

State of Wisconsin

Notice of **Material Information** #2007-18
Dated November 29, 2007

Information Cover Sheet

This page is a cover sheet to the attached document that is being submitted to and filed with each of the Nationally Recognized Municipal Securities Information Repositories. At this time, no State Information Depository has been established for the State of Wisconsin. This page is not intended to be part of the filing; rather, it is intended to only assist with the filing and classification of the attached submittal.

Issuer: State of Wisconsin Clean Water Revenue Bonds

CUSIP Numbers: 977092 Prefix (All)

This filing relates to all securities issued by the State of Wisconsin that contain the above base CUSIP numbers.


Type of Filing: Electronic. The following submission is also available on the State of Wisconsin Capital Finance web site at:

www.doa.wi.gov/capitalfinance

Type of Information: Financial Statements and Independent Auditors' Report for the Year Ended June 30, 2007

Attached are (1) the financial statements, supplemental information, and independent auditors' report for the years ended June 30, 2007 and June 30, 2006 for the Environmental Improvement Fund, and (2) the financial statements and independent auditors' report for the year ended June 1, 2007 for the Leveraged Loan Portfolio.

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office (which is the office of the State of Wisconsin responsible for providing annual reports and giving notice of listed material events when notice is required by the State's Master Agreement on Continuing Disclosure) and is authorized to distribute this information publicly.



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**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
AND
LEVERAGED LOAN PORTFOLIO**

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

FINANCIAL STATEMENTS
For the Years Ended June 30, 2007 and 2006,
SUPPLEMENTAL INFORMATION
For the Year Ended June 30, 2007, and
Independent Auditors' Report

AND

LEVERAGED LOAN PORTFOLIO

FINANCIAL STATEMENTS
For the Year Ended June 1, 2007 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 financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of June 30, 2007 and 2006, and for the years then ended as listed in the table of contents. 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 are not intended to present fairly the financial position of the State of Wisconsin, and the changes in its financial position and its cash flows 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, 2007 and 2006, and the changes in its financial position 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 the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the financial statements.

The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

The "Other Information" on page 33 is presented for informational purposes only and is not a required part of the financial statements of the State of Wisconsin Environmental Improvement Fund. The information has not been audited by us and, accordingly, we express no opinion on such information.

Madison, Wisconsin
November 12, 2007

Vuchow-Krause + Company LLP

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

	2007	2006
ASSETS		
Current Assets		
Unrestricted cash and cash equivalents	\$ 241,042,241	\$ 190,953,390
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	37,807,955	29,807,922
Receivables		
Loans to local governments - current portion	118,498,080	110,463,531
Due from other funds	92,302	150,604
Due from other governmental entities	8,663,236	8,214,030
Accrued investment income	386,506	353,662
Prepaid items	21,746	20,357
Total Current Assets	406,512,066	339,963,496
Noncurrent Assets		
Restricted assets - cash equivalents	84,820,742	78,075,624
Investments - State of Wisconsin general obligation clean water bonds, at fair value	131,518,191	125,681,542
Loans to local governments	1,446,969,692	1,381,941,727
Prepaid items	268,784	285,671
Deferred debt expense	2,492,809	2,583,704
Total Noncurrent Assets	1,666,070,218	1,588,568,268
TOTAL ASSETS	\$ 2,072,582,284	\$ 1,928,531,764
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued expenses	\$ 146,396	\$ 138,304
Accrued interest on bonds	3,086,323	3,686,983
Due to other funds	1,301,185	925,371
Due to other governmental entities	81,804	23,108
Revenue obligation bonds - current maturities	54,985,000	47,085,000
Total Current Liabilities	59,600,708	51,858,766
Noncurrent Liabilities		
Revenue obligation bonds, net (including deferred charge)	691,196,076	643,787,506
Due to other governmental entities	761,445	1,455,224
Accrued expenses	45,640	40,326
Total Noncurrent Liabilities	692,003,161	645,283,056
Total Liabilities	751,603,869	697,141,822
Net Assets		
Restricted for environmental improvement	1,291,657,742	1,202,236,503
Unrestricted	29,320,673	29,153,439
Total Net Assets	1,320,978,415	1,231,389,942
TOTAL LIABILITIES AND NET ASSETS	\$ 2,072,582,284	\$ 1,928,531,764

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Loan interest	\$ 25,451,959	\$ 24,697,084
Interest income used as security for revenue bonds	18,393,515	17,459,358
Other	-	6,032
Total Operating Revenues	43,845,474	42,162,474
 OPERATING EXPENSES		
Interest	36,162,558	33,196,947
Salaries and benefits	3,824,138	3,602,129
Contractual services and other	1,157,889	1,248,825
Total Operating Expenses	41,144,585	38,047,901
 Operating Income	2,700,889	4,114,573
 NONOPERATING REVENUES (EXPENSES)		
Investment income	8,886,147	6,384,761
Investment income used as security for revenue bonds	15,834,692	4,050,090
Operating grants	41,235,370	29,817,943
Hardship grants awarded	(1,526,080)	(4,716,573)
Total Nonoperating Revenues, Net	64,430,129	35,536,221
 INCOME BEFORE TRANSFERS	67,131,018	39,650,794
 Transfers in/(out)	22,457,455	5,173,569
 Increase in Net Assets	89,588,473	44,824,363
 TOTAL NET ASSETS - Beginning of Year	1,231,389,942	1,186,565,579
 TOTAL NET ASSETS - END OF YEAR	\$ 1,320,978,415	\$ 1,231,389,942

