds authorized by a Series Resolution.

Series Resolution means a resolution of the Building Commission authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution.

Sinking Fund Installment means, as of any particular date of calculation, (i) the amount required by the General Resolution and a Series Resolution to be deposited by the State for the retirement of Bonds which are stated to mature subsequent to such date or (ii) the amount required by the General Resolution and a Series Resolution to be deposited by the State on a date for the payment of Bonds at maturity on a subsequent date.

SRF Account means the account of that name established within the Loan Credit Reserve Fund by the General Resolution.

State means the State of Wisconsin.

State Equity Fund means the fund of that name established by the General Resolution.

Subsidy Fund means the fund of that name established by the General Resolution.

Subsidy Fund Requirement means that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing immediately following the dated date of the initial Series of Bonds and thereafter an interest payment date and ending on the next interest payment date **(Period)** which is at least equal to the amount by which Aggregate Debt Service payable during the period exceeds the sum of (1) scheduled disbursements from the Capitalized Interest Account and (2) Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (2) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

Subsidy Fund Transfer Amount means that amount equal to the amount by which Aggregate Debt Service payable during the Period (as such term is used in the definition of Subsidy Fund Requirement) exceeds the sum of (1) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (2) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (3) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (4) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (5) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period.

Supplemental Resolution means a resolution supplemental to or amendatory of the General Resolution, adopted by the Commission in accordance with the General Resolution.

Trustee means U. S. Bank National Association, as successor to Firstar Trust Company, and its successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the General Resolution.

APPENDIX A

AUDITED FINANCIAL STATEMENTS

The following are the independent auditor's report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2004 and 2003, along with supplemental information as of June 30, 2004, and independent auditor's report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2004.

Financial statements present the financial position, results of operations and cash flows of the Environmental Improvement Fund for the fiscal years ended June 30, 2004 and 2003. These financial statements are not intended to predict future cash flows that will be available for the benefit of bondholders pursuant to the bond resolutions.

The following language has been provided by the independent auditors of the Environmental Improvement Fund, Deloitte & Touche LLP, and is included at their request.

Financial Information

The Environmental Improvement Fund's financial statements and Leveraged Loan Portfolio's financial statements are public records, no consent to their inclusion or incorporation by reference herein from Deloitte & Touche LLP, independent accountant, is required and neither such firm nor the Auditor of the State of Wisconsin has performed any review of such financial matters, nor performed any "bring down" procedures, since September 20, 2004.

{This page number is the last sequential page number of the Annual Report to be used in this Part VI of the Annual Report. The following uses page numbers from the financial statements and independent auditor's report. The sequential page numbers for the Annual Report continue in Part VII.}

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

Financial Statements for the Year Ended June 30, 2004 and 2003, Supplemental Information for the Year Ended June 30, 2004 and Independent Auditors' Report

AND

LEVERAGED LOAN PORTFOLIO

Financial Statements for the Year Ended June 1, 2004 and Independent Auditors' Report

STATE OF WISCONSIN

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INDEPENDENT AUDITORS' REPORT

To the Secretary of the Department of Administration
and the Secretary of the Department of Natural Resources
of the State of Wisconsin:

We have audited the accompanying balance sheets of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin) as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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. 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2004 and 2003, and the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement Fund as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The State of Wisconsin Environmental Improvement Fund has not presented a management's discussion and analysis that, in our opinion, is required by accounting principles generally accepted in the United States of America to supplement, although not required to be part of, the financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental financial statements by program as of and for the year ended June 30, 2004 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These supplemental financial statements by program are also the responsibility of management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

Milwaukee, Wisconsin
September 20, 2004

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

BALANCE SHEETS
JUNE 30, 2004 AND 2003

ASSETS	2004	2003
Current assets:		
Unrestricted cash and cash equivalents	$ 271,142,238	$ 197,831,763
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	23,386,431	23,387,581
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	7,272,995
Receivables:		
Loans to local governments - current portion	84,556,978	76,609,436
Due from other funds	274,990	304,105
Due from other governmental entities	8,262,625	6,343,159
Accrued investment income	329,806	329,812
Other assets	3,981	3,943
Total current assets	387,957,049	312,082,794
Noncurrent assets:		
Restricted assets - cash equivalents	68,576,666	64,134,609
Investment, State of Wisconsin general obligation clean water bonds, at fair value	135,016,318	116,321,003
Loans to local governments	1,214,028,995	1,119,899,653
Deferred debt expense	2,650,182	2,730,777
Total noncurrent assets	1,420,272,161	1,303,086,042
TOTAL ASSETS	$1,808,229,210	$1,615,168,836

LIABILITIES AND FUND EQUITY	2004	2003
Current liabilities:		
Accrued expenses	$ 239,627	$ 143,497
Accrued interest on bonds	2,958,106	2,748,809
Due to other funds	1,355,109	1,638,002
Due to other governmental entities	187,166	-
Revenue obligation bonds - current maturities	39,340,000	37,545,000
Total current liabilities	44,080,008	42,075,308
Noncurrent liabilities:		
Revenue obligation bonds, net (including deferred charge)	652,771,447	585,873,485
Due to other governmental entities	1,470,083	3,140,609
Accrued expenses	31,787	27,657
Total noncurrent liabilities	654,273,317	589,041,751
Total liabilities	698,353,325	631,117,059
Fund equity:		
Unrestricted	30,022,385	30,395,446
Restricted	1,079,853,500	953,656,331
Total fund equity	1,109,875,885	984,051,777
TOTAL LIABILITIES AND FUND EQUITY	$1,808,229,210	$1,615,168,836

See notes to financial statements.

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES:		
Loan interest	$ 20,686,388	$ 18,198,111
Interest income used as security for revenue bonds	17,143,708	16,586,106
Other	41,083	34,057
Total operating revenues	37,871,179	34,818,274
OPERATING EXPENSES:		
Interest	34,527,086	34,646,398
Salaries and benefits	5,016,264	4,533,108
Contractual services and other	1,636,767	1,960,322
Total operating expenses	41,180,117	41,139,828
OPERATING LOSS	(3,308,938)	(6,321,554)
NONOPERATING REVENUES (EXPENSES):		
Investment income	1,661,164	1,967,835
Investment income used as security for revenue bonds	3,723,382	23,366,386
Operating grants	92,588,682	78,000,825
Hardship grants awarded	(1,065,392)	(1,424,756)
Total nonoperating revenues, net	96,907,836	101,910,290
INCOME BEFORE OPERATING TRANSFERS	93,598,898	95,588,736
Operating Transfers in	32,225,210	26,731,460
INCREASE IN FUND EQUITY	125,824,108	122,320,196
TOTAL FUND EQUITY - BEGINNING OF YEAR	984,051,777	861,731,581
TOTAL FUND EQUITY - END OF YEAR	$ 1,109,875,885	$ 984,051,777

See notes to financial statements.

