
State of Wisconsin
Notice of **Material Information** #2010-15
Dated October 19, 2010

The State of Wisconsin is voluntarily making this filing, which provides information that may be material to financial evaluation of one or more obligations of the State of Wisconsin. Neither the preparation nor submission of this document constitutes a Material Event pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated July 1, 2009).

Issuer: State of Wisconsin
Clean Water Revenue Bonds

CUSIP Numbers: 977092 Prefix (All)

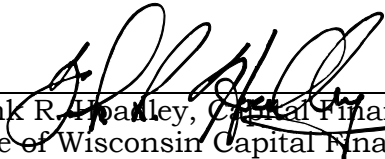
Type of Information: Financial/Operating Data Disclosures
Audited Financial Statements (Rule 15c2-12)
Financial Statements and Independent Auditors' Report
for the Year Ended June 30, 2010

Attached are (1) financial statements for the years ended June 30, 2010 and June 30, 2009, supplemental information for the year ended June 30, 2010, and independent auditor's report for the State of Wisconsin Environmental Improvement Fund, and (2) financial statements for the ended June 1, 2010 and independent auditor's report for the Leveraged Loan Portfolio.

The State of Wisconsin has filed this notice with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. The filing is also available on the State of Wisconsin Capital Finance office web site at:

www.doa.state.wi.us/capitalfinance

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 material events when notice is required by the State's Master Agreement on Continuing Disclosure (Amended and Restated July 1, 2009), and is authorized to distribute this information publicly.



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STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009,
SUPPLEMENTAL INFORMATION
For the Year Ended June 30, 2010, and
Independent Auditors' Report

AND

LEVERAGED LOAN PORTFOLIO

FINANCIAL STATEMENTS
For the Year Ended June 1, 2010 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, 2010 and 2009, 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, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement Fund as of June 30, 2010 and 2009, 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, as they apply to enterprise funds of governmental entities.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010 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.

Baker Tilly) Muchow Krause LLP

Madison, Wisconsin
October 18, 2010

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

	2010	2009
ASSETS		
Current Assets		
Unrestricted cash and cash equivalents	\$ 291,785,830	\$ 215,425,869
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	47,733,940	45,551,942
Receivables		
Loans to local governments - current portion	160,648,771	147,975,279
Due from other funds	203,617	15,483
Due from other governmental entities	9,007,803	8,605,754
Accrued investment income	378,585	378,957
Other	236,804	548,264
Prepaid items	22,600	21,890
Total Current Assets	510,017,950	418,523,438
Noncurrent Assets		
Restricted assets - cash equivalents	106,528,312	99,384,996
Investments - State of Wisconsin general obligation clean water bonds, at fair value	163,850,321	160,350,361
Loans to local governments	1,658,816,995	1,645,897,707
Advances to other funds	2,477,500	-
Prepaid items	218,124	235,010
Deferred debt expense	3,521,752	3,206,493
Capital Assets		
Equipment	20,357	9,507
Less: Accumulated depreciation	(11,315)	(9,507)
Total Capital Assets (Net of Accumulated Depreciation)	9,042	-
Total Noncurrent Assets	1,935,422,046	1,909,074,567
 TOTAL ASSETS	 \$ 2,445,439,996	 \$ 2,327,598,005
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued expenses	\$ 178,065	\$ 148,815
Accrued interest on bonds	3,551,125	3,388,958
Due to other funds	2,070,722	1,326,357
Due to other governmental entities	168,410	145,852
Revenue obligation bonds - current maturities	70,690,000	66,865,000
Total Current Liabilities	76,658,322	71,874,982
Noncurrent Liabilities		
Revenue obligation bonds, net (including deferred charge)	811,477,469	762,403,792
Due to other governmental entities	1,199,608	958,840
Accrued expenses	106,727	76,188
Total Noncurrent Liabilities	812,783,804	763,438,820
Total Liabilities	889,442,126	835,313,802
Net Assets		
Restricted for environmental improvement	1,534,832,690	1,468,879,875
Unrestricted	21,165,180	23,404,328
Total Net Assets	1,555,997,870	1,492,284,203
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,445,439,996	 \$ 2,327,598,005