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS USED BY OPERATING ACTIVITIES		
Payments to employees for services	\$ (3,723,101)	\$ (1,719,791)
Payments to suppliers and other	(898,259)	(4,143,790)
Other operating revenues	<u>3,843</u>	<u>24,105</u>
Net Cash Flows Used by Operating Activities	<u>(4,617,517)</u>	<u>(5,839,476)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	40,968,591	29,728,046
Grants paid	(1,526,080)	(4,716,573)
Transfers in (out)	22,457,455	5,173,569
Proceeds from issuance of long-term debt	104,149,018	84,800,000
Retirement of long-term debt	(47,085,000)	(44,775,000)
Interest payments	<u>(38,242,220)</u>	<u>(33,301,015)</u>
Net Cash Flows From Noncapital Financing Activities	<u>80,721,764</u>	<u>36,909,027</u>
CASH FLOWS USED BY INVESTING ACTIVITIES		
Origination of loans	(191,122,865)	(195,870,878)
Collection on loans	118,060,351	104,176,567
Interest received on loans	38,175,265	30,633,887
Purchase of investments	(103,614,986)	(80,818,298)
Liquidation of investments	75,614,953	74,397,071
Investment and interest income	<u>43,617,004</u>	<u>41,784,965</u>
Net Cash Flows Used by Investing Activities	<u>(19,270,278)</u>	<u>(25,696,686)</u>
Net Increase in Cash and Cash Equivalents	56,833,969	5,372,865
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>269,029,014</u>	<u>263,656,149</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 325,862,983</u>	<u>\$ 269,029,014</u>

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 2,700,889	\$ 4,114,573
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Amortization	(1,538,042)	(969,603)
Interest income classified as investing activity	(43,799,430)	(42,109,171)
Interest expense classified as noncapital financing activity	38,301,261	33,254,650
Changes in assets and liabilities		
Due from other funds	(2,512,437)	(90,980)
Prepaid items	15,498	17,477
Accrued expenses	13,405	(44,316)
Accrued interest on bonds	(600,660)	911,899
Due to other funds	2,760,999	(924,005)
Due to other governments	41,000	-
Total Adjustments	<u>(7,318,406)</u>	<u>(9,954,049)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (4,617,517)	\$ (5,839,476)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Unrestricted cash and cash equivalents - statement of net assets	\$ 241,042,241	\$ 190,953,390
Restricted cash and cash equivalents - statement of net assets	<u>84,820,742</u>	<u>78,075,624</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 325,862,983	\$ 269,029,014

NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 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 nine loans granted under this program for a total of \$14,415,429. As of June 30, 2006, there were seven loans granted under this program for a total of \$11,666,140. As of June 30, 2007 and 2006, the total amount drawn on these loans was \$11,617,397 and \$10,873,172, respectively. The Land Recycling Program loans are included in the Clean Water Fund Program – Direct Loan Portfolio for reporting purposes.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reporting Entity (cont.)—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 Income/Loss—The Fund incurred net operating income of \$2.7 million in 2007 and net operating income of \$4.1 million in 2006. Management expects the Fund will generally incur net operating losses in most years. As explained in Note 2, a loss will generally result from the Fund’s statutory mission to provide loans to municipalities at interest rates below the Fund’s own cost of funds. Previous losses have historically been funded by EPA grants and operating transfers from the State of Wisconsin. EPA grants were approximately \$41.2 million and \$29.8 million in 2007 and 2006, respectively, and are classified as operating grants. Operating transfers from the State of Wisconsin were approximately \$8.5 million and \$11.3 million in 2007 and 2006, respectively, and are classified as transfers in. Management expects the grants and transfers will continue for the foreseeable future sufficient to fund both the anticipated 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 statements of net assets.

Investments—The Fund may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States, and solvent financial institutions in the State, commercial paper and nonsecured corporation notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 3 to the financial statements).

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements—The Fund holds United States Treasury Notes as investments at June 30, 2007 and 2006 and records the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements (cont.)—GASB Statement No. 31 (GASB No. 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”); one forward delivery agreement with Westdeutsche Landesbank Girozentral (“WestLB”); and two forward delivery agreements with JP Morgan Chase Bank (“JP Morgan”) described in Note 4 would be considered participating investment contracts under GASB No. 31. 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, 2007 and 2006, the fair value of the Fund’s interest in these three agreements exceeded the cost of the treasury securities owned by approximately \$20,000 and \$500,000, 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 8). 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 9). 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 7).

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.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash Equivalents (cont.)—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.

Restricted Assets—Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

Net Assets—Net assets are 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 \$41.2 million and \$29.8 million of EPA contributions in 2007 and 2006, respectively.

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

Transfers In/(Out)—Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received. Transfers out consist of capital returned to the state's general fund.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS

Loans to local governments at June 30, 2007 and 2006 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 transfers. Interest rates on loans receivable ranged from 0% to 5.8% in both 2007 and 2006. The weighted average interest rate was 2.756% and 2.765% at June 30, 2007 and 2006, 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.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS (cont.)

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, 2007, all loans were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2007 and 2006, \$460,488,581 and \$433,032,125 (30% and 28%), 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 entered into \$178,915,548 of new loans and \$1,444,516 of new grants during fiscal year 2007. As of June 30, 2007, they had undisbursed commitments of \$176,351,815 relating to loans and \$1,582,763 relating to grants. From July 1, 2007 to September 26, 2007, the Fund made additional loan disbursements of \$46,268,408 for financial assistance agreements that were outstanding prior to June 30, 2007. \$32,643,694 of additional loans were executed between July 1, 2007 and September 26, 2007. These funding commitments are generally met through the proceeds from additional Federal grants, recycled loan payments, and from the issuance of additional revenue obligation bonds (Note 6).

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2007 and 2006, cash and cash equivalents consisted of the following:

	2007	2006
State of Wisconsin Investment Board ("SWIB")		
Local Government Investment Pool ("LGIP"), at fair value	\$ 290,172,221	\$ 233,338,622
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
Miscellaneous cash	479	109
	325,862,983	269,029,014
Less Amounts classified as restricted assets (see Note 6)	(84,820,742)	(78,075,624)
Total Unrestricted Cash and Cash Equivalents	\$ 241,042,241	\$ 190,953,390

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

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, 2007, the current yield on the LGIP was 5.19%, compared to 4.91% as of June 30, 2006. 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, 2007 and 2006, the investment had a market value of \$8,240,028 and \$6,567,326, respectively, 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, 2007 and 2006, the agreement had a market value of \$24,145,049 and \$24,461,289, respectively, 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, 2007 and 2006, the repurchase agreement had a market value of \$6,584,314 and \$8,222,385, respectively. 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.