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING ACTIVITIES:		
Payments to employees for services	$ (4,151,899)	$ (5,434,664)
Payments to suppliers and other	(2,740,580)	(1,167,196)
Net cash used in operations	(6,892,479)	(6,601,860)
NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	91,195,049	77,644,098
Grants paid	(1,065,392)	(1,424,756)
Operating transfers in	32,225,210	26,731,460
Proceeds from issuance of long-term debt	123,164,771	92,265,549
Refunding bond proceeds deposited in irrevocable trust	-	(92,043,814)
Retirement of long-term debt	(54,340,000)	(36,405,000)
Interest payments	(34,317,789)	(34,443,104)
Net cash provided by noncapital financing activities	156,861,849	32,324,433
INVESTING ACTIVITIES:		
Origination of loans	(181,386,392)	(185,553,315)
Collection of loans	79,309,508	72,367,388
Interest received on loans	37,366,550	34,623,159
Purchase of investments	(66,773,252)	(58,774,595)
Liquidation of investments	50,020,893	54,421,598
Increase in restricted cash equivalents	(4,442,057)	(5,231,315)
Investment income receipts	9,245,855	15,567,854
Net cash used in investing activities	(76,658,895)	(72,579,226)
Net increase (decrease) in unrestricted cash and cash equivalents	73,310,475	(46,856,653)
UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	197,831,763	244,688,416
UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	$ 271,142,238	$ 197,831,763

(Continued)

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATION:		
Operating loss	$ (3,308,938)	$ (6,321,554)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATIONS:		
Amortization	136,715	579,631
Interest income classified as investing activity	(37,830,095)	(34,784,217)
Interest expense classified as noncapital financing activity	34,181,075	34,300,441
Changes in assets and liabilities:		
Increase in other assets	(38)	(408)
Increase in deferred charges	(113,503)	(127,710)
Increase (decrease) in due from other funds	29,115	(51,089)
Increase (decrease) in accrued expenses	100,260	(1,220)
Increase (decrease) in accrued interest on bonds	209,297	(233,675)
Increase (decrease) in due to other governmental entities	(13,474)	44,444
Decrease in due to other funds	(282,893)	(6,503)
Total adjustments	(3,583,541)	(280,306)
NET CASH USED IN OPERATIONS	$ (6,892,479)	$ (6,601,860)

(Concluded)

See notes to financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The State of Wisconsin Environmental Improvement Fund (the "Fund") is an enterprise fund of the State of Wisconsin (the "State") administered by the State of Wisconsin Department of Natural Resources (the "DNR") and the State of Wisconsin Department of Administration (the "DOA").

The Fund was established with the adoption of the 1997-1999 State of Wisconsin budget. The Fund replaced the Clean Water Fund Program and expanded loan activity to include drinking water system loans and brownfield loans. The Fund provides for three separate environmental financing programs: the Clean Water Fund Program, the Safe Drinking Water Loan Program, and the Land Recycling Loan Program.

The Clean Water Fund Program was established in 1990 and provides financial assistance to municipalities at subsidized interest rates for the purpose of constructing or improving municipal wastewater facilities. The Safe Drinking Water Loan Program was established in 1997 and provides municipal loans for the construction or repair of municipal drinking water facilities. The following four loan portfolios comprise the Environmental Improvement Fund:

- Leveraged Loan Portfolio—This portfolio is funded by proceeds of revenue obligation bonds and operating transfers from the State. Assets in this portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements of the Clean Water Fund Program.

- Direct Loan Portfolio—This portfolio is funded by the U.S. Environmental Protection Agency (the "EPA") grants and operating transfers from the State (i.e., a minimum 20% match of EPA capitalization grant). Repayments from loans in this portfolio are also used to fund new loans. Loans in this portfolio are made for wastewater projects that comply with EPA eligibility and reporting requirements of the Clean Water Fund Program.

- Proprietary Loan/Grant Portfolio—This portfolio is funded by operating transfers from the State. Assets of this portfolio are used to fund both loans and hardship grants for qualifying wastewater projects. Repayments from loans in this portfolio may be used to fund new loans or hardship grants under the Clean Water Fund Program.

- Drinking Water Loan Portfolio—This portfolio is funded by the EPA grants and operating transfers from the State (the State is required to match a minimum of 20% of EPA grants). Repayments from loans in this portfolio may be used to fund new loans. Loans in this portfolio are made for drinking water projects that comply with EPA eligibility and reporting requirements under the Safe Drinking Water Loan Program.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. There have been seven loans granted under this program for a total of $11,666,140. As of

June 30, 2004 the total amount drawn on these loans was $9,530,021. The Land Recycling Program loans are included in the Clean Water Fund Program - Direct Loan Portfolio for reporting purposes.

The Fund applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Net Operating Losses—The Fund incurred net operating losses of $3.3 million and $6.3 million in 2004 and 2003, respectively. Management expects the Fund will generally incur net operating losses for the foreseeable future. As explained in Note 2, these losses result from the Fund's statutory mission to provide loans to municipalities at interest rates below the Fund's own cost of funds. The losses have historically been funded by EPA grants and operating transfers from the State of Wisconsin. EPA grants were approximately $92.6 million and $78.0 million in 2004 and 2003, respectively, and are classified as operating grants. Operating transfers from the State of Wisconsin were approximately $32.2 million and $26.7 million and are classified as operating transfers in. Management expects the grants and operating transfers will continue for the foreseeable future sufficient to fund both the future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

Loans Receivable—Loans receivable are recorded at cost. Direct costs to originate loans are not material and are expensed as incurred. Fees received to originate loans are not material and are recorded as income when received.

Interest on Loans Receivable—Interest on loans receivable is recognized on an accrual basis and recorded within Due From Other Governmental Entities on the balance sheets.

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements—The Fund holds United States Treasury Notes as investments at June 30, 2004 and 2003 and records the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4). The securities mature on November 30, 2004.

GASB Statement No. 31 (GASB 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The three forward delivery agreements with Wachovia Bank, NA ("Wachovia") and one forward delivery agreement with Westdeutsche Landesbank Girozentral ("WestLB") described in Note 4 would be considered participating investment contracts under GASB 31. At June 30, 2004, management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 30, 2004 and 2003, the fair value of the Fund's interest in these three agreements exceeded the cost of the treasury securities owned by approximately $1.0 million and $3.4 million, respectively.

Investments—Investments that are stated at fair value include the State of Wisconsin Investment Board Local Government Investment Pool (see Note 3) and the State of Wisconsin General Obligation Clean Water Bonds (see Note 7). The Fund has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the Internal Revenue Code, the amount that must be rebated ("estimated arbitrage") to the U.S. Treasury is recorded as a reduction of investment income (see Note 8). Investment transactions are recorded on the trade date.

Deferred Debt Expense—Issuance costs relating to the revenue obligation bonds are capitalized and are being amortized as a component of interest expense using the effective rate method.

Revenue Obligation Bonds—Interest expense on revenue obligation bonds is recognized on an accrual basis.

Debt Defeasance—Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 6).

Deferred Charge—The Fund defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a reduction of revenue obligation bonds.

Cash Equivalents—The Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Fund also considers as cash equivalents guaranteed investment contracts or repurchase agreements permitting withdrawals required by the bond resolution to meet insufficiencies in debt service payments. Repurchase agreements and guaranteed investment contracts are valued at cost because they are nonparticipating contracts due to the non-negotiability of these investments and because the amount of any withdrawals made do not consider market interest rates.