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, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Loan interest	\$ 28,417,040	\$ 28,382,059
Interest income used as security for revenue bonds	19,885,350	19,950,170
Miscellaneous other	48,490	-
Total Operating Revenues	48,350,880	48,332,229
 OPERATING EXPENSES		
Interest	39,387,474	39,281,867
Salaries and benefits	4,491,347	4,348,126
Contractual services and other	1,966,052	1,930,821
Depreciation	1,808	-
Total Operating Expenses	45,846,681	45,560,814
 Operating Income	2,504,199	2,771,415
 NONOPERATING REVENUES (EXPENSES)		
Investment income	719,187	2,197,258
Investment income used as security for revenue bonds	14,097,177	21,525,827
Operating grants	140,550,400	33,674,918
Grants awarded	(102,747,131)	(2,924,786)
Total Nonoperating Revenues (Expenses)	52,619,633	54,473,217
 INCOME BEFORE TRANSFERS	55,123,832	57,244,632
 Transfers in	8,589,835	14,996,408
 Increase in Net Assets	63,713,667	72,241,040
 TOTAL NET ASSETS - Beginning of Year	1,492,284,203	1,420,043,163
 TOTAL NET ASSETS - END OF YEAR	\$ 1,555,997,870	\$ 1,492,284,203

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Payments to employees for services	\$ (3,561,338)	\$ (4,378,171)
Payments to suppliers and other	(2,791,115)	(2,654,915)
Other operating revenues	48,489	50,136
Net Cash Flows From (Used by) Operating Activities	(6,303,964)	(6,982,950)
CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	140,090,055	33,661,580
Grants paid	(102,747,131)	(2,924,786)
Transfers in	8,589,835	14,996,408
Proceeds from issuance of long-term debt	139,158,600	94,974,120
Refunded debt	(14,990,000)	-
Retirement of long-term debt	(66,865,000)	(60,730,000)
Interest payments	(43,011,659)	(43,414,625)
Advances to other funds	(2,477,500)	-
Net Cash Flows From (Used by) Noncapital Financing Activities	57,747,200	36,562,697
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Origination of loans	(180,323,720)	(215,214,882)
Collection on loans	154,730,938	136,885,237
Interest received on loans	20,336,624	27,956,378
Purchase of investments	(112,897,003)	(142,119,211)
Liquidation of investments	110,426,454	126,898,777
Investment and interest income	39,797,598	47,792,684
Net Cash Flows From (Used by) Investing Activities	32,070,891	(17,801,017)
CASH FLOWS FROM (USED BY) CAPITAL AND FINANCING ACTIVITIES		
Acquisition of capital assets	(10,850)	-
Net Cash Flows From (Used by) Capital and Financing Activities	(10,850)	-
Net Increase (Decrease) in Cash and Cash Equivalents	83,503,277	11,778,730
CASH AND CASH EQUIVALENTS - Beginning of Year	314,810,865	303,032,135
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 398,314,142	\$ 314,810,865

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 2,504,199	\$ 2,771,415
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO		
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Amortization	(2,798,067)	(2,680,235)
Interest income classified as investing activity	(48,302,391)	(48,282,095)
Interest expense classified as noncapital financing activity	42,023,375	44,117,401
Noncash items in operating income		
Depreciation	1,808	-
Changes in assets and liabilities		
Due from other funds	544,987	198,525
Other receivables	384,020	121,752
Prepaid items	16,177	16,646
Deferred debt expense	(933,831)	(791,997)
Accrued expenses	59,788	(2,372)
Accrued interest on bonds	162,167	(2,155,297)
Due to other funds	11,246	(299,057)
Due to other governmental entities	22,558	2,364
Total Adjustments	<u>(8,808,163)</u>	<u>(9,754,365)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (6,303,964)</u>	<u>\$ (6,982,950)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE		
STATEMENT OF NET ASSETS		
Unrestricted cash and cash equivalents - statement of net assets	\$ 291,785,830	\$ 215,425,869
Restricted cash and cash equivalents - statement of net assets	<u>106,528,312</u>	<u>99,384,996</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 398,314,142</u>	<u>\$ 314,810,865</u>

NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

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. As of June 30, 2010 and 2009, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2010 and 2009, the total amount drawn on these loans was \$13,500,343 and \$13,114,451, 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, 2010 and 2009

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 \$2.5 million in 2010 and net operating income of \$2.8 million in 2009. 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 \$140.5 million and \$33.7 million in 2010 and 2009, respectively, and are classified as operating grants. Operating transfers from the State of Wisconsin were approximately \$6.1 million and \$1.6 million in 2010 and 2009, 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, 2010 and 2009 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, 2010 and 2009

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, 2010, the fair value of the Fund’s interest in these agreements was above the cost of the treasury securities owned by \$3,103,120. At June 30, 2009, the fair value was above the cost by \$500,402.

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, 2010 and 2009

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.

Capital Assets—Capital assets, which consist of equipment, are reported when they have a unit cost of \$5,000 or more and a useful life of two or more years. Purchased or constructed capital assets are valued at cost or estimated historical cost if actual historical cost is not practically determinable. Donated capital assets are recorded at their fair value at the time received. Exhaustible capital assets are depreciated using the straight-line method over the asset’s useful life. Equipment is generally depreciated over 2 to 40 years per the State of Wisconsin’s capital assets policy.

Net Assets—Net assets are classified as either restricted or unrestricted based on the presence or absence of restrictions, including federal laws, the Cleanwater Act of 1987, resolutions, state statutes, and Title XIV of the 1996 Safe Drinking Water Act, as amended.

Revenue Recognition—Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expense occurs and include \$140.6 million and \$33.7 million of EPA contributions in 2010 and 2009, respectively.

Hardship Grants—Hardship grants are recognized as an expense when the funds are 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 items related to debt service.

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 ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS

Loans to local governments at June 30, 2010 and 2009 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 2010 and 2009. The weighted average interest rate was 2.510% and 2.646% at June 30, 2010 and 2009, respectively. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment.

In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary. At June 30, 2010, all loans were performing in accordance with the contractual terms with the exception of one loan made to a village that has an outstanding amount at year end of \$3,747,865. The State is currently considering alternative options to improve the likelihood of full collection of principal and interest from the village.

Of the loans outstanding at June 30, 2010 and 2009, \$605,040,680 and \$587,229,669 (33% and 33%), 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 \$220,990,556 of new loans and \$142,558,218 of new grants during fiscal year 2010. As of June 30, 2010, they had undisbursed commitments of \$270,315,924 relating to loans and \$40,358,613 relating to grants. From July 1, 2010 to September 8, 2010, the Fund made additional loan disbursements of \$61,843,554 for financial assistance agreements that were outstanding prior to June 30, 2010. \$93,335,663 of additional loans were executed between July 1, 2010 and September 8, 2010. 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, 2010 and 2009, cash and cash equivalents consisted of the following:

	2010	2009
Cash held by Trustee	\$ -	\$ 2,183,992
State of Wisconsin Investment Board ("SWIB")		
Local Government Investment Pool ("LGIP"), at fair value	368,844,846	283,186,836
Investments reported at cost:		
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	29,305	46
	398,314,142	314,810,865
Less: Amounts classified as restricted assets (see Note 6)	(106,528,312)	(99,384,996)
Total Unrestricted Cash and Cash Equivalents	\$ 291,785,830	\$ 215,425,869

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

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 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, 2010, the current yield on the LGIP was 0.22%, compared to 0.39% as of June 30, 2009. The LGIP investment is stated at fair value.