<u>As of June 30, 2007</u>	<u>Amount</u>	<u>Exposure to Custodial Credit Risk</u>	<u>Credit Risk</u>	<u>Interest Rate Risk</u>	<u>Interest Rate Highly Sensitive</u>	<u>Foreign Currency Rate</u>	<u>% of Portfolio</u>
LGIP	\$ 290,172,221	N/A	Not rated	36 days weighted average maturity	N/A	N/A	58.6%
MBIA-GIC	6,250,292	N/A	Aaa	6-1-13 final maturity	N/A	N/A	1.3
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.5
AIG-GIC	21,842,081	N/A	Aa2	6-1-11 final maturity	N/A	N/A	4.4
Treasury notes – Forward delivery	37,807,956	\$0	N/A	See Note 4	N/A	N/A	7.6
GO Bonds-WI	131,518,190	\$0	Aa3	5-1-24 final maturity	N/A	N/A	26.6
Miscellaneous cash	479	N/A	N/A	N/A	N/A	N/A	

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

<u>As of June 30, 2006</u>	<u>Amount</u>	<u>Exposure to Custodial Credit Risk</u>	<u>Credit Risk</u>	<u>Interest Rate Risk</u>	<u>Interest Rate Highly Sensitive</u>	<u>Foreign Currency Rate</u>	<u>% of Portfolio</u>
LGIP	\$ 233,338,622	N/A	Not rated	28 days weighted average maturity	N/A	N/A	55.0%
MBIA-GIC	6,250,292	N/A	Aaa	6-1-13 final maturity	N/A	N/A	1.5
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.8
AIG-GIC	21,842,081	N/A	Aa2	6-1-11 final maturity	N/A	N/A	5.1
Treasury notes – Forward delivery	29,807,922	\$0	N/A	See Note 4	N/A	N/A	7.0
GO Bonds-WI	125,681,542	\$0	Aa3	5-1-24 final maturity	N/A	N/A	29.6
Miscellaneous cash	109	N/A	N/A	N/A	N/A	N/A	

The EIF does not have an investment policy for custodial credit risk, credit risk, interest rate risk, or concentration of credit risk.

Restricted assets of \$84,820,742 and \$78,075,624 at June 30, 2007 and 2006, respectively, represent amounts legally restricted by the Clean Water Revenue Bonds. The amounts restricted are the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

NOTE 4 – FORWARD DELIVERY AGREEMENTS

The Fund has entered into six 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 6). Three of the agreements are with Wachovia, one is with WestLB, and two are with JP Morgan 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, 1999 Series 1, 2006 Series 1, and 2006 Series 2 Revenue Obligation Bonds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

Every six months during the term of the agreements, Wachovia, WestLB, and JP Morgan 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 definition, these securities are classified as having no exposure to custodial credit risk. 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, 2007, 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	\$ 7,037,000	4.25%	\$ 6,991,387	5.58%	June 1, 2017	\$ 7,020,463
Series 1998-1 Agreement	7,320,000	4.25	7,292,755	5.01	June 1, 2018	7,302,798
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013	2,135,449
Series 1999-1 Agreement	6,989,000	4.25	6,918,879	6.32	June 1, 2020	6,972,576
Series 2006-1 Agreement	6,431,000	4.25	6,421,173	4.56	June 1, 2027	6,415,887
Series 2006-2 Agreement	8,023,000	4.25	7,999,769	4.84	June 1, 2027	7,980,969

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

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, 2006, 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	\$ 7,085,000	2.875%	\$ 6,991,698	5.58%	June 1, 2017	\$ 6,987,663
Series 1998-1 Agreement	7,369,000	2.875	7,292,135	5.01	June 1, 2018	6,940,974
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013	2,172,422
Series 1999-1 Agreement	7,036,000	2.875	6,918,505	6.32	June 1, 2020	7,421,897
Series 2006-1 Agreement	6,475,000	2.875	6,421,592	4.56	June 1, 2027	5,779,062

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfunds resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Direct Loan Portfolio	Proprietary Portfolio	\$ 5,338,643	State Match
Proprietary Portfolio	Capital Improvement	5,360,000	State Match
Leveraged Loan Portfolio	Capital Improvement	20,000,000	Future Debt Service
Safe Drinking Water Loan Program	Capital Improvement	3,185,000	State Match
Bond Security and Redemption	Direct Loan Portfolio	6,000,000	G.O. Bond Debt Service
General Fund	Proprietary Portfolio	15,829	Personal Services
Debt Service Fund	Proprietary Portfolio	44,503	Personal Services
General Fund	Safe Drinking Water Loan Program	<u>27,213</u>	Certification and Training
Subtotal – Fund Financial Statements		39,971,188	
Less: Fund eliminations		<u>(17,513,733)</u>	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Assets		<u>\$ 22,457,455</u>	

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

REVENUE OBLIGATION BONDS

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

Revenue bonds activity as of June 30, 2007 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Revenue bonds				
Add/(subtract) deferred amounts for:	\$ 676,660,000	\$ 100,000,000	\$ 47,085,000	\$ 729,575,000
Refundings-gains/(losses)	(11,818,022)	-	(2,341,432)	(9,476,590)
Premiums/discounts	<u>26,030,528</u>	<u>4,359,628</u>	<u>4,307,490</u>	<u>26,082,666</u>
Totals	<u>\$ 690,872,506</u>	<u>\$ 104,359,628</u>	<u>\$ 49,051,058</u>	<u>\$ 746,181,076</u>

Revenue bonds activity as of June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Revenue bonds				
Add/(subtract) deferred amounts for:	\$ 641,435,000	\$ 80,000,000	\$ 44,775,000	\$ 676,660,000
Refundings-gains/(losses)	(14,576,383)	-	(2,758,361)	(11,818,022)
Premiums/discounts	<u>25,354,160</u>	<u>4,951,135</u>	<u>4,274,767</u>	<u>26,030,528</u>
Totals	<u>\$ 652,212,777</u>	<u>\$ 84,951,135</u>	<u>\$ 46,291,406</u>	<u>\$ 690,872,506</u>

Revenue obligation serial and term bonds as of June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
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	<u>(85,108)</u>	<u>(110,571)</u>
	<u>57,359,892</u>	<u>57,334,429</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

