

State of Wisconsin

Notice of **Material Information** #2008-26
Dated November 25, 2008

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.

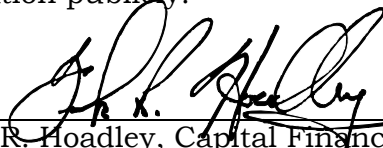
Type of Filing: Electronic. The following submission is also available on the State of Wisconsin Capital Finance web site at:

www.doa.wi.gov/capitalfinance

Type of Information: Financial Statements and Independent Auditors' Report for the Year Ended June 30, 2008

Attached are (1) the financial statements, supplemental information, and independent auditors' report for the years ended June 30, 2008 and June 30, 2007 for the Environmental Improvement Fund, and (2) the financial statements and independent auditors' report for the year ended June 1, 2008 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, 2008 and 2007,

SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2008, and
Independent Auditors' Report

AND

LEVERAGED LOAN PORTFOLIO

FINANCIAL STATEMENTS

For the Year Ended June 1, 2008 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, 2008 and 2007, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2008 and 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2008 on our consideration of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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.

The "Other Information" on page 34 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 11, 2008

Vuchow Krause + Company LLP

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	2008	2007
ASSETS		
Current Assets		
Unrestricted cash and cash equivalents	\$ 210,929,526	\$ 241,042,241
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	47,734,249	37,807,955
Receivables		
Loans to local governments - current portion	131,939,118	118,498,080
Due from other funds	21,516	92,302
Due from other governmental entities	8,103,008	8,663,236
Accrued investment income	420,379	386,506
Other	670,016	-
Prepaid items	21,649	21,746
Total Current Assets	399,839,461	406,512,066
Noncurrent Assets		
Restricted assets - cash equivalents	92,102,609	84,820,742
Investments - State of Wisconsin general obligation clean water bonds, at fair value	147,407,901	131,518,191
Loans to local governments	1,583,604,221	1,446,969,692
Prepaid items	251,897	268,784
Deferred debt expense	2,981,401	2,492,809
Total Noncurrent Assets	1,826,348,029	1,666,070,218
TOTAL ASSETS	\$ 2,226,187,490	\$ 2,072,582,284
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued expenses	\$ 167,881	\$ 146,396
Accrued interest on bonds	5,134,176	3,086,323
Due to other funds	1,432,922	1,301,185
Due to other governmental entities	143,488	81,804
Revenue obligation bonds - current maturities	60,730,000	54,985,000
Total Current Liabilities	67,608,467	59,600,708
Noncurrent Liabilities		
Revenue obligation bonds, net (including deferred charge)	737,249,116	691,196,076
Due to other governmental entities	1,227,249	761,445
Accrued expenses	59,495	45,640
Total Noncurrent Liabilities	738,535,860	692,003,161
Total Liabilities	806,144,327	751,603,869
Net Assets		
Restricted for environmental improvement	1,392,936,109	1,291,657,742
Unrestricted	27,107,054	29,320,673
Total Net Assets	1,420,043,163	1,320,978,415
TOTAL LIABILITIES AND NET ASSETS	\$ 2,226,187,490	\$ 2,072,582,284

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, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Loan interest	\$ 26,310,790	\$ 25,451,959
Interest income used as security for revenue bonds	18,957,040	18,393,515
Total Operating Revenues	45,267,830	43,845,474
 OPERATING EXPENSES		
Interest	36,438,974	36,162,558
Salaries and benefits	4,147,404	3,824,138
Contractual services and other	1,766,459	1,157,889
Total Operating Expenses	42,352,837	41,144,585
 Operating Income	2,914,993	2,700,889
 NONOPERATING REVENUES (EXPENSES)		
Investment income	7,457,971	8,886,147
Investment income used as security for revenue bonds	13,750,638	15,834,692
Operating grants	41,453,991	41,235,370
Hardship grants awarded	(1,082,969)	(1,526,080)
Total Nonoperating Revenues, Net	61,579,631	64,430,129
 INCOME BEFORE TRANSFERS	64,494,624	67,131,018
 Transfers in	34,570,124	22,457,455
 Increase in Net Assets	99,064,748	89,588,473
 TOTAL NET ASSETS - Beginning of Year	1,320,978,415	1,231,389,942
 TOTAL NET ASSETS - END OF YEAR	\$ 1,420,043,163	\$ 1,320,978,415

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS USED BY OPERATING ACTIVITIES		
Payments to employees for services	\$ (5,262,676)	\$ (3,723,101)
Reimbursement of salaries	1,935,938	-
Payments to suppliers and other	(3,061,936)	(898,259)
Other operating revenues	49,778	3,843
Net Cash Flows Used by Operating Activities	(6,338,896)	(4,617,517)
CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	42,239,816	40,968,591
Grants paid	(1,082,969)	(1,526,080)
Transfers in	34,570,124	22,457,455
Proceeds from issuance of long-term debt	107,213,970	104,149,018
Refunding bond proceeds deposited in irrevocable trust	29,275,000	-
Retirement of long-term debt	(83,085,000)	(47,085,000)
Interest payments	(36,323,513)	(38,242,220)
Net Cash Flows From (Used by) Noncapital Financing Activities	92,807,428	80,721,764
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Origination of loans	(274,142,350)	(191,122,865)
Collection on loans	124,066,783	118,060,351
Interest received on loans	32,610,025	38,175,265
Purchase of investments	(122,368,310)	(103,614,986)
Liquidation of investments	85,542,016	75,614,953
Investment and interest income	44,992,456	43,617,004
Net Cash Flows From (Used by) Investing Activities	(109,299,380)	(19,270,278)
Net Increase (Decrease) in Cash and Cash Equivalents	(22,830,848)	56,833,969
CASH AND CASH EQUIVALENTS - Beginning of Year	325,862,983	269,029,014
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 303,032,135	\$ 325,862,983