Cash and cash equivalents in the Direct Loan Portfolio and Leveraged Loan Portfolio, while classified as unrestricted assets under accounting principles generally accepted in the United States ("GAAP"), are restricted as to use under federal statute and code and under the Clean Water Revenue Bond covenants and indenture. Those federal restrictions require that, with few exceptions, the funds can only be used for purposes of making loans to municipalities for program purposes, and that the funds must be kept available "in perpetuity" for such purposes. Likewise, the Clean Water Revenue Bond indenture specifies the use of bond proceeds, proceeds from loan repayments, and money in other accounts created under the bond indenture.

Fund Equity—Fund equity is classified as either restricted or unrestricted based on the presence or absence of restrictions.

Revenue Recognition—Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expenditure occurs and include $92.6 million and $78.0 million of EPA contributions in 2004 and 2003, respectively.

Hardship Grants—Hardship grants are recognized as an expense when the funds are granted and disbursed.

Operating Transfers In—Operating transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received.

Future Accounting Pronouncement—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. GASB Statement No. 40 is effective for fiscal periods beginning after June 15, 2004 and establishes and modifies disclosure requirements related to investment and deposit risks (including credit risk, interest rate risk and foreign currency risk). The adoption of this statement in fiscal 2005 is not expected to have a material impact on the Fund's financial statements.

Reclassifications—Certain reclassifications were made to the 2003 amounts in order to conform with the 2004 presentation.

2. LOANS TO LOCAL GOVERNMENTS

Loans to local governments at June 30, 2004 and 2003, represent loans for wastewater treatment projects or drinking water projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, virtually all of the loans issued by the Clean Water Fund Program, Safe Drinking Water Loan Program and Land Recycling Loan Program are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State operating transfers. Interest rates on loans receivable ranged from 0% to 5.8% in both 2004 and 2003. The weighted average interest rate was 2.94% and 2.98% at June 30, 2004 and 2003, respectively. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment. In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary. At June 30, 2004, all loans were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2004 and 2003, $350,509,979 and $312,177,019 (27% and 26%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program, Safe Drinking Water Loan Program and Land Recycling Loan Program have made additional financial assistance commitments of $133,321,034 as of June 30, 2004. From July 1, 2004 to September 20, 2004, the Fund made loan disbursements of $26,603,885 from these additional commitments. These loan commitments are generally met through the proceeds from additional Federal grants and from the issuance of additional revenue obligation bonds (See Note 5).

3. CASH AND CASH EQUIVALENTS

As of June 30, 2004 and 2003, cash and cash equivalents consisted of the following:

	2004	2003
State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP"), at fair value	$304,028,621	$226,276,089
Investments reported at cost:		
MBIA Guaranteed Investment Agreement	6,250,292	6,250,292
Repurchase Agreement with Bayerische Landesbank	7,597,910	7,597,910
American International Group Matched Funding Corp. ("AIG") Guaranteed Investment Agreement	21,842,081	21,842,081
	339,718,904	261,966,372
Less - Amounts classified as restricted assets (see Note 5)	(68,576,666)	(64,134,609)
Total unrestricted cash and cash equivalents	$271,142,238	$197,831,763

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a Securities and Exchange Commission ("SEC") registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2004, the current yield on the LGIP was 0.98%. The LGIP investment is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 30, 2004, the investment had a market value of $6,890,086 and was accruing interest at the rate of 6.2%. The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 30, 2004, the agreement had a market value of $26,738,444 and was accruing interest at the rate of 8.1%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 30, 2004, the repurchase agreement had a market value of $8,653,157. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement, along with the MBIA and AIG investment agreements, provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

4. FORWARD DELIVERY AGREEMENTS

The Fund has entered into four agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Revenue Obligation Bonds (see Note 5). Three of the agreements are with Wachovia and one is with WestLB and each provides for the delivery to, and purchase by, the Fund, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1993 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wachovia and WestLB are required to deliver United States Treasury securities ("Treasury securities") to the Fund for purchase. The Treasury securities are held as investments by the Fund. The price paid by the Fund for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The Wachovia agreements may be terminated at the option of the Fund and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination. Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Fund to Wachovia. If the agreements were terminated at a time when a payment would be due to Wachovia, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

The agreement with WestLB was amended effective December 10, 2002 to modify the termination provision. Other than a default by any of the parties to the agreement, the agreement may only be terminated on the last scheduled bond payment date for the 1993 Series 1 bonds which is June 1, 2013.

By GASB Statement No. 3 definition, these securities are classified as category one investments. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2004, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	$ 7,116,000	2.00 %	$ 6,992,011	5.58 %	June 1, 2017	$ 7,284,311
Series 1998-1 Agreement	7,401,000	2.00	7,292,215	5.01	June 1, 2018	7,190,650
Series 1993-1 Agreement	2,219,000	2.00	2,184,182	5.22	June 1, 2013	2,253,813
Series 1999-1 Agreement	7,066,000	2.00	6,918,023	6.32	June 1, 2020	7,737,553

5. REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

Revenue obligation serial and term bonds as of June 30, 2004 and 2003, consisted of the following:

	2004	2003
1991 Series 1:		
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	$ 57,445,000	$ 57,445,000
Unamortized discount on bonds	(156,575)	(177,330)
	57,288,425	57,267,670
1993 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	-	4,480,000
Unamortized discount on bonds	-	(5,949)
	-	4,474,051
1993 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	45,035,000	75,440,000
Unamortized premium on bonds	662,675	799,103
	45,697,675	76,239,103
1995 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2006	4,365,000	8,475,000
Unamortized premium on bonds	44,158	135,303
	4,409,158	8,610,303
1997 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	10,915,000	14,205,000
Unamortized premium on bonds	177,246	252,998
	11,092,246	14,457,998

	2004	2003
1998 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	$ 65,780,000	$ 69,335,000
Unamortized (discount) premium on bonds	(28,543)	75,075
	65,751,457	69,410,075
1998 Series 2:		
Serial Bonds, no optional redemption	90,400,000	90,400,000
Unamortized premium on bonds	4,668,245	5,146,615
	95,068,245	95,546,615
1999 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	50,740,000	53,570,000
Unamortized discount on bonds	(101,555)	(79,870)
	50,638,445	53,490,130
2001 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	62,825,000	65,300,000
Unamortized premium on bonds	554,754	678,935
	63,379,754	65,978,935
2002 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	94,295,000	97,250,000
Unamortized premium on bonds	1,580,395	1,951,877
	95,875,395	99,201,877
2002 Series 2:		
Serial Bonds, no optional redemption	84,340,000	84,580,000
Unamortized premium on bonds	5,293,402	6,372,258
	89,633,402	90,952,258
2004 Series 1:		
Serial Bonds, optional redemption for bonds at 100% par, June 1, 2014	116,795,000	-
Unamortized premium on bonds	6,406,937	-
	123,201,937	-
Total of all series	702,036,139	635,629,015
Unamortized deferred charge related to debt defeasance (Note 6)	(9,924,692)	(12,210,530)
Revenue obligation bonds, net of deferred charge	$ 692,111,447	$ 623,418,485

The original issue discount or premium at issuance and the weighted average yield (excluding issuance costs) at June 30, 2004, on the following bond series were:

Series	Original Issue Discount/(Premium)	Weighted Average Yield
1991 Series 1	$ 1,366,407	6.88 %
1993 Series 2	(2,349,253)	5.50
1995 Series 1	(1,253,936)	6.25
1997 Series 1	(288,312)	5.76
1998 Series 1	(811,362)	4.82
1998 Series 2	(7,739,808)	5.44
1999 Series 1	(58,061)	5.36
2001 Series 1	(1,022,362)	4.90
2002 Series 1	(2,426,001)	5.07
2002 Series 2	(7,344,300)	5.03
2004 Series 1	(6,632,300)	4.45