The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 30, 2010 and 2009, the agreement had a market value of \$23,274,028 and \$24,875,732, 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, 2010 and 2009, the repurchase agreement had a market value of \$8,745,634 and \$8,983,558, respectively. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. The repurchase agreement and the AIG investment agreement both 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, 2010</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	\$ 368,844,846	N/A	Not rated	50 days weighted average maturity	N/A	N/A	59.8%
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.2
AIG-GIC	21,842,081	N/A	A3	6-1-11 final maturity	N/A	N/A	3.5
Treasury notes – Forward delivery	47,733,940	\$0	N/A	See Note 4	N/A	N/A	7.7
GO Bonds-WI	171,131,981	\$0	Aa2	5-1-24 final maturity	N/A	N/A	27.8
Miscellaneous cash	29,305	N/A	N/A	N/A	N/A	N/A	0.0

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

<u>As of June 30, 2009</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>
Cash held by trustee	\$ 2,183,992	\$0	N/A	N/A	N/A	N/A	0.4%
LGIP	283,186,836	N/A	Not rated	80 days weighted average maturity	N/A	N/A	55.4
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	A-	6-1-11 final maturity	N/A	N/A	4.2
Treasury notes – Forward delivery	46,100,206	\$0	N/A	See Note 4	N/A	N/A	9.0
GO Bonds-WI	150,050,361	\$0	Aa3	5-1-24 final maturity	N/A	N/A	29.5
Miscellaneous cash	46	N/A	N/A	N/A	N/A	N/A	0.0

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 \$106,528,312 and \$99,384,996 at June 30, 2010 and 2009, 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, 2010 and 2009

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, 2010, 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	\$ 7,142,000	4.625%	\$ 6,991,489	5.58%	June 1, 2017	\$ 7,180,564
Series 1998-1 Agreement	7,429,000	4.625	7,292,636	5.01	June 1, 2018	7,469,114
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013	2,239,330
Series 1999-1 Agreement	7,093,000	4.625	6,918,694	6.32	June 1, 2020	7,131,299
Series 2006-1 Agreement	6,527,000	6.250	6,421,308	4.56	June 1, 2027	6,562,243
Series 2006-2 Agreement	8,142,000	4.625	7,999,168	4.84	June 1, 2027	8,185,963
Series 2008-1 Agreement	10,067,000	4.625	9,926,653	4.10	June 1, 2028	10,121,358

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

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, 2009, 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	\$ 7,187,000	4.625%	\$ 6,992,051	5.58%	June 1, 2017	\$ 7,179,021
Series 1998-1 Agreement	7,475,800	4.625	7,292,805	5.01	June 1, 2018	7,467,093
Series 1993-1* Agreement	2,183,992	N/A	2,183,992	5.22	June 1, 2013	-
Series 1999-1 Agreement	7,137,500	4.625	6,918,863	6.32	June 1, 2020	7,129,378
Series 2006-1 Agreement	6,467,000	6.250	6,421,561	4.56	June 1, 2027	6,543,552
Series 2006-2 Agreement	8,067,000	4.625	7,999,327	4.84	June 1, 2027	8,162,492
Series 2008-1 Agreement	10,130,600	4.625	9,927,334	4.10	June 1, 2028	10,119,072

* The \$2,183,992 reported for the Series 1993-1 Agreement was held by the Environmental Improvement Fund's custodian as a pending transaction at June 30, 2009.