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 2,914,993	\$ 2,700,889
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Amortization	(1,591,259)	(1,538,042)
Interest income classified as investing activity	(45,218,052)	(43,799,430)
Interest expense classified as noncapital financing activity	35,572,300	38,301,261
Changes in assets and liabilities		
Due from other funds	2,287,571	(2,512,437)
Other receivables	(670,016)	-
Prepaid items	16,984	15,498
Deferred debt expense	(162,129)	-
Accrued expenses	35,338	13,405
Accrued interest on bonds	2,457,933	(600,660)
Due to other funds	(2,085,047)	2,760,999
Due to other governmental entities	102,488	41,000
Total Adjustments	<u>(9,253,889)</u>	<u>(7,318,406)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (6,338,896)</u>	<u>\$ (4,617,517)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Unrestricted cash and cash equivalents - statement of net assets	\$ 210,929,526	\$ 241,042,241
Restricted cash and cash equivalents - statement of net assets	<u>92,102,609</u>	<u>84,820,742</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 303,032,135</u>	<u>\$ 325,862,983</u>

NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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 ten loans granted under this program for a total of \$15,218,891. As of June 30, 2007, there were nine loans granted under this program for a total of \$14,415,429. As of June 30, 2008 and 2007, the total amount drawn on these loans was \$12,630,747 and \$11,617,397, 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, 2008 and 2007

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 \$2.9 million in 2008 and net operating income of \$2.7 million in 2007. 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 \$41.4 million and \$41.2 million in 2008 and 2007, respectively, and are classified as operating grants. Operating transfers from the State of Wisconsin were approximately \$3.2 million and \$8.5 million in 2008 and 2007, 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, 2008 and 2007 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, 2008 and 2007

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 four 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, 2008, the fair value of the Fund’s interest in these three agreements was below the cost of the treasury securities owned by approximately \$680,000. At June 30, 2007, the fair value exceeded the cost by \$20,000.

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, 2008 and 2007

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 \$41.4 million and \$41.2 million of EPA contributions in 2008 and 2007, 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, 2008 and 2007 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 5.8% to 0% in both 2008 and 2007. The weighted average interest rate was 2.689% and 2.756% at June 30, 2008 and 2007, 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, 2008 and 2007

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, 2008, all loans were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2008 and 2007, \$543,910,827 and \$460,488,581 (32% and 30%), 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 \$325,954,410 of new loans and \$80,000 of new grants during fiscal year 2008. As of June 30, 2008, they had undisbursed commitments of \$219,933,009 relating to loans and \$475,157 relating to grants. From July 1, 2008 to October 1, 2008, the Fund made additional loan disbursements of \$35,424,966 for financial assistance agreements that were outstanding prior to June 30, 2008. \$18,140,100 of additional loans were executed between July 1, 2008 and October 1, 2008. 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, 2008 and 2007, cash and cash equivalents consisted of the following:

	<u>2008</u>	<u>2007</u>
State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP"), at fair value	\$ 267,341,586	\$ 290,172,221
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	<u>266</u>	<u>479</u>
	303,032,135	325,862,983
Less Amounts classified as restricted assets (see Note 6)	<u>(92,102,609)</u>	<u>(84,820,742)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ 210,929,526</u>	<u>\$ 241,042,241</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 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 Securities and Exchange Commission (“SEC”) registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2008, the current yield on the LGIP was 2.23%, compared to 5.19% as of June 30, 2007. 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, the investment had a market value of \$8,240,028, and was accruing interest at the rate of 6.2%. No market value was available at June 30, 2008 for MBIA (See Note 11). The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 30, 2008 and 2007, the agreement had a market value of \$24,712,152 and \$24,145,049, 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, 2008 and 2007, the repurchase agreement had a market value of \$8,710,232 and \$6,584,314, 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, 2008</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	\$ 267,341,586	N/A	Not rated	51 days weighted average maturity	N/A	N/A	54%
MBIA-GIC	6,250,292	N/A	A2	6-1-13 final maturity	N/A	N/A	1
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1
AIG-GIC	21,842,081	N/A	A2	6-1-11 final maturity	N/A	N/A	4
Treasury notes – Forward delivery	47,734,249	\$0	N/A	See Note 4	N/A	N/A	10
GO Bonds-WI	147,407,901	\$0	Aa3	5-1-24 final maturity	N/A	N/A	30
Miscellaneous cash	266	N/A	N/A	N/A	N/A	N/A	

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

<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	

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 \$92,102,609 and \$84,820,742 at June 30, 2008 and 2007, 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 seven 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). Four 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, and 2008 Series 1 Revenue Obligation Bonds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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, 2008, 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	\$ 7,024,000	4.625%	\$ 6,991,281	5.58%	June 1, 2017	\$ 7,103,296
Series 1998-1 Agreement	7,306,000	4.625	7,292,156	5.01	June 1, 2018	7,388,479
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013	2,221,900
Series 1999-1 Agreement	6,976,000	4.625	6,918,683	6.32	June 1, 2020	7,054,754
Series 2006-1 Agreement	6,420,000	6.250	6,421,977	4.56	June 1, 2027	6,535,539
Series 2006-2 Agreement	8,008,000	4.625	7,999,465	4.84	June 1, 2027	8,098,404
Series 2008-1 Agreement	9,901,000	4.625	9,926,695	4.10	June 1, 2028	10,012,775

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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, 2007, are as follows:

	<u>Par Value of Treasuries</u>	<u>Coupon Rate of Treasuries</u>	<u>Cost of Treasuries</u>	<u>Agreement Interest Rate</u>	<u>Agreement Maturity Date</u>	<u>Agreement Market Value</u>
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