Principal maturities of the bonds, net of advance refundings, as of June 30, 2004, are as follows:

Year Ending June 30,	1991 Series 1	1993 Series 2	1995 Series 1	1997 Series 1	1998 Series 1
2005		$14,255,000	$ 4,365,000	$ 3,445,000	$ 3,705,000
2006		14,935,000		3,625,000	3,865,000
2007		15,845,000		3,845,000	4,035,000
2008					4,210,000
2009	$17,890,000				4,400,000
2010-2024	39,555,000				45,565,000
	$57,445,000	$45,035,000	$ 4,365,000	$10,915,000	$65,780,000

Years Ending June 30,	1998 Series 2	1999 Series 1	2001 Series 1	2002 Series 1	2002 Series 2	2004 Series 1
2005		$ 2,955,000	$ 2,570,000	$ 3,105,000	$ 4,940,000	$ 0
2006		3,085,000	2,665,000	3,255,000	9,825,000	3,520,000
2007		3,225,000	2,770,000	3,420,000	10,315,000	3,630,000
2008		3,375,000	2,885,000	3,585,000	14,915,000	20,570,000
2009	$10,950,000	3,535,000	3,005,000	3,765,000	4,600,000	3,925,000
2010-2024	79,450,000	34,565,000	48,930,000	77,165,000	39,745,000	85,150,000
	$90,400,000	$50,740,000	$62,825,000	$94,295,000	$84,340,000	$ 116,795,000

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2004 and 2003, the total assets of the Leveraged Loan Portfolio were $868,903,622 and $797,205,965, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheets consist of substantially all of the MBIA, AIG, Bayerische Landesbank investments (Note 3) and $15 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

6. ADVANCE REFUNDING

In 1993, the Fund defeased a portion of its 1991 Series 1 bonds through the issuance of 1993 Series 2 Refunding Bonds. The proceeds from the 1993 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2004, and June 30, 2003, there was $45,035,000 and $75,440,000 respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of $104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2004, and 2003, there was $90,400,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2002, the Fund defeased a portion of its 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 bonds through the issuance of $85,575,000 of 2002 Series 2 Refunding Bonds. The proceeds from the 2002 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2004 and 2003, there was $84,340,000 and $86,095,000, respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

7. OPERATING TRANSFERS IN

Operating transfers in consist of contributions from the State of Wisconsin, net of amounts returned to the State of Wisconsin (all of which are statutorily mandated). Fiscal 2004 operating transfers in consist of $38,320,000 of contributions offset by $6,000,000 returned to the State of Wisconsin. Fiscal 2003 operating transfers in consist of $32,800,000 of contributions offset by $6,000,000 returned to the State of Wisconsin. The statutorily mandated return of capital is based on amounts the State general fund requires for debt service payments on obligations the State incurred to fund certain operating transfers to the fund. The Fund will be required to return $6,000,000 of capital to the State in fiscal 2005.

Using cash contributed by the State, the Fund owned $100,087,179 (par value) of State of Wisconsin General Obligation Bonds at June 30, 2003 ($34,921,660 of Clean Water Fund Series 1 Bonds of 1991, $3,159,384 of Clean Water Fund Series 1 Bonds of 1993, $14,854,047 of Clean Water Fund Series 1 Bonds of 1994, $3,585,234 of Clean Water Fund Series 1 Bonds of 1995, $4,003,116 of Clean Water Fund Series 1 Bonds of 1996, $7,561,763 of Clean Water Fund Series 1 Bonds of 1997, $4,221,538 of Clean Water Fund Series 1 Bonds of 1998, $4,155,000 of Clean Water Fund Series A Bonds of 1999, $4,750,000 of Clean Water Fund Series A Bonds of 2000, $4,750,000 of Clean Water Fund Series A Bonds of 2001, $3,375,000 of Clean Water Fund Series B Bonds of 2001, $10,750,437 of Clean Water Fund Series A Bonds of 2002). The full faith, credit and taxing power of the State are irrevocably pledged for payment of the principal of and interest on the General Obligation Bonds. The estimated market value and the weighted average coupon interest rate of the State of Wisconsin General Obligation Bonds-Clean Water Fund Series are as follows:

	Fair Value 2003	Weighted Average Interest Rate 2003
1991 Series 1	$ 45,008,253	9.5 %
1993 Series 1	3,933,158	8.3
1994 Series 1	17,663,579	6.9
1995 Series 1	4,418,428	7.5
1996 Series 1	4,794,382	7.5
1997 Series 1	9,436,190	7.6
1998 Series 1	4,969,263	6.4
1999 Series A	5,326,381	7.7
2000 Series A	6,300,730	7.7
2001 Series A	6,300,731	7.7
2001 Series B	3,856,015	6.1
2002 Series A	11,586,888	4.4
Total	$ 123,593,998	

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for $116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program ("Global Certificate"). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2004 is $135,016,318 and 6.1%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee. By GASB Statement No. 3 definition these securities are classified as category one (insured or registered securities held by the Fund's agent in the Fund's name).

Principal maturities of the Global Certificate as of June 30, 2004 are as follows:

Years Ending June 30,	2004 Series 1
2005	$ -
2006	-
2007	-
2008	-
2009	15,244,072
2010 - 2020	101,596,617
	$ 116,840,689

8. INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2004 and 2003:

	2004	2003
Interest:		
State of Wisconsin Investment Board Local Government Investment Pool	$ 2,385,215	$ 3,873,085
MBIA Guaranteed Investment Agreement	387,518	387,518
Repurchase Agreement with Bayerishe Landesbank	493,864	493,864
AIG Guaranteed Investment Agreement	1,769,209	1,769,209
United States Treasury Notes	1,307,172	1,307,148
State of Wisconsin General Obligation Bonds	7,939,971	8,025,730
Total interest	14,282,949	15,856,554
Changes in Unrealized Gains (Losses):		
State of Wisconsin Investment Board Local Government Investment Pool	49,091	(186,482)
State of Wisconsin General Obligation Bonds	(9,394,793)	10,190,659
Total changes in unrealized gains (losses)	(9,345,702)	10,004,177
Total interest and changes in unrealized gains (losses)	4,937,247	25,860,731
Change in Estimated Rebatable Arbitrage Liability	447,299	(526,510)
TOTAL INVESTMENT INCOME	$ 5,384,546	$ 25,334,221

9. TRANSACTIONS WITH RELATED PARTIES

The DNR and DOA have statutory duties to manage the Fund. Expenses relating to the management of the Fund are allocated to and paid by the Fund. Total allocated expenses from DNR and DOA, which are reflected in the statement of revenues, expenses and changes in fund equity for the years ended June 30, 2004 and 2003, were $5,841,297 and $5,122,350, respectively. The Fund allocates DNR and DOA expenses to the Direct Loan Portfolio, the Proprietary Loan/Grant Portfolio, the Drinking Water Loan Portfolio and the Leveraged Loan Portfolio.