<i>REVENUE OBLIGATION BONDS (cont.)</i>	<u>2007</u>	<u>2006</u>
1993 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	\$ -	\$ 15,845,000
Unamortized premium on bonds	-	125,379
	<u>-</u>	<u>15,970,379</u>
1997 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	-	3,845,000
Unamortized premium on bonds	-	32,027
	<u>-</u>	<u>3,877,027</u>
1998 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	23,485,000	27,520,000
Unamortized discount bonds	(189,704)	(155,924)
	<u>23,295,296</u>	<u>27,364,076</u>
1998 Series 2:		
Serial Bonds, no optional redemption	90,400,000	90,400,000
Unamortized premium on bonds	3,095,071	3,643,539
	<u>93,495,071</u>	<u>94,043,539</u>
1999 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	6,910,000	10,135,000
Unamortized premium on bonds	9,435	16,809
	<u>6,919,435</u>	<u>10,151,809</u>
2001 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	36,100,000	38,870,000
Unamortized discount on bonds	(152,672)	(126,723)
	<u>35,947,328</u>	<u>38,743,277</u>
2002 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	59,305,000	62,725,000
Unamortized premium on bonds	12,043	163,936
	<u>59,317,043</u>	<u>62,888,936</u>
2002 Series 2:		
Serial Bonds, no optional redemption	59,260,000	69,575,000
Unamortized premium on bonds	2,393,409	3,197,178
	<u>61,653,409</u>	<u>72,772,178</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

<i>REVENUE OBLIGATION BONDS</i> (cont.)	2007	2006
2004 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	\$ 109,645,000	\$ 113,275,000
Unamortized premium on bonds	3,643,345	4,535,152
	113,288,345	117,810,152
2004 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	107,025,000	107,025,000
Unamortized premium on bonds	8,707,377	9,845,118
	115,732,377	116,870,118
2006 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	80,000,000	80,000,000
Unamortized premium on bonds	4,562,445	4,864,608
	84,562,445	84,864,608
2006 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	100,000,000	-
Unamortized premium on bonds	4,087,026	-
	104,087,026	-
Total of All Series	755,657,667	702,690,528
Unamortized deferred charge related to debt defeasance (Note 7)	(9,476,590)	(11,818,022)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 746,181,077	\$ 690,872,506

The original issue discount or premium at issuance and the interest rates at June 30, 2007, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1991 Series 1	\$ 1,366,407	6.875%
1998 Series 1	(811,362)	4.00 – 5.00%
1998 Series 2	(7,739,808)	4.00 – 5.50%
1999 Series 1	(58,061)	5.00 – 5.75%
2001 Series 1	(1,022,362)	4.50 – 5.25%
2002 Series 1	(2,426,001)	4.00 – 5.25%
2002 Series 2	(7,344,300)	3.00 – 5.50%
2004 Series 1	(6,632,300)	4.00 – 5.00%
2004 Series 2	(11,408,668)	3.25 – 5.25%
2006 Series 1	(4,951,135)	3.50 – 5.00%
2006 Series 2	(4,359,628)	4.00 – 5.00%

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

Principal maturities of the bonds, net of advance refundings, as of June 30, 2007, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 54,985,000	\$ 37,035,871	\$ 92,020,871
2009	57,735,000	34,505,759	92,240,759
2010	60,760,000	31,376,984	92,136,984
2011	64,310,000	28,054,209	92,364,209
2012	44,030,000	24,601,003	68,631,003
2013-2017	205,850,000	90,119,350	295,969,350
2018-2022	156,785,000	42,433,613	199,218,613
2023-2027	85,120,000	10,775,898	95,895,898
Totals	<u>\$ 729,575,000</u>	<u>\$ 298,902,687</u>	<u>\$ 1,028,477,687</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2007 and 2006, the total assets of the Leveraged Loan Portfolio were \$924,523,126 and \$852,502,763, 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 statement of net assets 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.

NOTE 7 – 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, 2007 and June 30, 2006 there was \$16,755,000 and \$32,430,000, respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 7 – ADVANCE REFUNDING (cont.)

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, 2007, and 2006, there was \$91,985,000 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, 2007 and 2006, there was \$61,820,000 and \$71,850,000, respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2005, the Fund defeased a portion of its 1998 Series 1, 1999 Series 1, 2001 Series 1, and 2002 Series 1 bonds through the issuance of \$107,025,000 of 2004 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2007, and 2006, there was \$109,185,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

NOTE 8 – GLOBAL CERTIFICATES

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, 2007 and 2006 is \$111,740,278 and 12.6% and \$125,681,542 and 5.83%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In February 2007, two additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for \$13,148,554 and \$6,851,446 (par value). The estimated market value and weighted average coupon interest rates of the Global Certificates at June 30, 2007 were \$13,091,907 and 5.4% and \$6,686,006 and 5.8%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 8 – GLOBAL CERTIFICATES (cont.)

Principal maturities of the Global Certificates as of June 30 are as follows:

Years Ending <u>June 30,</u>	<u>2007</u>	<u>2006</u>
2008	\$ -	\$ -
2009	297,258	-
2010	14,954,450	14,518,075
2011	19,190,325	18,642,266
2012	7,746,829	7,088,976
2013-2017	37,227,869	33,335,968
2018-2022	37,570,315	33,195,562
2023-2027	<u>19,853,642</u>	<u>10,059,842</u>
Totals	<u>\$ 136,840,689</u>	<u>\$ 116,840,689</u>

NOTE 9 – 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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Interest:		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 13,350,409	\$ 8,792,230
MBIA Guaranteed Investment Agreement	387,518	387,518
Repurchase Agreement with Bayerische Landesbank	493,864	493,864
AIG Guaranteed Investment Agreement	1,769,209	1,769,209
United States Treasury Notes	1,819,699	1,368,213
State of Wisconsin General Obligation Bonds	<u>20,406,082</u>	<u>18,296,820</u>
Total Interest	<u>38,226,781</u>	<u>31,107,854</u>
Changes in Unrealized Gains (Losses);		
State of Wisconsin Investment Board Local Government Investment Pool	-	(1,123)
United States Treasury Notes	32,844	23,854
State of Wisconsin General Obligation Bonds	<u>(14,163,351)</u>	<u>(20,214,226)</u>
Total Changes in Unrealized Gains (Losses)	<u>(14,130,507)</u>	<u>(20,191,495)</u>
Total Interest and Changes in Unrealized Gains (Losses)	24,096,274	10,916,359
Change in Estimated Rebutable Arbitrage Liability	<u>624,565</u>	<u>(481,508)</u>
TOTAL INVESTMENT INCOME	<u>\$ 24,720,839</u>	<u>\$ 10,434,851</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2007 and 2006

NOTE 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 expected to result in the allocation of capitalization grant to Wisconsin of approximately \$28.9 million for federal fiscal year 2007. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2007 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 2007 and a grant to Wisconsin of approximately \$15.9 million is expected for federal fiscal year 2007.