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>
Proprietary Portfolio	Capital Improvement	\$ 10,554,762	G.O. Bond Debt Service
Direct Loan Portfolio	Proprietary Portfolio	5,308,934	State Match
Leveraged Loan Portfolio	Proprietary Portfolio	3,000,000	Future Debt Service
Leveraged Loan Portfolio	Capital Improvement	26,900,000	Future Debt Service
Safe Drinking Water Loan Program	Capital Improvement	3,200,000	State Match
Bond Security and Redemption	Direct Loan Portfolio	6,000,000	G.O. Bond Debt Service
General Fund	Proprietary Portfolio	13,026	Personal Services
Debt Service Fund	Proprietary Portfolio	71,612	Personal Services
Subtotal		55,048,334	
Less: Fund eliminations		(20,478,210)	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Assets		<u>\$ 34,570,124</u>	

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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, 2008 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 729,575,000	\$ 127,335,000	\$ 83,085,000*	\$ 773,825,000	\$ 60,730,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(9,476,590)	(1,353,537)	(2,006,084)	(8,824,043)	-
Premiums/discounts	26,082,666	11,105,413	4,209,920	32,978,159	-
Totals	\$ 746,181,076	\$ 137,086,876	\$ 85,288,836	\$ 797,979,116	\$ 60,730,000

* Includes \$29,275,000 of refunded bonds.

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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

REVENUE OBLIGATION BONDS (cont.)

Revenue obligation serial and term bonds as of June 30, 2008 and 2007 consisted of the following:

	2008	2007
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	(57,850)	(85,108)
	57,387,150	57,359,892
1998 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	-	23,485,000
Unamortized discount on bonds	-	(189,704)
	-	23,295,296
1998 Series 2:		
Serial Bonds, no optional redemption	90,400,000	90,400,000
Unamortized premium on bonds	2,521,022	3,095,071
	92,921,022	93,495,071
1999 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	3,535,000	6,910,000
Unamortized premium on bonds	4,623	9,435
	3,539,623	6,919,435
2001 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	24,390,000	36,100,000
Unamortized discount on bonds	(150,948)	(152,672)
	24,239,052	35,947,328
2002 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	55,720,000	59,305,000
Unamortized discount on bonds	(100,272)	12,043
	55,619,728	59,317,043
2002 Series 2:		
Serial Bonds, no optional redemption	44,345,000	59,260,000
Unamortized premium on bonds	1,775,804	2,393,409
	46,120,804	61,653,409

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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

<i>REVENUE OBLIGATION BONDS</i> (cont.)	2008	2007
2004 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	\$ 89,075,000	\$ 109,645,000
Unamortized premium on bonds	2,840,455	3,643,345
	91,915,455	113,288,345
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	7,528,503	8,707,377
	114,553,503	115,732,377
2006 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	77,580,000	80,000,000
Unamortized premium on bonds	4,246,961	4,562,445
	81,826,961	84,562,445
2006 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	96,975,000	100,000,000
Unamortized premium on bonds	3,657,143	4,087,026
	100,632,143	104,087,026
2008 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	100,000,000	-
Unamortized premium on bonds	7,435,903	-
	107,435,903	-
2008 Series 2:		
Serial bonds, no optional redemption, June 1, 2018	27,335,000	-
Unamortized premium on bonds	3,276,815	-
	30,611,815	-
Total of All Series	806,803,159	755,657,667
Unamortized deferred charge related to debt defeasance (Note 7)	(8,824,043)	(9,476,590)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 797,979,116	\$ 746,181,077

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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

The original issue discount or premium at issuance and the interest rates at June 30, 2008, 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	(7,344,000)	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%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%

Principal maturities of the bonds, net of advance refundings, as of June 30, 2008, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2009	\$ 60,730,000	\$ 37,754,054	\$ 98,484,054
2010	63,880,000	34,405,979	98,285,979
2011	67,555,000	30,890,688	98,445,688
2012	47,410,000	27,916,179	75,326,179
2013	48,025,000	25,515,310	73,540,310
2014-2018	218,445,000	93,063,125	311,508,125
2019-2023	174,240,000	43,622,356	217,862,356
2024-2028	93,540,000	9,763,738	103,303,738
Totals	\$ 773,825,000	\$ 302,931,429	\$ 1,076,756,429

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2008 and 2007, the total assets of the Leveraged Loan Portfolio were \$1,000,181,932 and \$924,523,126, 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.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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

RESTRICTED ASSETS

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 \$56.4 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, there was \$16,755,000 of the defeased bonds outstanding. These were paid off during June 2008.

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, 2008, and 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 30, 2008 and 2007, there was \$47,195,000 and \$61,820,000, 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, 2008, and 2007, there was \$109,185,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

NOTE 7 – ADVANCE REFUNDING (cont.)

On February 12, 2008, the Fund issued \$27,335,000 in revenue bonds with an average interest rate of 5 percent to advance refund \$29,275,000 of its 1998 Series 1 and 2001 Series 1 bonds with an average interest rate of 4.87 percent. The net proceeds of \$30,505,723 (after payment of \$217,571 in underwriting fees, insurance and other issuance cost) 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. As a result, this portion of the bonds are considered to be defeased and the liability for those bonds has been removed from these financial statements.

The cash flow requirements on the refunded bonds and notes prior to the advance refunding was \$42,551,174 from 2008 through 2018. The cash flow requirements on the 2008 refunding bonds are \$40,344,072 from 2008 through 2018. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,006,797.

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, 2008 and 2007 is \$101,986,724 and 2.76% and \$111,740,278 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 30, 2008 were \$13,536,034 and 5.43% and \$4,564,876 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In June 2008, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$16,600,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2008 was \$17,020,266 and 6.16%, 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, 2008 and 2007

NOTE 8 – GLOBAL CERTIFICATES (cont.)