The following details total salaries and benefits by agency for the fiscal years ended June 30, 2004 and 2003:

	2004	2003
DNR	$ 4,451,092	$ 3,984,701
DOA	565,172	548,407
	$ 5,016,264	$ 4,533,108

10. OPERATING GRANTS AND HARDSHIP GRANTS

EPA Operating Grants for Wastewater Projects—The Federal Water Quality Act of 1987 (the "Water Quality Act") established a joint Federal and state program with the EPA to assist in providing financial assistance to municipalities within the states for governmentally owned wastewater treatment projects. Under the terms of the EPA grant, the State was required (1) to establish the Clean Water Fund Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmental owned wastewater treatment projects in a number of ways, provided that such assistance is not in the form of a grant. Reauthorization of the Water Quality Act of 1987 is not expected to be acted upon by the present Congress of the United States, although the allocation of capitalization grants to states is expected to result in a grant to Wisconsin of approximately $35.8 million for federal fiscal year 2004. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2004 are unknown at this time.

EPA Operating Grants for Drinking Water Projects—The Federal Safe Drinking Water Act Amendment of 1996 (the "Safe Drinking Water Act") established a joint Federal and state program with the EPA to assist in providing financial assistance to municipal and community water system projects. Under the terms of the EPA grant, the State was required (1) to establish the Safe Drinking Water Loan Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipal and community water system projects. The Safe Drinking Water Act was authorized through federal fiscal year 2004 and a grant to Wisconsin of approximately $16.4 million is expected for federal fiscal year 2004. Reauthorization of the Safe Drinking Water Act may not be acted upon by the present Congress of the United States, although the Fund expects EPA capitalization grants to states to continue into the future. Four percent of the EPA grant amount may be used for water program administrative expenses plus a portion of the grant may be used by DNR for various water-related issues and initiatives.

Hardship Grants—Wisconsin statutes require that the Fund provide financial hardship assistance for wastewater projects to communities that qualify under Wisconsin Statute 281.58(13). This assistance may come in the form of reduced interest rates (as low as 0%) or grants subject to limitations prescribed by the statute. In 2004 and 2003, the Fund expended hardship grants of $1,065,392 and $1,424,756, respectively. At June 30, 2003, the Fund had committed to award $369,441 of additional hardship grants. At June 30, 2004, the Fund was not committed to award any additional hardship grants.

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STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

BALANCE SHEET BY PROGRAM
JUNE 30, 2004

	Clean Water Fund Program					
ASSETS	**Direct Loan Portfolio**	**Proprietary Portfolio**	**Leveraged Loan Portfolio**	**Safe Drinking Water Loan Program**	**Eliminations**	**Total**
Current assets:						
Unrestricted cash and cash equivalents	$ 126,608,936	$ 18,859,409	$ 77,115,423	$ 48,558,470		$ 271,142,238
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost			23,386,431			23,386,431
Investments - State of Wisconsin general obligation clean water bonds, at fair value			-			-
Receivables:						
Loans to local government - current portion	38,480,916	1,496,258	39,649,398	4,930,406		84,556,978
Due from other funds	-	2,303,410	-	-	$ (2,028,420)	274,990
Due from other governmental entities	4,440,573	71,366	2,716,512	1,034,174		8,262,625
Accrued investment income	-	-	329,806	-		329,806
Other assets	-	3,981	-	-		3,981
Total current assets	169,530,425	22,734,424	143,197,570	54,523,050	(2,028,420)	387,957,049
Noncurrent assets:						
Restricted assets - cash equivalents			68,576,666			68,576,666
Investment, State of Wisconsin general obligation clean water bonds, at fair value			135,016,318			135,016,318
Loans to local governments	587,222,170	18,203,852	519,462,885	89,140,088		1,214,028,995
Deferred debt expense	-	-	2,650,182	-		2,650,182
Total noncurrent assets	587,222,170	18,203,852	725,706,051	89,140,088	-	1,420,272,161
TOTAL ASSETS	$ 756,752,595	$ 40,938,276	$ 868,903,621	$ 143,663,138	$ (2,028,420)	$ 1,808,229,210

(Continued)

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

BALANCE SHEET BY PROGRAM
JUNE 30, 2004

LIABILITIES AND NET ASSETS	Clean Water Fund Program: Direct Loan Portfolio	Clean Water Fund Program: Proprietary Portfolio	Clean Water Fund Program: Leveraged Loan Portfolio	Safe Drinking Water Loan Program	Eliminations	Total
Current liabilities:						
Accrued expenses	$ 16,959	$ 75,634	$ -	$ 147,034	$ -	$ 239,627
Accrued interest on bonds	-	-	2,958,106	-	-	2,958,106
Due to other funds	492,917	781,021	2,028,420	81,171	(2,028,420)	1,355,109
Due to other governmental entities	-	-	187,166	-	-	187,166
Revenue obligation bonds - current maturities	-	-	39,340,000	-	-	39,340,000
Total current liabilities	509,876	856,655	44,513,692	228,205	(2,028,420)	44,080,008
Noncurrent liabilities:						
Revenue obligation bonds, net (including deferred charge)	-	-	652,771,447	-	-	652,771,447
Due to other governmental entities	-	-	1,438,763	31,320	-	1,470,083
Accrued expenses	-	31,787	-	-	-	31,787
Total noncurrent liabilities	-	31,787	654,210,210	31,320	-	654,273,317
Total liabilities	509,876	888,442	698,723,902	259,525	(2,028,420)	698,353,325
Fund equity:						
Unrestricted	-	30,022,385	-	-		30,022,385
Restricted	756,242,719	10,027,449	170,179,719	143,403,613		1,079,853,500
Total fund equity	756,242,719	40,049,834	170,179,719	143,403,613	-	1,109,875,885
TOTAL LIABILITIES AND FUND EQUITY	$ 756,752,595	$ 40,938,276	$ 868,903,621	$ 143,663,138	$ (2,028,420)	$ 1,808,229,210

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY BY PROGRAM
YEAR ENDED JUNE 30, 2004

	Clean Water Fund Program					
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio	Safe Drinking Water Loan Program	Eliminations	Total
OPERATING REVENUES:						
Loan interest	$ 18,114,199	$ 468,219		$ 2,103,970	$	$ 20,686,388
Interest income used as security for revenue bonds			$ 17,143,708			17,143,708
Others		41,082	1			41,083
Total operating revenues	18,114,199	509,301	17,143,709	2,103,970		37,871,179
OPERATING EXPENSES:						
Interest			34,527,086			34,527,086
Salaries and benefits	1,662,336	386,509	1,546,038	1,421,381		5,016,264
Contractual services and other	55,617	120,596	541,744	918,810		1,636,767
Total operating expenses	1,717,953	507,105	36,614,868	2,340,191		41,180,117
OPERATING INCOME (LOSS)	16,396,246	2,196	(19,471,159)	(236,221)		(3,308,938)
NONOPERATING REVENUES (EXPENSES):						
Investment income	70,429	661,204	1,954	927,577		1,661,164
Investment income used as security for revenue bonds			3,723,382			3,723,382
Operating grants	77,641,254			14,947,428		92,588,682
Hardship grants awarded	(123,720)	(941,672)				(1,065,392)
Total nonoperating revenues, net	77,587,963	(280,468)	3,725,336	15,875,005		96,907,836
INCOME (LOSS) BEFORE OPERATING TRANSFERS	93,984,209	(278,272)	(15,745,823)	15,638,784		93,598,898
Operating transfers in (out)	9,218,740	(313,530)	20,000,000	3,320,000		32,225,210
INCREASE (DECREASE) IN NET FUND EQUITY	103,202,949	(591,802)	4,254,177	18,958,784		125,824,108
FUND EQUITY, BEGINNING OF YEAR	652,248,615	40,972,965	165,925,542	124,904,655		984,051,777
FUND EQUITY, END OF YEAR	$ 755,451,564	$40,381,163	$ 170,179,719	$ 143,863,439	$	$1,109,875,885