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 2007 and 2006, the Fund expended hardship grants of \$1,318,129 and \$4,716,573, respectively. At June 30, 2007 and 2006, the Fund was committed to award \$1,582,763 and \$5,024,769, respectively, of additional hardship grants. At June 30, 2007 and 2006, the Fund has projected \$2,690,533 and \$4,260,441, respectively, of additional hardship grants.

SUPPLEMENTAL INFORMATION

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2007

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 138,922,063	\$ 12,795,954	\$ 29,562,896
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	-	37,807,955
Receivables			
Loans to local governments - current portion	57,261,229	1,538,749	50,558,742
Due from other funds	-	4,735,601	-
Due from other governmental entities	4,546,165	61,797	2,943,152
Accrued investment income	-	-	386,506
Prepaid items	-	4,859	16,887
Total Current Assets	<u>200,729,457</u>	<u>19,136,960</u>	<u>121,276,138</u>
Noncurrent Assets			
Restricted assets - cash equivalents	-	-	84,820,742
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	-	131,518,191
Loans to local governments	698,312,339	14,273,853	584,146,462
Prepaid items	-	-	268,784
Deferred debt expense	-	-	2,492,809
Total Noncurrent Assets	<u>698,312,339</u>	<u>14,273,853</u>	<u>803,246,988</u>
TOTAL ASSETS	<u>\$ 899,041,796</u>	<u>\$ 33,410,813</u>	<u>\$ 924,523,126</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 59,761,328	\$ -	\$ 241,042,241
-	-	37,807,955
9,139,360	-	118,498,080
-	(4,643,299)	92,302
1,112,122	-	8,663,236
-	-	386,506
-	-	21,746
<u>70,012,810</u>	<u>(4,643,299)</u>	<u>406,512,066</u>
-	-	84,820,742
-	-	131,518,191
150,237,038	-	1,446,969,692
-	-	268,784
-	-	2,492,809
<u>150,237,038</u>	<u>-</u>	<u>1,666,070,218</u>
<u>\$ 220,249,848</u>	<u>\$ (4,643,299)</u>	<u>\$ 2,072,582,284</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2007

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accrued expenses	\$ 29,926	\$ 75,451	\$ -
Accrued interest on bonds	-	-	3,086,323
Due to other funds	112,327	1,133,871	4,643,299
Due to other governmental entities	-	-	40,804
Revenue obligation bonds - current maturities	-	-	54,985,000
Total Current Liabilities	<u>142,253</u>	<u>1,209,322</u>	<u>62,755,426</u>
Noncurrent Liabilities			
Revenue obligation bonds, net (including deferred charge)	-	-	691,196,076
Due to other governmental entities	-	-	761,445
Accrued expenses	-	45,640	-
Total Noncurrent Liabilities	<u>-</u>	<u>45,640</u>	<u>691,957,521</u>
Total Liabilities	<u>142,253</u>	<u>1,254,962</u>	<u>754,712,947</u>
Net Assets			
Restricted for environmental improvement	898,899,543	2,835,178	169,810,179
Unrestricted	-	29,320,673	-
Total Net Assets	<u>898,899,543</u>	<u>32,155,851</u>	<u>169,810,179</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 899,041,796</u>	<u>\$ 33,410,813</u>	<u>\$ 924,523,126</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 41,019	\$ -	\$ 146,396
-	-	3,086,323
54,987	(4,643,299)	1,301,185
41,000	-	81,804
-	-	54,985,000
<u>137,006</u>	<u>(4,643,299)</u>	<u>59,600,708</u>
-	-	691,196,076
-	-	761,445
-	-	45,640
-	-	<u>692,003,161</u>
<u>137,006</u>	<u>(4,643,299)</u>	<u>751,603,869</u>
220,112,842	-	1,291,657,742
-	-	29,320,673
<u>220,112,842</u>	-	<u>1,320,978,415</u>
<u>\$ 220,249,848</u>	<u>\$ (4,643,299)</u>	<u>\$ 2,072,582,284</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BY PROGRAM

For the Year Ended June 30, 2007

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
OPERATING REVENUES			
Loan interest	\$ 21,324,301	\$ 427,832	\$ -
Interest income used as security for revenue bonds	-	46,044	18,347,471
Total Operating Revenues	<u>21,324,301</u>	<u>473,876</u>	<u>18,347,471</u>
OPERATING EXPENSES			
Interest	-	-	36,162,558
Salaries and benefits	563,014	480,735	1,922,938
Contractual services and other	48,933	115,562	493,319
Total Operating Expenses	<u>611,947</u>	<u>596,297</u>	<u>38,578,815</u>
Operating Income (Loss)	<u>20,712,354</u>	<u>(122,421)</u>	<u>(20,231,344)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	5,445,384	602,999	-
Investment income used as security for revenue bonds	-	-	15,834,692
Operating grants	26,437,350	-	-
Hardship grants awarded	-	(1,526,080)	-
Total Nonoperating Revenues, Net	<u>31,882,734</u>	<u>(923,081)</u>	<u>15,834,692</u>
INCOME (LOSS) BEFORE TRANSFERS	52,595,088	(1,045,502)	(4,396,652)
Transfers in/(out)	<u>(661,357)</u>	<u>(38,975)</u>	<u>20,000,000</u>
Increase (Decrease) in Net Assets	51,933,731	(1,084,477)	15,603,348
TOTAL NET ASSETS - Beginning of Year	<u>846,965,812</u>	<u>33,240,328</u>	<u>154,206,831</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 898,899,543</u>	<u>\$ 32,155,851</u>	<u>\$ 169,810,179</u>

Safe Drinking Water Loan Program	Totals
\$ 3,699,826	\$ 25,451,959
-	18,393,515
3,699,826	43,845,474
-	36,162,558
857,451	3,824,138
500,075	1,157,889
1,357,526	41,144,585
2,342,300	2,700,889
2,837,764	8,886,147
-	15,834,692
14,798,020	41,235,370
-	(1,526,080)
17,635,784	64,430,129
19,978,084	67,131,018
3,157,787	22,457,455
23,135,871	89,588,473
196,976,971	1,231,389,942
\$ 220,112,842	\$ 1,320,978,415