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 transfers between the loan portfolios and/or other funds at the State of Wisconsin:

<u>Transferred To</u>	<u>Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Direct Loan Portfolio	Proprietary Portfolio	\$ 4,418,563	State Match
Leveraged Loan Portfolio	Capital Improvement	15,243,000	Future Debt Service
Safe Drinking Water Loan Program	Capital Improvement	6,146,381	State Match
Bond Security and Redemption	Direct Loan Portfolio	15,000,000	G.O. Bond Debt Service
Debt Service Fund Program	Proprietary Portfolio	97,521	Personal Services
Proprietary Portfolio	Debt Service Fund	<u>2,297,975</u>	Debt Service
Subtotal		43,203,440	
Less: Eliminations		<u>(34,613,605)</u>	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Assets		<u>\$ 8,589,835</u>	

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

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, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 805,305,000	\$ 131,175,000	\$ 81,855,000*	\$ 854,625,000	\$ 70,690,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(7,049,324)	(1,259,236)	(1,619,502)	(6,689,058)	-
Premiums/discounts	31,013,116	7,983,600	4,765,189	34,231,527	-
Totals	\$ 829,268,792	\$ 137,899,364	\$ 85,000,687	\$ 882,167,469	\$ 70,690,000

* Includes \$14,990,000 of refunded bonds.

Revenue bonds activity as of June 30, 2009 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Revenue bonds				
Add/(subtract) deferred amounts for:				
Refundings-gains/(losses)	(8,824,043)	-	(1,774,719)	(7,049,324)
Premiums/discounts	32,978,159	2,764,120	4,729,163	31,013,116
Totals	\$ 797,979,116	\$ 94,974,120	\$ 63,684,444	\$ 829,268,792

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

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

REVENUE OBLIGATION BONDS (cont.)

Revenue obligation serial and term bonds as of June 30, 2010 and 2009 consisted of the following:

	2010	2009
1991 Series 1:		
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	\$ 20,435,000	\$ 39,555,000
Unamortized discount on bonds	(9,907)	(29,540)
	20,425,093	39,525,460
1998 Series 2:		
Serial Bonds, no optional redemption, June 1, 2017	67,895,000	79,450,000
Unamortized premium on bonds	1,429,719	1,929,975
	69,324,719	81,379,975
2001 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	3,265,000	21,385,000
Unamortized premium/discount on bonds	3,452	(156,542)
	3,268,452	21,228,458
2002 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	48,005,000	51,955,000
Unamortized discount on bonds	(219,758)	(176,706)
	47,785,242	51,778,294
2002 Series 2:		
Serial Bonds, no optional redemption, June 1, 2016	34,905,000	39,745,000
Unamortized premium on bonds	1,096,504	1,407,012
	36,001,504	41,152,012
2004 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	81,070,000	85,150,000
Unamortized premium on bonds	1,944,949	2,370,394
	83,014,949	87,520,394
2004 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	94,590,000	102,675,000
Unamortized premium on bonds	5,075,719	6,308,625
	99,665,719	108,983,625
2006 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	72,375,000	75,040,000
Unamortized premium on bonds	3,582,618	3,920,371
	75,957,618	78,960,371

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

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

<i>REVENUE OBLIGATION BONDS</i> (cont.)	2010	2009
2006 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	\$ 90,465,000	\$ 93,800,000
Unamortized premium on bonds	2,870,347	3,250,748
	93,335,347	97,050,748
2008 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	93,885,000	97,005,000
Unamortized premium on bonds	5,970,177	6,682,779
	99,855,177	103,687,779
2008 Series 2:		
Serial Bonds, no optional redemption, June 1, 2018	27,335,000	27,335,000
Unamortized premium on bonds	2,638,884	2,963,044
	29,973,884	30,298,044
2008 Series 3:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	89,225,000	92,210,000
Unamortized premium on bonds	2,137,321	2,542,956
	91,362,321	94,752,956
2010 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	67,415,000	-
Unamortized premium on bonds	5,705,223	-
	73,120,223	-
2010 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	14,070,000	-
Unamortized premium on bonds	2,006,279	-
	16,076,279	-
2010 Series 3:		
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	49,690,000	-
Total of All Series	888,856,527	836,318,116
Unamortized deferred charge related to debt defeasance (Note 7)	(6,689,058)	(7,049,324)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 882,167,469	\$ 829,268,792