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2004

	Clean Water Fund Program			Safe Drinking Water Loan Program	Eliminations	Total
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio			
OPERATING ACTIVITIES:						
Payments to employees for services	$ (1,156,522)	$ (1,105,758)	$ (520,762)	$ (1,368,857)	$	$ (4,151,899)
Payments to suppliers and other	(55,617)	(122,992)	(1,669,415)	(892,556)		(2,740,580)
Net cash used in operations	(1,212,139)	(1,228,750)	(2,190,177)	(2,261,413)		(6,892,479)
NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	76,208,114			14,924,646		91,132,760
Grants paid	(123,720)	(941,672)				(1,065,392)
Operating transfers in	9,218,740	(313,530)	20,000,000	3,320,000		32,225,210
Proceeds from issuance of long-term debt			123,164,771			123,164,771
Retirement of long-term debt			(54,340,000)			(54,340,000)
Interest payments			(34,255,500)			(34,255,500)
Net cash provided by (used in) noncapital financing activities	85,303,134	(1,255,202)	54,569,271	18,244,646		156,861,849
INVESTING ACTIVITIES:						
Origination of loans	(101,992,687)	(1,084,362)	(54,786,628)	(23,522,715)		(181,386,392)
Collection of loans	35,989,195	1,553,613	37,704,337	4,062,364		79,309,509
Interest received on loans	17,750,489	472,015	17,122,017	2,022,029		37,366,550
Purchase of investments			(66,773,252)			(66,773,252)
Liquidation of investments			50,020,893			50,020,893
Increase in restricted cash equivalents			(4,442,058)			(4,442,058)
Investment income receipts	861,584	329,875	7,586,645	467,751		9,245,855
Net cash provided by (used in) investing activities	(47,391,419)	1,271,141	(13,568,046)	(16,970,571)		(76,658,895)
Net increase (decrease) in unrestricted cash and cash equivalents	36,699,576	(1,212,811)	38,811,048	(987,338)		73,310,475
UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	89,909,360	20,072,220	38,304,375	49,545,808		197,831,763
UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	$ 126,608,936	$18,859,409	$ 77,115,423	$48,558,470	$	$ 271,142,238

(Continued)

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2004

	Clean Water Fund Program			Safe Drinking Water Loan Program	Eliminations	Total
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio			
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATIONS -						
Operating income (loss)	$ 16,396,246	$ 2,196	$ (19,471,159)	$ (236,221)	$	$ (3,308,938)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATIONS:						
Amortization			136,715			136,715
Interest income classified as investing activity	(18,114,199)	(468,217)	(17,143,709)	(2,103,970)		(37,830,095)
Interest expense classified as noncapital financing activity			34,181,075			34,181,075
Changes in assets and liabilities:						
Increase in other assets		(38)				(38)
(Increase) in deferred charges			(113,503)			(113,503)
(Increase) in due from other funds		18,008			11,107	29,115
Increase in accrued expenses	13,365	(10,337)		97,232		100,260
Increase in accrued interest on bonds			209,297			209,297
Increase in due to other government entities				(13,474)		(13,474)
Increase (decrease) in due to other funds	492,449	(770,362)	11,107	(4,980)	(11,107)	(282,893)
Total adjustments	(17,608,385)	(1,230,946)	17,280,982	(2,025,192)		(3,583,541)
NET CASH USED IN OPERATIONS	$ (1,212,139)	$ (1,228,750)	$ (2,190,177)	$ (2,261,413)	$ 0	$ (6,892,479)

(Concluded)

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)

In management's opinion, the Governmental Accounting Standards Board (GASB) does not require an MD&A for individual fund reports under GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Therefore, the State has not prepared an MD&A for the State of Wisconsin Environmental Improvement Fund. An MD&A is included in the Comprehensive Annual Financial Report for the State of Wisconsin, which includes all funds and component units.

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

Financial Statements for the Year Ended
June 1, 2004 and Independent
Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Secretary of the Department of Administration
and the Secretary of the Department of Natural Resources
of the State of Wisconsin:

We have audited the accompanying balance sheet of the Leveraged Loan Portfolio (an environmental financing program) of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin) as of June 1, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in 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. 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 provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 1, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund as of June 1, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund has not presented a management's discussion and analysis that, in our opinion, is required by accounting principles generally accepted in the United States of America to supplement, although not required to be part of, the financial statements.

Deloitte & Touche LLP

Milwaukee, Wisconsin
September 20, 2004

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

BALANCE SHEET
JUNE 1, 2004

ASSETS	
Current assets:	
Unrestricted cash and cash equivalents	$ 78,758,778
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	23,386,431
Receivables:	
Loans to local governments - current portion	39,584,208
Due from other governmental entities	1,381,278
Total current assets	143,110,695
Noncurrent assets:	
Restricted assets - cash equivalents	68,445,086
Investments - State of Wisconsin general obligation clean water bonds, at fair value	133,523,628
Loans to local governments	517,914,957
Deferred debt expense	2,689,450
Total noncurrent assets	722,573,121
TOTAL ASSETS	$ 865,683,816
LIABILITIES AND NET ASSETS	
Current liabilities:	
Due to other funds	$ 1,859,385
Due to other governmental entities	181,922
Revenue obligation bonds - current maturities	39,340,000
Total current liabilities	41,381,307
Noncurrent liabilities:	
Due to other governmental entities	1,400,602
Revenue obligation bonds, net (including deferred charge)	652,864,215
Total noncurrent liabilities	654,264,817
Total liabilities	695,646,124
Net assets -	
Restricted	170,037,692
Total net assets	170,037,692
TOTAL LIABILITIES AND NET ASSETS	$ 865,683,816

See notes to financial statements.

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 1, 2004

OPERATING REVENUES -	
Interest used as security for revenue bonds	$ 17,133,046
OPERATING EXPENSES:	
Interest	34,399,934
Salaries and benefits	1,541,914
Contractual services and other	544,942
Total operating expenses	36,486,790
Operating loss	(19,353,744)
NONOPERATING REVENUES:	
Investment income	1,955
Investment income used as security for revenue bonds	1,957,974
LOSS BEFORE OPERATING TRANSFERS	(17,393,815)
Operating transfers in	20,000,000
INCREASE IN NET ASSETS	2,606,185
TOTAL NET ASSETS - BEGINNING OF YEAR	167,431,507
TOTAL NET ASSETS - END OF YEAR	$ 170,037,692

See notes to financial statements.