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

Years Ending June 30,	2008	2007
2009	\$ 297,258	\$ 297,258
2010	14,954,450	14,954,450
2011	19,190,325	19,190,325
2012	7,746,829	7,746,829
2013	9,662,930	9,662,930
2014-2018	36,789,569	36,789,569
2019-2023	37,215,237	37,215,237
2024-2028	27,584,091	10,984,091
Totals	\$ 153,440,689	\$ 136,840,689

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, 2008 and 2007:

	2008	2007
Interest:		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 10,180,534	\$ 13,350,409
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	2,110,678	1,819,699
State of Wisconsin General Obligation Bonds	19,192,074	20,406,082
Total Interest	34,133,877	38,226,781
Changes in Unrealized Gains (Losses);		
United States Treasury Notes	33,873	32,844
State of Wisconsin General Obligation Bonds	(11,010,290)	(14,163,351)
Total Changes in Unrealized Gains (Losses)	(10,976,417)	(14,130,507)
Total Interest and Changes in Unrealized Gains (Losses)	23,157,460	24,096,274
Change in Estimated Rebutable Arbitrage Liability	(1,948,851)	624,565
TOTAL INVESTMENT INCOME	\$ 21,208,609	\$ 24,720,839

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2008 and 2007

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 \$18.4 million for federal fiscal year 2008. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2008 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 2008 and a grant to Wisconsin of approximately \$15.8 million is expected for federal fiscal year 2008.

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 2008 and 2007, the Fund expended hardship grants of \$887,491 and \$1,318,129, respectively. At June 30, 2008 and 2007, the Fund was committed to award \$475,157 and \$1,582,763, respectively, of additional hardship grants. At June 30, 2007, the Fund had projected \$2,690,533 of additional hardship grants. No additional hardship grants are projected as of June 30, 2008.

NOTE 11 – SUBSEQUENT EVENT

On July 3, 2008, the State of Wisconsin (the “Issuer”), the U.S. Bank National Association as trustee (the “Trustee”) and the MBIA Investment Management Corporation (“MIMCO”) entered into a Termination of Flexible Draw Investment Agreement for the purposes of terminating a Flexible Draw Investment Agreement originally entered into on September 15, 1993. The par amount of the 1993 Agreement was \$6,250,291. In addition to the return of that amount to the Issuer, there was also paid to the Issuer \$34,446 in accrued interest and \$200,000 representing a termination fee. The funds derived from the Termination Agreement were deposited into the Loan Credit Reserve Fund of the Clean Water Revenue Bonds.

S U P P L E M E N T A L I N F O R M A T I O N

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2008

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 100,335,049	\$ 18,345,492	\$ 28,767,213
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	-	47,734,249
Receivables			
Loans to local governments - current portion	62,499,622	1,542,002	57,341,148
Due from other funds	-	2,448,031	-
Due from other governmental entities	4,191,634	56,124	2,969,884
Accrued investment income	-	-	420,379
Other	-	-	-
Prepaid items	-	4,762	16,887
Total Current Assets	<u>167,026,305</u>	<u>22,396,411</u>	<u>137,249,760</u>
Noncurrent Assets			
Restricted assets - cash equivalents	-	-	92,102,609
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	-	147,407,901
Loans to local governments	782,971,902	12,589,610	620,188,364
Prepaid items	-	-	251,897
Deferred debt expense	-	-	2,981,401
Total Noncurrent Assets	<u>782,971,902</u>	<u>12,589,610</u>	<u>862,932,172</u>
 TOTAL ASSETS	 <u>\$ 949,998,207</u>	 <u>\$ 34,986,021</u>	 <u>\$ 1,000,181,932</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 63,481,772	\$ -	\$ 210,929,526
-	-	47,734,249
10,556,346	-	131,939,118
-	(2,426,515)	21,516
885,366	-	8,103,008
-	-	420,379
670,016	-	670,016
-	-	21,649
<u>75,593,500</u>	<u>(2,426,515)</u>	<u>399,839,461</u>
-	-	92,102,609
-	-	147,407,901
167,854,345	-	1,583,604,221
-	-	251,897
-	-	2,981,401
<u>167,854,345</u>	<u>-</u>	<u>1,826,348,029</u>
<u>\$ 243,447,845</u>	<u>\$ (2,426,515)</u>	<u>\$ 2,226,187,490</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2008

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accrued expenses	\$ 20,372	\$ 56,676	\$ -
Accrued interest on bonds	-	-	5,134,176
Due to other funds	74,463	1,286,739	2,426,515
Due to other governmental entities	-	-	-
Revenue obligation bonds - current maturities	-	-	60,730,000
Total Current Liabilities	<u>94,835</u>	<u>1,343,415</u>	<u>68,290,691</u>
Noncurrent Liabilities			
Revenue obligation bonds, net (including deferred charge)	-	-	737,249,116
Due to other governmental entities	-	-	1,227,249
Accrued expenses	-	59,495	-
Total Noncurrent Liabilities	<u>-</u>	<u>59,495</u>	<u>738,476,365</u>
Total Liabilities	<u>94,835</u>	<u>1,402,910</u>	<u>806,767,056</u>
Net Assets			
Restricted for environmental improvement	949,903,372	6,476,057	193,414,876
Unrestricted	-	27,107,054	-
Total Net Assets	<u>949,903,372</u>	<u>33,583,111</u>	<u>193,414,876</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 949,998,207</u>	<u>\$ 34,986,021</u>	<u>\$ 1,000,181,932</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 90,833	\$ -	\$ 167,881
-	-	5,134,176
71,720	(2,426,515)	1,432,922
143,488	-	143,488
<u>-</u>	<u>-</u>	<u>60,730,000</u>
<u>306,041</u>	<u>(2,426,515)</u>	<u>67,608,467</u>
-	-	737,249,116
-	-	1,227,249
-	-	59,495
<u>-</u>	<u>-</u>	<u>738,535,860</u>
<u>306,041</u>	<u>(2,426,515)</u>	<u>806,144,327</u>
243,141,804	-	1,392,936,109
-	-	27,107,054
<u>243,141,804</u>	<u>-</u>	<u>1,420,043,163</u>
<u>\$ 243,447,845</u>	<u>\$ (2,426,515)</u>	<u>\$ 2,226,187,490</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BY PROGRAM
For the Year Ended June 30, 2008