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2007

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
CASH FLOWS USED BY OPERATING ACTIVITIES			
Payments to employees for services	\$ (564,264)	\$ (2,280,840)	\$ -
Payments to suppliers and other	(48,933)	(204,808)	(199,735)
Other operating revenues	-	3,843	-
Net Cash Flows Used by Operating Activities	<u>(613,197)</u>	<u>(2,481,805)</u>	<u>(199,735)</u>
CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES			
Operating grants received	26,226,912	-	-
Grants paid	-	(1,526,080)	-
Transfers in (out)	(661,357)	(38,975)	20,000,000
Proceeds from issuance of long-term debt	-	-	104,149,018
Retirement of long-term debt	-	-	(47,085,000)
Interest payments	-	-	(38,242,220)
Net Cash Flows From (Used by) Noncapital Financing Activities	<u>25,565,555</u>	<u>(1,565,055)</u>	<u>38,821,798</u>
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES			
Origination of loans	(70,874,559)	-	(92,884,273)
Collection on loans	56,894,546	2,385,630	50,567,318
Interest received on loans	5,445,384	602,999	29,289,118
Purchase of investments	-	-	(103,614,986)
Liquidation of investments	-	-	75,614,953
Investment and interest income	21,324,671	437,914	18,215,889
Net Cash Flows From (Used by) Investing Activities	<u>12,790,042</u>	<u>3,426,543</u>	<u>(22,811,981)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	37,742,400	(620,317)	15,810,082
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>101,179,663</u>	<u>13,416,271</u>	<u>98,573,556</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 138,922,063</u>	<u>\$ 12,795,954</u>	<u>\$ 114,383,638</u>

Safe Drinking Water Loan Program	Totals
\$ (877,997)	\$ (3,723,101)
(444,783)	(898,259)
-	3,843
<u>(1,322,780)</u>	<u>(4,617,517)</u>
14,741,679	40,968,591
-	(1,526,080)
3,157,787	22,457,455
-	104,149,018
-	(47,085,000)
-	(38,242,220)
<u>17,899,466</u>	<u>80,721,764</u>
(27,364,033)	(191,122,865)
8,212,857	118,060,351
2,837,764	38,175,265
-	(103,614,986)
-	75,614,953
<u>3,638,530</u>	<u>43,617,004</u>
<u>(12,674,882)</u>	<u>(19,270,278)</u>
3,901,804	56,833,969
<u>55,859,524</u>	<u>269,029,014</u>
<u>\$ 59,761,328</u>	<u>\$ 325,862,983</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2007

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 20,712,354	\$ (122,421)	\$ (20,231,344)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Amortization	-	-	(1,538,042)
Interest income classified as investing activity	(21,324,301)	(427,832)	(18,347,471)
Interest expense classified as noncapital financing activity	-	-	38,301,261
Changes in assets and liabilities:			
Due from other funds	-	(2,326,885)	(185,552)
Prepaid items	-	(1,389)	16,887
Accrued expenses	16,476	3,843	-
Accrued interest on bonds	-	-	(600,660)
Due to other funds	(17,726)	392,879	2,385,186
Due to other governments	-	-	-
Total Adjustments	<u>(21,325,551)</u>	<u>(2,359,384)</u>	<u>20,031,609</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (613,197)</u>	<u>\$ (2,481,805)</u>	<u>\$ (199,735)</u>

Safe Drinking Water Loan Program	<u>Totals</u>
<u>\$ 2,342,300</u>	<u>\$ 2,700,889</u>
-	(1,538,042)
(3,699,826)	(43,799,430)
-	38,301,261
-	(2,512,437)
-	15,498
(6,914)	13,405
-	(600,660)
660	2,760,999
<u>41,000</u>	<u>41,000</u>
<u>(3,665,080)</u>	<u>(7,318,406)</u>
<u>\$ (1,322,780)</u>	<u>\$ (4,617,517)</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)

Years Ended June 30, 2007 and 2006

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, 2007 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 financial statements 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, 2007, and for the year then ended as listed in the table of contents. 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 are not intended to present fairly the financial position of the State of Wisconsin, and the changes in its financial position and its cash flows 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, 2007, and the changes in its financial position 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 the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the financial statements.

The "Other Information" on page 50 is presented for informational purposes only and is not a required part of the financial statements of the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund. The information has not been audited by us, and, accordingly, we express no opinion on such information.

Madison, Wisconsin
November 12, 2007

Virchow Krause + Company) LLP

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**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF NET ASSETS
June 1, 2007

ASSETS	
Current Assets	
Unrestricted cash and cash equivalents	\$ 35,492,952
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	37,807,955
Receivables	
Loans to local governments - current portion	50,386,150
Due from other governmental entities	1,496,518
Prepaid items	16,887
Total Current Assets	<u>125,200,462</u>
Noncurrent Assets	
Restricted assets - cash equivalents	84,335,066
Investments - State of Wisconsin general obligation clean water bonds, at fair value	131,229,875
Loans to local governments	578,525,066
Prepaid items	270,191
Deferred debt expense	2,529,996
Total Noncurrent Assets	<u>796,890,194</u>
TOTAL ASSETS	\$ 922,090,656
LIABILITIES AND NET ASSETS	
Current Liabilities	
Due to other funds	\$ 4,444,534
Due to other governmental entities	39,379
Revenue obligation bonds - current maturities	47,085,000
Total Current Liabilities	<u>51,568,913</u>
Noncurrent Liabilities	
Due to other governmental entities	1,726,422
Revenue obligation bonds, net (including deferred charge)	699,268,038
Total Noncurrent Liabilities	<u>700,994,460</u>
Total Liabilities	<u>752,563,373</u>
Net Assets	
Restricted for environmental improvement	169,527,283
Total Net Assets	<u>169,527,283</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 922,090,656

See accompanying notes to financial statements.