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 1, 2004

OPERATING ACTIVITIES:	
Payments to employees for services	$ (1,496,551)
Payments to suppliers and other	(693,381)
Net cash used in operations	(2,189,932)
NONCAPITAL FINANCING ACTIVITIES:	
Operating transfers in	20,000,000
Proceeds from issuance of long-term debt	123,164,771
Interest payments	(51,623,965)
Retirement of long-term debt	(90,745,000)
Net cash provided by noncapital financing activities	795,806
INVESTING ACTIVITIES:	
Origination of loans	(55,190,328)
Collection of loans	37,703,290
Interest received on loans	17,122,017
Purchase of investments	(90,160,833)
Liquidation of investments	73,407,906
Increase in restricted cash equivalents	(4,475,794)
Investment income receipts	8,260,618
Net cash used in investing activities	(13,333,124)
Net decrease in unrestricted cash and cash equivalents	(14,727,250)
UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	93,486,028
UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	$ 78,758,778

(Continued)

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 1, 2004

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATIONS:	
Operating loss	$ (19,353,744)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATIONS:	
Amortization	396,930
Interest income classified as investing activity	(17,133,046)
Interest expense classified as noncapital financing activity	51,371,470
Changes in assets and liabilities:	
Increase in deferred charges	(113,257)
Decrease in accrued interest on bonds	(17,368,466)
Increase in due to other funds	10,181
Total adjustments	17,163,812
NET CASH USED IN OPERATIONS	$ (2,189,932)

(Concluded)

See notes to financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The Leveraged Loan Portfolio (the "Portfolio") is one of three portfolios of the Clean Water Fund Program, an environmental financing program of the State of Wisconsin Environmental Improvement Fund (the "Fund"). The Fund is an enterprise fund of the State of Wisconsin (the "State") administered by the State of Wisconsin Department of Natural Resources (the "DNR") and the State of Wisconsin Department of Administration (the "DOA").

The Portfolio is funded by proceeds of revenue obligation bonds and contributions from the State. Assets in the Portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements.

The Fund applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Net Operating Loss—The Portfolio incurred an operating loss of $19.4 million in 2004. Management expects the Portfolio will generally incur net operating losses for the foreseeable future. As explained in Note 2, the losses result from the Portfolio's statutory mission to provide loans to municipalities at interest rates below the Portfolio's own cost of funds. The losses have historically been funded by operating transfers from the State. These operating transfers were approximately $20.0 million in 2004. Management expects operating transfers will continue for the foreseeable future sufficient to fund both the future operating losses and, together with additional borrowing, to fund additional loans to municipalities.

Interest on Loans Receivable—Interest on loans receivable is recognized on an accrual basis and recorded within Due From Other Governmental Entities on the balance sheet.

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements—The Portfolio holds United States Treasury Notes as investments at June 1, 2004 and records the notes at cost. The Portfolio purchased these securities in accordance with the Forward Delivery Agreements (see Note 4). The securities mature on November 30, 2004.

GASB Statement No. 31 (GASB 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The three forward delivery agreements with Wachovia Bank, NA ("Wachovia") and one forward delivery agreement with Westdeutsche Landesbank Girozentral ("WestLB") described in Note 4 would be considered participating investment contracts under GASB 31. At June 1, 2004, management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 1, 2004, the fair value of the Fund's interest in these three agreements exceeded the cost of the treasury securities owned by approximately $3.9 million.

***Investments*—**Investments that are stated at fair value include the State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP") (see Note 3). The Portfolio has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the Internal Revenue Code, the amount that must be rebated ("estimated arbitrage") to the U.S. Treasury is recorded as a reduction of investment income (see Note 8). Investment transactions are recorded on the trade date.

***Deferred Debt Expense*—**Issuance costs relating to the revenue obligation bonds were capitalized and are being amortized as a component of interest expense using the effective rate method.

Revenue Obligation Bonds—Interest expense on revenue obligation bonds is recognized on an accrual basis.

Debt Defeasance—Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 6).

***Deferred Charge*—**The Portfolio defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a reduction of revenue obligation bonds.

***Cash Equivalents*—**The Portfolio considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Portfolio also considers as cash equivalents guaranteed investment contracts or repurchase agreements permitting withdrawals required by the bond resolution to meet insufficiencies in debt service payments. Repurchase agreements and guaranteed investment contracts are valued at cost because they are nonparticipating contracts due to the non-negotiability of these investments and because the amount of any withdrawals made do not consider market interest rates.

Fund Equity—Fund equity is classified as either restricted or unrestricted based on the presence or absence of restrictions.

Operating Transfers In—Operating transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received.

Future Accounting Pronouncement—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. GASB Statement No. 40 is effective for fiscal periods beginning after June 15, 2004 and establishes and modifies disclosure requirements, related to investment and deposit risks (including credit risk, interest rate risk and foreign currency risk). The adoption of this statement in fiscal 2005 is not expected to have a material impact on the Fund's financial statements.

2. LOANS TO LOCAL GOVERNMENTS

Leveraged loans to local governments at June 1, 2004, represent loans for wastewater treatment projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, a majority of the loans issued by the Portfolio are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State contributions. Interest rates on loans receivable ranged from 0% to 5.8% in 2003. The weighted average interest rate was 3.04% at June 1, 2004. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment. In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary.

Of the loans outstanding at June 1, 2004, $347,900,696 (27%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Portfolio has made additional financial assistance commitments of $45,528,715 as of June 1, 2004. From June 1, 2004 to September 20, 2004, the Portfolio made loan disbursements of $11,564,851 from these additional commitments. These loan commitments are generally met through the proceeds from additional Federal grants and from the issuance of additional revenue obligation bonds (see Note 5).

3. CASH AND CASH EQUIVALENTS

As of June 1, 2004, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	$111,512,384
Cash held by trustee	1,197
Investments reported at cost:	
MBIA Guaranteed Investment Agreement	6,250,292
Repurchase Agreement with Bayerische Landesbank	7,597,910
American International Group Matched Funding Corp. (AIG) Guaranteed Investment Agreement	21,842,081
	147,203,864
Less - Amounts classified as restricted assets (see Note 5)	(68,445,086)
Total unrestricted cash and cash equivalents	$ 78,758,778

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a SEC registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 1, 2004, the current yield on the LGIP was .98%. The LGIP investment is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 1, 2004, the investment had a market value of $6,851,460 and was accruing interest at the rate of 6.2%. The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 1, 2004, the agreement had a market value of $26,689,260 and was accruing interest at the rate of 8.1%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 1, 2004, the repurchase agreement had a market value of $8,596,665. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement, along with the MBIA and AIG investment agreements, provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

4. FORWARD DELIVERY AGREEMENTS

The Portfolio has entered into four agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Revenue Obligation Bonds (see Note 5). Three of the agreements are with Wachovia and one is with WestLB and each provides for the delivery to, and purchase by, the Portfolio, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1993 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wachovia and WestLB are required to deliver United States Treasury securities ("Treasury securities") to the Portfolio for purchase. The Treasury securities are held as investments by the Portfolio. The price paid by the Portfolio for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The Wachovia agreements may be terminated at the option of the Portfolio and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination. Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Portfolio to Wachovia. If the agreements were terminated at a time when a payment would be due to Wachovia, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

The forward delivery agreement with WestLB was amended effective December 10, 2002 to modify the agreement termination provision. Other than a default by any of the parties to the agreement, the agreement may only be terminated on the last scheduled bond payment date for the 1993 Series 1 bonds which is June 1, 2013.