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
OPERATING REVENUES			
Loan interest	\$ 21,925,728	\$ 372,631	\$ -
Interest income used as security for revenue bonds	-	49,778	18,907,262
Total Operating Revenues	<u>21,925,728</u>	<u>422,409</u>	<u>18,907,262</u>
OPERATING EXPENSES			
Interest	-	-	36,438,974
Salaries and benefits	447,170	503,418	2,013,673
Contractual services and other	58,485	103,211	500,556
Total Operating Expenses	<u>505,655</u>	<u>606,629</u>	<u>38,953,203</u>
Operating Income (Loss)	<u>21,420,073</u>	<u>(184,220)</u>	<u>(20,045,941)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	4,565,329	533,259	-
Investment income used as security for revenue bonds	-	-	13,750,638
Operating grants	25,709,493	-	-
Hardship grants awarded	-	(1,082,969)	-
Total Nonoperating Revenues (Expenses), Net	<u>30,274,822</u>	<u>(549,710)</u>	<u>13,750,638</u>
INCOME (LOSS) BEFORE TRANSFERS	51,694,895	(733,930)	(6,295,303)
Transfers in/(out)	<u>(691,066)</u>	<u>2,161,190</u>	<u>29,900,000</u>
Increase in Net Assets	51,003,829	1,427,260	23,604,697
TOTAL NET ASSETS - Beginning of Year	<u>898,899,543</u>	<u>32,155,851</u>	<u>169,810,179</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 949,903,372</u>	<u>\$ 33,583,111</u>	<u>\$ 193,414,876</u>

Safe Drinking Water Loan Program	Totals
\$ 4,012,431	\$ 26,310,790
-	18,957,040
4,012,431	45,267,830
-	36,438,974
1,183,143	4,147,404
1,104,207	1,766,459
2,287,350	42,352,837
1,725,081	2,914,993
2,359,383	7,457,971
-	13,750,638
15,744,498	41,453,991
-	(1,082,969)
18,103,881	61,579,631
19,828,962	64,494,624
3,200,000	34,570,124
23,028,962	99,064,748
220,112,842	1,320,978,415
\$ 243,141,804	\$ 1,420,043,163

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2008

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES			
Payments to employees for services	\$ (494,586)	\$ -	\$ (3,786,232)
Reimbursement of salaries	-	1,935,938	-
Payments to suppliers and other	(58,485)	(106,954)	(1,090,023)
Other operating revenues	-	49,778	-
Net Cash Flows From (Used by) Operating Activities	<u>(553,071)</u>	<u>1,878,762</u>	<u>(4,876,255)</u>
CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES			
Operating grants received	26,204,280	-	-
Grants paid	-	(1,082,969)	-
Transfers in (out)	(691,066)	2,161,190	29,900,000
Proceeds from issuance of long-term debt	-	-	107,213,970
Refunding bond proceeds deposited in irrevocable trust	-	-	29,275,000
Retirement of long-term debt	-	-	(83,085,000)
Interest payments	-	-	(36,323,513)
Net Cash Flows From (Used by) Noncapital Financing Activities	<u>25,513,214</u>	<u>1,078,221</u>	<u>46,980,457</u>
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES			
Origination of loans	(148,696,380)	-	(96,967,654)
Collection on loans	58,798,422	1,680,991	54,143,346
Interest received on loans	4,565,329	533,259	25,152,054
Purchase of investments	-	-	(122,368,310)
Liquidation of investments	-	-	85,542,016
Investment and interest income	21,785,472	378,305	18,880,530
Net Cash Flows From (Used by) Investing Activities	<u>(63,547,157)</u>	<u>2,592,555</u>	<u>(35,618,018)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(38,587,014)	5,549,538	6,486,184
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>138,922,063</u>	<u>12,795,954</u>	<u>114,383,638</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 100,335,049</u>	<u>\$ 18,345,492</u>	<u>\$ 120,869,822</u>

Safe Drinking Water Loan Program	Totals
\$ (981,858)	\$ (5,262,676)
-	1,935,938
(1,806,474)	(3,061,936)
-	49,778
<u>(2,788,332)</u>	<u>(6,338,896)</u>
16,035,536	42,239,816
-	(1,082,969)
3,200,000	34,570,124
-	107,213,970
-	29,275,000
-	(83,085,000)
-	(36,323,513)
<u>19,235,536</u>	<u>92,807,428</u>
(28,478,316)	(274,142,350)
9,444,024	124,066,783
2,359,383	32,610,025
-	(122,368,310)
-	85,542,016
<u>3,948,149</u>	<u>44,992,456</u>
<u>(12,726,760)</u>	<u>(109,299,380)</u>
3,720,444	(22,830,848)
<u>59,761,328</u>	<u>325,862,983</u>
<u>\$ 63,481,772</u>	<u>\$ 303,032,135</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2008

	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)	\$ 21,420,073	\$ (184,220)	\$ (20,045,941)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Amortization	-	-	(1,591,259)
Interest income classified as investing activity	(21,925,728)	(372,631)	(18,907,262)
Interest expense classified as noncapital financing activity	-	-	35,572,300
Changes in assets and liabilities:			
Due from other funds	-	2,287,571	-
Other receivables	-	-	-
Prepaid items	-	97	16,887
Deferred debt expense	-	-	(162,129)
Accrued expenses	(9,552)	(4,923)	-
Accrued interest on bonds	-	-	2,457,933
Due to other funds	(37,864)	152,868	(2,216,784)
Due to other governmental entities	-	-	-
Total Adjustments	<u>(21,973,144)</u>	<u>2,062,982</u>	<u>15,169,686</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (553,071)</u>	<u>\$ 1,878,762</u>	<u>\$ (4,876,255)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
Unrestricted cash and cash equivalents - statement of net assets	\$ 100,335,049	\$ 18,345,492	\$ 28,767,213
Restricted cash and cash equivalents - statement of net assets	<u>-</u>	<u>-</u>	<u>92,102,609</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 100,335,049</u>	<u>\$ 18,345,492</u>	<u>\$ 120,869,822</u>

NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE

Safe Drinking Water Loan Program	Totals
<u>\$ 1,725,081</u>	<u>\$ 2,914,993</u>
-	(1,591,259)
(4,012,431)	(45,218,052)
-	35,572,300
-	2,287,571
(670,016)	(670,016)
-	16,984
-	(162,129)
49,813	35,338
-	2,457,933
16,733	(2,085,047)
102,488	102,488
<u>(4,513,413)</u>	<u>(9,253,889)</u>
<u>\$ (2,788,332)</u>	<u>\$ (6,338,896)</u>
<u>\$ 63,481,772</u>	<u>\$ 210,929,526</u>
-	92,102,609
<u>\$ 63,481,772</u>	<u>\$ 303,032,135</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)
Years Ended June 30, 2008 and 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 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.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 2008 and 2007 and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State of Wisconsin Environmental Improvement Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State of Wisconsin Environmental Improvement Fund's financial statements that is more than inconsequential will not be prevented or detected by the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

To the Secretary of the Department of Administration
and the Secretary of the Department of
Natural Resources of the State of Wisconsin
State of Wisconsin Environmental Improvement Fund

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State of Wisconsin Environmental Improvement Fund's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency identified above is not a material weakness.

Significant Deficiency – Financial Reporting

Recently a new auditing standard was issued that focuses on internal control, and what we communicate to you regarding your controls. Those requirements are set out in Statement on Auditing Standards No. 112, "*Communicating Internal Control Matters Identified in an Audit.*"

The new standard clarifies some definitions and will promote more consistency in how weak areas in internal control are communicated by auditors to their clients.

Internal control is a process – affected by an entity's governing body, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

Internal control consists of five interrelated components:

- a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- b. *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- d. *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- e. *Monitoring* is a process that assesses the quality of internal control performance over time.

To the Secretary of the Department of Administration
and the Secretary of the Department of
Natural Resources of the State of Wisconsin
State of Wisconsin Environmental Improvement Fund

How does this affect the State of Wisconsin's Environmental Improvement Fund? The new standard required us to review many factors to determine if a material weakness or significant deficiency exists within your fund. There are three factors in particular which were evaluated under SAS 112 this year:

- *Financial Reporting* – The existence of material audit journal entries.
- *Financial Reporting* – The accuracy of the annual financial statements and footnotes.
- *Internal Control Documentation* – The availability of complete documentation of your system of internal control.

The result of our audit work indicated that we found significant journal entries to the fund's records that resulted in changes to the statements. Therefore, we are required to report a significant deficiency in financial reporting.

Auditee Response

Management has a review process in place to provide the necessary controls over financial reporting. We will continue to strengthen controls over this process to avoid any future entries.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the State of Wisconsin Environmental Improvement Fund in a separate letter dated November 11, 2008.

This report is intended solely for the information and use of the State of Wisconsin Environmental Improvement Fund management, others within the entity, federal agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Madison, Wisconsin
November 11, 2008

Ruchow Krause + Company LLP

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO
FINANCIAL STATEMENTS
For the Year Ended June 1, 2008 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, 2008, 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, 2008, 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 56 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 11, 2008

A handwritten signature in black ink that reads "Virchow Krause & Company LLP". The signature is written in a cursive, flowing style.

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**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF NET ASSETS
June 1, 2008

ASSETS	
Current Assets	
Unrestricted cash and cash equivalents	\$ 133,448,205
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,550,069
Receivables	
Accrued interest	2,253,336
Loans to local governments - current portion	56,683,374
Due from other governmental entities	1,510,110
Prepaid items	16,887
Total Current Assets	239,461,981
Noncurrent Assets	
Restricted assets - cash equivalents	89,717,398
Investments - State of Wisconsin general obligation clean water bonds, at fair value	130,020,406
Loans to local governments	589,966,866
Prepaid items	270,191
Deferred debt expense	2,974,122
Total Noncurrent Assets	812,948,983
TOTAL ASSETS	\$ 1,052,410,964
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accrued interest payable	\$ 19,650,931
Due to other funds	2,224,305
Due to other governmental entities	46,979
Revenue obligation bonds - current maturities	114,540,000
Total Current Liabilities	136,462,215
Noncurrent Liabilities	
Due to other governmental entities	1,194,707
Revenue obligation bonds, net (including deferred charge)	737,472,176
Total Noncurrent Liabilities	738,666,883
Total Liabilities	875,129,098
Net Assets	
Restricted for environmental improvement	177,281,866
Total Net Assets	177,281,866
TOTAL LIABILITIES AND NET ASSETS	\$ 1,052,410,964

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, 2008

OPERATING REVENUES	
Interest income used as security for revenue bonds	\$ 18,894,122
Total Operating Revenues	<u>18,894,122</u>
OPERATING EXPENSES	
Interest	36,282,539
Salaries and benefits	2,006,112
Contractual services and other	<u>485,219</u>
Total Operating Expenses	<u>38,773,870</u>
Operating Loss	<u>(19,879,748)</u>
NONOPERATING REVENUES	
Investment income used as security for revenue bonds	<u>14,334,331</u>
Total Nonoperating Revenues, Net	<u>14,334,331</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(5,545,417)</u>
Transfers in	<u>13,300,000</u>
Increase in Net Assets	7,754,583
TOTAL NET ASSETS - Beginning of Year	<u>169,527,283</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 177,281,866</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF CASH FLOWS
For the Year Ended June 1, 2008

CASH FLOWS USED BY OPERATING ACTIVITIES

Payments to employees for services	\$ (3,786,232)
Payments to suppliers and other	<u>(1,037,747)</u>
Net Cash Flows Used by Operating Activities	<u>(4,823,979)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers in	13,300,000
Proceeds from issuance of long-term debt	107,213,970
Refunding bond proceeds deposited in irrevocable trust	29,275,000
Retirement of long-term debt	(29,275,000)
Interest payments	<u>(19,634,819)</u>
Net Cash Flows From Noncapital Financing Activities	<u>100,879,151</u>