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 1, 2007

OPERATING REVENUES	
Interest income used as security for revenue bonds	\$ 18,282,795
Total Operating Revenues	<u>18,282,795</u>
OPERATING EXPENSES	
Interest	36,006,323
Salaries and benefits	1,917,968
Contractual services and other	<u>497,700</u>
Total Operating Expenses	<u>38,421,991</u>
Operating Loss	<u>(20,139,196)</u>
NONOPERATING REVENUES	
Investment income used as security for revenue bonds	<u>14,647,977</u>
Total Nonoperating Revenues, Net	<u>14,647,977</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(5,491,219)</u>
Transfers in	<u>20,000,000</u>
Increase in Net Assets	14,508,781
TOTAL NET ASSETS - Beginning of Year	<u>155,018,502</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 169,527,283</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF CASH FLOWS
For the Year Ended June 1, 2007

CASH FLOWS USED BY OPERATING ACTIVITIES	
Payments to suppliers and other	\$ (209,522)
Net Cash Flows Used by Operating Activities	<u>(209,522)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from issuance of long-term debt	104,149,018
Retirement of long-term debt	(47,085,000)
Interest payments	(38,242,220)
Transfers in	<u>20,000,000</u>
Net Cash Flows From Noncapital Financing Activities	<u>38,821,798</u>
CASH FLOWS USED BY INVESTING ACTIVITIES	
Origination of loans	(96,278,458)
Collection on loans	50,567,318
Interest and dividends received	29,220,356
Purchase of investments	(103,614,986)
Liquidation of investments	75,614,953
Investment and interest income	<u>18,215,889</u>
Net Cash Flows Used by Investing Activities	<u>(26,274,928)</u>
Net Increase in Cash and Cash Equivalents	12,337,348
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>107,490,670</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 119,828,018</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
FLOWS FROM OPERATIONS**

Operating Loss \$ (20,139,196)

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED IN OPERATION**

Amortization (1,503,816)
Interest income classified as investing activity (18,282,795)
Interest expense classified as noncapital financing activity 37,510,139
Changes in assets and liabilities:
 Prepaid items 16,887
 Deferred debt expense (185,338)
 Due to other funds 2,374,597
 Total Adjustments 19,929,674

NET CASH FLOWS FROM OPERATING ACTIVITIES \$ (209,522)

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE
STATEMENT OF NET ASSETS**

Unrestricted cash and cash equivalents - statement of net assets \$ 35,492,952
Restricted cash and cash equivalents - statement of net assets 84,335,066

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 119,828,018

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 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 \$20.1 million in 2007. 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 transfers from the State. No transfers for the purpose were required in 2007. Management expects 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 statement of net assets.

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements—The Portfolio holds United States Treasury Notes as investments at June 1, 2007 and records the notes at cost. The Portfolio purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

GASB Statement No. 31 (GASB No. 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”); one forward delivery agreement with Westdeutsche Landesbank Girozentral (“WestLB”); and one forward delivery agreement with JP Morgan Chase Bank (JP Morgan) described in Note 4 would be considered participating investment contracts under GASB No. 31. 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, 2007, the fair value of the Fund’s interest in these three agreements exceeded the cost of the treasury securities owned by approximately \$2,000.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 9). Investment transactions are recorded on the trade date.

Restricted Assets—Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

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 7).

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.

Net Assets—Net assets are classified as either restricted or unrestricted based on the presence or absence of restrictions.

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

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 2 – FINANCIAL ASSISTANCE COMMITMENTS TO LOCAL GOVERNMENTS

Leveraged loans to local governments at June 1, 2007, 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 2007. The weighted average interest rate was 2.855% at June 1, 2007. 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, 2007, \$162,600,977 (26%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio entered into \$27,039,004 of new loans during the 12 month period ending June 1, 2007. As of June 1, 2007, the Portfolio had undisbursed loan commitments totaling \$52,170,681. From June 1, 2007 to September 26, 2007, the Portfolio made additional loan disbursements of \$38,975,974 for financial assistance agreements that were outstanding prior to June 1, 2007. \$33,405,655 of additional leverage loans were executed between June 1, 2007 and September 26, 2007. These funding commitments are generally met through the proceeds from the issuance of additional Clean Water revenue bonds and investment earnings thereon (Note 6). Financial assistance in the form of grants is not provided in the Leverage Portfolio. The management of the EIF may elect to switch the target funding portfolio for a loan from Leverage to another loan portfolio based on various business or program needs.

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 1, 2007, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	\$ 84,134,842
Cash held by trustee	2,893
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	<u>21,842,081</u>
	119,828,018
Less: Amounts classified as restricted assets (see Note 6)	<u>(84,335,066)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ 35,492,952</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

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, 2007, the current yield on the LGIP was 5.19%. 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, 2007, the investment had a market value of \$8,269,769 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, 2007, the agreement had a market value of \$24,174,593 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, 2007, the repurchase agreement had a market value of \$6,593,264. 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.

	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 84,134,842	N/A	Not rated	36 days weighted average maturity	N/A	N/A	29.1%
MBIA-GIC	6,250,292	N/A	Aaa	6-1-13 final maturity	N/A	N/A	2.2
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	2.6
AIG-GIC	21,842,081	N/A	Aa2	6-1-11 final maturity	N/A	N/A	7.6
Treasury notes – Forward delivery	37,807,956	\$0	N/A	See Note 4	N/A	N/A	13.1
GO Bonds-WI	131,229,875	\$0	Aa3	5-1-24 final maturity	N/A	N/A	45.4
Miscellaneous cash	2,893	N/A	N/A	N/A	N/A	N/A	

The Leveraged Loan Portfolio does not have an investment policy for custodial credit risk, credit risk, interest rate risk, or concentration of credit risk.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

Restricted assets of \$84,335,066 represent amounts legally restricted by the Clean Water Revenue Bonds. The amount restricted is the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

NOTE 4 – FORWARD DELIVERY AGREEMENTS

The Portfolio has entered into six 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 6). Three of the agreements are with Wachovia, one is with WestLB, and two are with JP Morgan 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, 1999 Series 1, 2006 Series 1, and 2006 Series 2 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wachovia, WestLB, and JP Morgan 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.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

By GASB definition, these securities are classified as having no exposure to custodial credit risk. 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, 2007, 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	\$ 7,037,000	4.25%	\$ 6,991,387	5.58%	June 1, 2017	\$ 7,017,156
Series 1998-1 Agreement	7,320,000	4.25	7,292,755	5.01	June 1, 2018	7,299,358
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013	2,133,880
Series 1999-1 Agreement	6,989,000	4.25	6,918,879	6.32	June 1, 2020	6,969,291
Series 2006-1 Agreement	6,431,000	4.25	6,421,173	4.56	June 1, 2027	6,412,865
Series 2006-2 Agreement	8,023,000	4.25	7,999,769	4.84	June 1, 2027	7,972,209