By GASB Statement No. 3 definition, these securities are classified as category one investments. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 1, 2004, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	$ 7,116,000	2.0 %	$ 6,992,011	5.58 %	June 1, 2017	$ 7,225,721
Series 1998-1 Agreement	7,401,000	2.0	7,292,215	5.01	June 1, 2018	7,126,847
Series 1993-1 Agreement	2,219,000	2.0	2,184,182	5.22	June 1, 2013	2,239,790
Series 1999-1 Agreement	7,066,000	2.0	6,918,023	6.32	June 1, 2020	7,669,229

5. REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

Revenue obligation serial and term bonds as of June 1, 2004 consisted of the following:

1991 Series 1:	
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	$ 57,445,000
Unamortized discount on bonds	(158,385)
	57,286,615
1993 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	45,035,000
Unamortized premium on bonds	683,756
	45,718,756
1995 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2006	4,365,000
Unamortized premium on bonds	48,117
	4,413,117
1997 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	10,915,000
Unamortized premium on bonds	183,774
	11,098,774

1998 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	$ 65,780,000
Unamortized discount on bonds	(19,994)
	65,760,006
1998 Series 2:	
Serial Bonds, no optional redemption	90,400,000
Unamortized premium on bonds	4,709,335
	95,109,335
1999 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	50,740,000
Unamortized discount on bonds	(100,586)
	50,639,414
2001 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	62,825,000
Unamortized premium on bonds	563,808
	63,388,808
2002 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	94,295,000
Unamortized premium on bonds	1,606,969
	95,901,969
2002 Series 2:	
Serial Bonds, no optional redemption	84,340,000
Unamortized premium on bonds	5,385,022
	89,725,022
2004 Series 1	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	116,795,000
Unamortized premium on bonds	6,482,653
	123,277,653
Total of all series	702,319,469
Unamortized deferred charge related to debt defeasance (Note 6)	(10,115,254)
Revenue obligation bonds, net of deferred charge	$692,204,215

The original issue discount or premium at issuance and the weighted average yield (excluding issuance costs) at June 1, 2004, on the following bond series were:

Series	Original Issue Discount/(Premium)	Weighted Average Yield
1991 Series 1	$ 1,366,407	6.88 %
1993 Series 2	(2,349,253)	5.50
1995 Series 1	(1,253,936)	6.25
1997 Series 1	(288,312)	5.76
1998 Series 1	(811,362)	4.82
1998 Series 2	(7,739,808)	5.44
1999 Series 1	(58,061)	5.36
2001 Series 1	(1,022,362)	4.90
2002 Series 1	(2,426,001)	5.07
2002 Series 2	(7,344,300)	5.03
2004 Series 1	(6,632,300)	4.45

Principal maturities of the bonds, net of advance refundings, as of June 1, 2004, are as follows:

Year Ending June 1,	1991 Series 1	1993 Series 2	1995 Series 1	1997 Series 1	1998 Series 1
2005		$14,255,000	$ 4,365,000	$ 3,445,000	$ 3,705,000
2006		14,935,000		3,625,000	3,865,000
2007		15,845,000		3,845,000	4,035,000
2008					4,210,000
2009	$17,890,000				4,400,000
2010-2024	39,555,000				45,565,000
	$57,445,000	$45,035,000	$ 4,365,000	$10,915,000	$65,780,000

Years Ending June 1,	1998 Series 2	1999 Series 1	2001 Series 1	2002 Series 1	2002 Series 2	2004 Series 1
2005		$ 2,955,000	$ 2,570,000	$ 3,105,000	$ 4,940,000	$ 0
2006		3,085,000	2,665,000	3,255,000	9,825,000	3,520,000
2007		3,225,000	2,770,000	3,420,000	10,315,000	3,630,000
2008		3,375,000	2,885,000	3,585,000	14,915,000	20,570,000
2009	$10,950,000	3,535,000	3,005,000	3,765,000	4,600,000	3,925,000
2010-2024	79,450,000	34,565,000	48,930,000	77,165,000	39,745,000	85,150,000
	$90,400,000	$50,740,000	$62,825,000	$94,295,000	$84,340,000	$ 116,795,000

The revenue obligation bonds are collateralized by a security interest in all assets of the Portfolio. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Portfolio in an amount to offset this interest rate disparity.

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheet consist of substantially all of the MBIA, AIG, Bayerische Landesbank investments (Note 3) and $14.2

million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

6. ADVANCE REFUNDING

In 1993, the Fund defeased a portion of its 1991 Series 1 bonds through the issuance of 1993 Series 2 Refunding Bonds. The proceeds from the 1993 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2004, there was $45,035,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of $104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2004, there was $90,400,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2002, the Fund defeased a portion of its 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 bonds through the issuance of $85,575,000 of 2002 Series 2 Refunding Bonds. The proceeds from the 2002 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2004, there was $84,340,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

7. OPERATING TRANSFERS IN

Operating transfers in consist of contributions from the State of Wisconsin. The full faith, credit and taxing power of the State are irrevocably pledged for payment of the principal of and interest on the Global Certificate.

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for $116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program ("Global Certificate"). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2004 is $133,523,628 and 6.1%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee. By GASB Statement No. 3 definition these securities are classified as category one (insured or registered securities held by the Fund's agent in the Fund's name).

The Bond is registered in the name of the Portfolio and held by an independent trustee. By GASB Statement No. 3 definition, this security is classified as category one (insured or registered securities held by the Portfolio's agent in the Portfolio's name).

Principal maturities of the Global Certificate as of June 1, 2004 are as follows:

Years Ending June 1,	2004 Series 1
2005	$ -
2006	-
2007	-
2008	-
2009	15,244,072
2010 - 2020	101,596,617
	$116,840,689

8. INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal year ended June 1, 2004:

Interest:	
State of Wisconsin Investment Board Local Government Investment Pool	$ 791,619
MBIA Guaranteed Investment Agreement	387,518
Repurchase Agreement with Bayerishe Landesbank	493,864
AIG Guaranteed Investment Agreement	1,769,209
United States Treasury Notes	1,960,334
State of Wisconsin General Obligation Bonds	3,876,368
Total interest	9,278,912
Changes in Unrealized Gains (Losses):	
State of Wisconsin Investment Board Local Government Investment Pool	(15,220)
United States Treasury Notes	(653,589)
State of Wisconsin General Obligation Bonds	(7,104,565)
Total changes in unrealized gains (losses)	(7,773,374)
Total interest and changes in unrealized gains (losses)	1,505,538
Change in Estimated Rebatable Arbitrage Liability	454,391
TOTAL INVESTMENT INCOME	$ 1,959,929

9. TRANSACTIONS WITH RELATED PARTIES

The DNR and DOA have statutory duties to manage the Portfolio. Expenses relating to the management of the Program are allocated to and paid by the Portfolio. Total allocated expenses from DNR and DOA, which are reflected in the statement of revenues, expenses and changes in net assets for the year ended June 1, 2004, were $1,589,385.

The following details total salaries and benefits by agency for the fiscal year ended June 1, 2004:

DNR	$ 1,090,894
DOA	451,020
	$ 1,541,914

* * * * * *

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)

In management's opinion, the Governmental Accounting Standards Board (GASB) does not require an MD&A for individual fund reports under GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Therefore, the State has not prepared an MD&A for the State of Wisconsin Leveraged Loan Portfolio. An MD&A is included in the Comprehensive Annual Financial Report for the State of Wisconsin, which includes all funds and component units.