CASH FLOWS USED BY INVESTING ACTIVITIES

Origination of loans	(71,882,369)
Collection on loans	54,143,346
Interest and dividends received	24,182,385
Purchase of investments	(55,850,068)
Liquidation of investments	37,808,589
Investment and interest income	<u>18,880,530</u>
Net Cash Flows Used by Investing Activities	<u>7,282,413</u>

**Net Increase in Cash and
Cash Equivalents**

103,337,585

CASH AND CASH EQUIVALENTS - Beginning of Year

119,828,018

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 223,165,603

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

Operating Loss \$ (19,879,748)

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

Interest income classified as investing activity (18,894,122)

Interest expense classified as noncapital financing activity 35,165,655

Changes in assets and liabilities:

Accrued interest 1,116,884

Deferred debt expense (112,420)

Due to other funds (2,220,228)

Total Adjustments 15,055,769

NET CASH FLOWS FROM OPERATING ACTIVITIES **\$ (4,823,979)**

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

Unrestricted cash and cash equivalents - statement of net assets \$ 133,448,205

Restricted cash and cash equivalents - statement of net assets 89,717,398

CASH AND CASH EQUIVALENTS - END OF YEAR **\$ 223,165,603**

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

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 \$19.9 million in 2008. 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 2008. 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, 2008 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 four forward delivery agreements with Wachovia Bank, NA (“Wachovia”); 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 1, 2008, the fair value of the Fund’s interest in these three agreements exceeded the cost of the treasury securities owned by approximately \$774,000.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

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, 2008

NOTE 2 – FINANCIAL ASSISTANCE COMMITMENTS TO LOCAL GOVERNMENTS

Leveraged loans to local governments at June 1, 2008, 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 2008. The weighted average interest rate was 2.802% at June 1, 2008. 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, 2008, \$172,381,260 (27%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio entered into \$53,705,299 of new loans during the 12 month period ending June 1, 2008. As of June 1, 2008, the Portfolio had undisbursed loan commitments totaling \$51,206,575. From June 1, 2008 to October 1, 2008, the Portfolio made additional loan disbursements of \$9,949,161 for financial assistance agreements that were outstanding prior to June 1, 2008. \$71,764,288 of additional leverage loans were executed between June 1, 2008 and October 1, 2008. 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, 2008, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	\$ 187,471,862
Cash held by trustee	3,458
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>
	223,165,603
Less: Amounts classified as restricted assets (see Note 6)	<u>(89,717,398)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ 133,448,205</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

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, 2008, the current yield on the LGIP was 2.27%. 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, 2008, no market value was available for MBIA (See Note 10). The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 1, 2008, the agreement had a market value of \$24,886,910 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, 2008, the repurchase agreement had a market value of \$8,833,126. 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	\$ 187,471,862	N/A	Not rated	51 days weighted average maturity	N/A	N/A	47.0%
MBIA-GIC	6,250,292	N/A	A2	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	1.9
AIG-GIC	21,842,081	N/A	A2	6-1-11 final maturity	N/A	N/A	5.6
Treasury notes – Forward delivery	45,550,069	\$0	N/A	See Note 4	N/A	N/A	11.4
GO Bonds-WI	130,020,406	\$0	Aa3	5-1-24 final maturity	N/A	N/A	32.6
Miscellaneous cash	3,458	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, 2008

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

Restricted assets of \$89,717,398 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). Four of the agreements are with Wachovia 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 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, 2006 Series 2, and 2008 Series 1 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.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

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, 2008, are as follows:

	<u>Par Value of Treasuries</u>	<u>Coupon Rate of Treasuries</u>	<u>Cost of Treasuries</u>	<u>Agreement Interest Rate</u>	<u>Agreement Maturity Date</u>	<u>Agreement Market Value</u>
Series 1997-1 Agreement	\$ 7,024,000	4.625%	\$ 6,991,281	5.58%	June 1, 2017	\$ 7,122,208
Series 1998-1 Agreement	7,306,000	4.625	7,292,156	5.01	June 1, 2018	7,408,151
Series 1999-1 Agreement	6,976,000	4.625	6,918,683	6.32	June 1, 2020	7,073,537
Series 2006-1 Agreement	6,420,000	6.250	6,421,977	4.56	June 1, 2027	6,560,893
Series 2006-2 Agreement	8,008,000	4.625	7,999,465	4.84	June 1, 2027	8,119,656
Series 2008-1 Agreement	9,901,000	4.625	9,926,695	4.10	June 1, 2028	10,039,433

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	\$ 2,224,305
Total Due to Other Funds – Statement of Net Assets		<u>\$ 2,224,305</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	Proprietary Portfolio	\$ 3,000,000	Future Debt Service
Leveraged Loan Portfolio	Capital Improvement	<u>10,300,000</u>	Future Debt Service
Total Transfers – Statement of Revenues, Expenses and Changes in Net Assets		<u>\$ 13,300,000</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, 2008

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	Amounts Due Within One Year
Revenue bonds	\$ 729,575,000	\$ 127,335,000	\$ 29,275,000 *	\$ 827,635,000	\$ 114,540,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(9,641,764)	(1,353,537)	(2,021,477)	(8,973,824)	-
Premiums/discounts	26,419,802	11,105,413	4,174,215	33,351,000	-
Totals	\$ 746,353,038	\$ 137,086,876	\$ 31,427,738	\$ 852,012,176	\$ 114,540,000

* Includes \$29,275,000 of refunded bonds.