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Proprietary Portfolio	Leveraged Loan Portfolio	\$ 4,444,534
Total Due to Other Funds – Statement of Net Assets		<u>\$ 4,444,534</u>

This interfund resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Leveraged Loan Portfolio	Capital Improvement	\$ 20,000,000	Future Debt Service
Total Transfers – Statement of Revenues, Expenses and Changes in Net Assets		<u>\$ 20,000,000</u>	

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

REVENUE OBLIGATION BONDS

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

	Beginning Balance	Increases	Decreases	Ending Balance
Revenue bonds				
Add/(subtract) deferred amounts for:	\$ 676,660,000	\$ 100,000,000	\$ 47,085,000	\$ 729,575,000
Refundings-gains/(losses)	(12,016,427)	-	(2,374,663)	(9,641,764)
Premiums/discounts	26,364,900	4,359,628	4,304,726	26,419,802
Totals	\$ 691,008,473	\$ 104,359,628	\$ 49,015,063	\$ 746,353,038

Revenue obligation serial and term bonds as of June 1, 2007 consisted of the following:

	2007
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	(87,329)
	57,357,671
1998 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	23,485,000
Unamortized discount bonds	(188,948)
	23,296,052
1998 Series 2:	
Serial Bonds, no optional redemption	90,400,000
Unamortized premium on bonds	3,142,182
	93,542,182
1999 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	6,910,000
Unamortized (discount) premium on bonds	9,829
	6,919,829
2001 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	36,100,000
Unamortized (discount) premium on bonds	(151,460)
	35,948,540
2002 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	59,305,000
Unamortized premium on bonds	21,557
	59,326,557

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

<i>REVENUE OBLIGATION BONDS (cont.)</i>	2007
2002 Series 2:	
Serial Bonds, no optional redemption	\$ 59,260,000
Unamortized premium on bonds	2,446,217
	61,706,217
2004 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	109,645,000
Unamortized premium on bonds	3,712,248
	113,357,248
2004 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	107,025,000
Unamortized premium on bonds	8,804,454
	115,829,454
2006 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	80,000,000
Unamortized premium on bonds	4,588,395
	84,588,395
2006 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	100,000,000
Unamortized premium on bonds	4,122,657
	104,122,657
Total of All Series	755,994,802
Unamortized deferred charge related to debt defeasance (Note 7)	(9,641,764)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 746,353,038

The original issue discount or premium at issuance and the interest rates at June 1, 2007, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1991 Series 1	\$ 1,366,407	6.875%
1998 Series 1	(811,362)	4.00 – 5.00%
1998 Series 2	(7,739,808)	4.00 – 5.50%
1999 Series 1	(58,061)	5.00 – 5.75%
2001 Series 1	(1,022,362)	4.50 – 5.25%
2002 Series 1	(2,426,001)	4.00 – 5.25%
2002 Series 2	(7,344,300)	3.00 – 5.50%
2004 Series 1	(6,632,300)	4.00 – 5.00%
2004 Series 2	(11,408,668)	3.25 – 5.25%
2006 Series 1	(4,951,135)	3.50 – 5.00%
2006 Series 2	(4,359,628)	4.00 – 5.00%

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

Principal maturities of the bonds, net of advance refundings, as of June 1, 2007, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2008	\$ 54,985,000	\$ 37,035,871	\$ 92,020,871
2009	57,735,000	34,505,759	92,240,759
2010	60,760,000	31,376,984	92,136,984
2011	64,310,000	28,054,209	92,364,209
2012	44,030,000	24,601,003	68,631,003
2013-2017	205,850,000	90,119,350	295,969,350
2018-2022	156,785,000	42,433,613	199,218,613
2023-2027	85,120,000	10,775,898	95,895,898
Totals	\$ 729,575,000	\$ 298,902,687	\$ 1,028,477,687

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2007, the total assets of the Leveraged Loan Portfolio were \$922,090,656. 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.

NOTE 7 – 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, 2007, there was \$16,755,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 7 – ADVANCE REFUNDING (cont.)

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, 2007, there was \$91,985,000 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, 2007, there was \$61,820,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2005, the Fund defeased a portion of its 1998 Series 1, 1999 Series 1, 2001 Series 1, and 2002 Series 1 bonds through the issuance of \$107,025,000 of 2004 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2007, there was \$109,185,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

NOTE 8 – GLOBAL CERTIFICATES

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, 2007 is \$111,472,884 and 12.6%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In February 2007, two additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for \$13,148,554 and \$6,851,446 (par value). The estimated market value and weighted average coupon interest rates of the Global Certificates at June 1, 2007 were \$13,082,027 and 5.4% and \$6,674,964 and 5.8%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2007

NOTE 8 – GLOBAL CERTIFICATES (cont.)

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 Certificates as of June 30 are as follows:

Years Ending June 30,	2007
2008	\$ -
2009	297,258
2010	14,954,450
2011	19,190,325
2012	7,746,829
2013-2017	37,227,869
2018-2022	37,570,315
2023-2027	19,853,642
Totals	<u>\$ 136,840,689</u>

NOTE 9 – 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, 2007:

Interest:

State of Wisconsin Investment Board Local Government Investment Pool	\$ 4,395,500
MBIA Guaranteed Investment Agreement	387,518
Repurchase Agreement with Bayerische Landesbank	493,864
AIG Guaranteed Investment Agreement	1,769,209
United States Treasury Notes	1,819,699
State of Wisconsin General Obligation Bonds	<u>20,406,082</u>
Total Interest	<u>29,271,872</u>
Changes in Unrealized Gains (Losses);	
State of Wisconsin General Obligation Bonds	<u>(14,246,121)</u>
Total Interest and Changes in Unrealized Gains (Losses)	15,025,751
Change in Estimated Rebtable Arbitrage Liability	<u>(377,774)</u>
TOTAL INVESTMENT INCOME	<u>\$ 14,647,977</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)

For the Year Ended June 1, 2007

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.