Revenue obligation serial and term bonds as of June 1, 2008 consisted of the following:

	2008
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	(60,226)
	57,384,774
1998 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	3,195,000
Unamortized discount bonds	-
	3,195,000
1998 Series 2:	
Serial Bonds, no optional redemption	90,400,000
Unamortized premium on bonds	2,570,331
	92,970,331
1999 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	6,910,000
Unamortized premium on bonds	5,038
	6,915,038
2001 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	27,115,000
Unamortized discount on bonds	(150,429)
	26,964,571
2002 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	59,305,000
Unamortized discount on bonds	(93,737)
	59,211,263

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

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

<i>REVENUE OBLIGATION BONDS</i> (cont.)	<u>2008</u>
2002 Series 2:	
Serial Bonds, no optional redemption	\$ 59,260,000
Unamortized premium on bonds	<u>1,806,667</u>
	<u>61,066,667</u>
2004 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	109,645,000
Unamortized premium on bonds	<u>2,879,611</u>
	<u>112,524,611</u>
2004 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	107,025,000
Unamortized premium on bonds	<u>7,629,091</u>
	<u>114,654,091</u>
2006 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	80,000,000
Unamortized premium on bonds	<u>4,273,820</u>
	<u>84,273,820</u>
2006 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	100,000,000
Unamortized premium on bonds	<u>3,690,850</u>
	<u>103,690,850</u>
2008 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	100,000,000
Unamortized premium on bonds	<u>7,497,262</u>
	<u>107,497,262</u>
2008 Series 2:	
Serial Bonds, no optional redemption	27,335,000
Unamortized premium on bonds	<u>3,302,722</u>
	<u>30,637,722</u>
Total of All Series	860,986,000
Unamortized deferred charge related to debt defeasance (Note 7)	<u>(8,973,824)</u>
Revenue Obligation Bonds, Net of Deferred Charge	<u>\$ 852,012,176</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

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

REVENUE OBLIGATION BONDS (cont.)

The original issue discount or premium at issuance and the interest rates at June 1, 2008, 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	(7,344,000)	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%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%

Principal maturities of the bonds, net of advance refundings, as of June 1, 2008, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2008	\$ 53,810,000	\$ 39,383,884	\$ 93,193,884
2009	60,730,000	37,754,054	98,484,054
2010	63,880,000	34,405,979	98,285,979
2011	67,555,000	30,890,688	98,445,688
2012	47,410,000	27,916,179	75,326,179
2013-2017	224,665,000	104,358,369	329,023,369
2018-2022	181,915,000	52,461,549	234,376,549
2023-2027	120,050,000	14,954,111	135,004,111
2028	7,620,000	190,500	7,810,500
Totals	\$ 827,635,000	\$ 342,315,313	\$ 1,169,950,313

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2008, the total assets of the Leveraged Loan Portfolio were \$1,052,410,964. 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.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

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

REVENUE OBLIGATION BONDS (cont.)

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 \$54 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, 2008, there was \$16,755,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of \$104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2008, 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, 2008, 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, 2008, there was \$109,185,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

NOTE 7 – ADVANCE REFUNDING (cont.)

On February 12, 2008, the Fund issued \$27,335,000 in revenue bonds with an average interest rate of 5 percent to advance refund \$29,275,000 of its 1998 Series 1 and 2001 Series 1 bonds with an average interest rate of 4.87 percent. The net proceeds of \$30,505,723 (after payment of \$217,571 in underwriting fees, insurance and other issuance cost) 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. As a result, this portion of the bonds are considered to be defeased and the liability for those bonds has been removed from these financial statements.

The cash flow requirements on the refunded bonds and notes prior to the advance refunding was \$42,551,174 from 2008 through 2018. The cash flow requirements on the 2008 refunding bonds are \$40,344,072 from 2008 through 2018. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,006,797.

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, 2008 is \$101,694,322 and 2.76%, 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, 2008 were \$13,483,846 and 5.43% and \$4,542,238 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

The Bond is registered in the name of the Portfolio and held by an independent trustee.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

NOTE 8 – GLOBAL CERTIFICATES (cont.)

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

Years Ending June 30,	2008
2009	\$ 297,258
2010	14,954,450
2011	19,190,325
2012	7,746,829
2013	9,662,930
2014-2018	36,789,569
2019-2023	37,215,237
2024-2027	10,984,091
Totals	\$ 136,840,689

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, 2008:

Interest:

State of Wisconsin Investment Board Local Government Investment Pool	\$ 2,890,194
MBIA Guaranteed Investment Agreement	387,518
Repurchase Agreement with Bayerische Landesbank	493,864
AIG Guaranteed Investment Agreement	1,769,209
United States Treasury Notes	2,110,678
State of Wisconsin General Obligation Bonds	19,192,075
Total Interest	26,843,538
Changes in Unrealized Gains (Losses);	
State of Wisconsin General Obligation Bonds	(11,509,470)
Total Interest and Changes in Unrealized Gains (Losses)	15,334,068
Change in Estimated Rebtable Arbitrage Liability	(999,737)
TOTAL INVESTMENT INCOME	\$ 14,334,331

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2008

NOTE 10 – SUBSEQUENT EVENTS (cont.)

June 1, 2008 fell on a weekend for the 2008 fiscal year. Due to this, the June 1, 2008 debt payments were not paid until June 2, 2008. Therefore, the June 1, 2008 debt amounts included in the financial statements do not reflect the debt payment activity of June 2, 2008.

On July 3, 2008, the State of Wisconsin (the "Issuer"), the U.S. Bank National Association as trustee (the "Trustee") and the MBIA Investment Management Corporation ("MIMCO") entered into a Termination of Flexible Draw Investment Agreement for the purposes of terminating a Flexible Draw Investment Agreement originally entered into on September 15, 1993. The par amount of the 1993 Agreement was \$6,250,291. In addition to the return of that amount to the Issuer, there was also paid to the Issuer \$34,446 in accrued interest and \$200,000 representing a termination fee. The funds derived from the Termination Agreement were deposited into the Loan Credit Reserve Fund of the Clean Water Revenue Bonds.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)
For the Year Ended June 1, 2008

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.