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

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 30, 2010, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1991 Series 1	\$ 1,366,407	6.875%
1998 Series 2	(7,739,808)	4.00 – 5.50%
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%
2008 Series 3	(2,764,120)	3.00 – 5.50%
2010 Series 1	(5,917,653)	3.00 – 5.00%
2010 Series 2	(2,065,947)	5.00%
2010 Series 3	-	3.957% - 5.441%*

* - The effect of the interest rate subsidy on the 2010 Series 3 revenue bonds through June 1, 2025 is \$9,825,479. The amount due in the next fiscal year is \$831,375.

Principal maturities of the bonds, net of advance refundings, as of June 30, 2010, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2011	\$ 70,690,000	\$ 42,613,499	\$ 113,303,499
2012	54,465,000	38,873,743	93,338,743
2013	55,355,000	36,230,081	91,585,081
2014	52,280,000	33,574,455	85,854,455
2015	52,765,000	30,850,543	83,615,543
2016-2020	262,810,000	114,340,209	377,150,209
2021-2025	203,765,000	54,770,279	258,535,279
2026-2030	93,630,000	12,685,650	106,315,650
2031	8,865,000	443,250	9,308,250
Totals	<u>\$ 854,625,000</u>	<u>\$ 364,381,709</u>	<u>\$ 1,219,006,709</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2010 and 2009, the total assets of the Leveraged Loan Portfolio were \$1,107,788,500 and \$1,046,763,780, 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, 2010 and 2009

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

REVENUE OBLIGATION BONDS (cont.)

Revenue obligation bonds are payable only from revenues derived from 1) pledged loan repayments, 2) amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, and 3) all other pledged receipts.

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay \$855 million in revenue bonds issued between 1991-2010. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues and are payable through 2031. Annual principal and interest payments on the bonds are expected to require 53% of revenues. The total principal and interest remaining to be paid on the bonds is \$1,219,006,709. Principal and interest paid for the current year and total net revenues were \$106 million and \$109 million, respectively.

RESTRICTED ASSETS

Among other restrictions under the revenue obligation bond agreements are provisions that require 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 AIG, Bayerische Landesbank investments (Note 3) and \$27.5 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 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, 2010, and 2009, there was \$69,215,000 and \$80,895,000, respectively, 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, 2010 and 2009, there was \$38,405,000 and \$42,910,000, 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, 2010, and 2009, there was \$96,475,000 and \$104,785,000, respectively, 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, 2010 and 2009

NOTE 7 – ADVANCE REFUNDING (cont.)

In 2008, the Fund defeased a portion of its 1998 Series 1 and 2001 Series 1 bonds through the issuance of \$27,335,000 of 2008 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 liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2010 and 2009, there was \$28,100,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2010, the Fund defeased a portion of its 2001 Series 1 bonds through the issuance of \$14,070,000 of 2010 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, 2010 and 2009, there was \$14,990,000 and \$0, respectively, of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2010 advance refunding was \$22,884,750 from 2010 through 2021. The cash flow requirements on the 2010 refunding bonds are \$21,363,600 from 2010 through 2021. 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 \$1,198,348.

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, 2010 and 2009 is \$73,276,720 and 0.00% and \$91,628,652 and 0.57%, 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, 2010 were \$14,208,640 and 5.44% and \$7,915,882 and 5.76%, respectively. The estimated market value and weighted average coupon interest rates of the Global Certificates at June 30, 2009 were \$14,406,896 and 5.43% and \$4,789,556 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, 2010 and 2009 were \$20,557,963 and 6.16% and \$19,395,018 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, 2010 and 2009

NOTE 8 – GLOBAL CERTIFICATES (cont.)

In January 2009, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$17,700,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2010 and 2009 were \$21,127,461 and 5.78% and \$19,830,240 and 5.78%, respectively. The Bond is registered in the name of the Fund and held by an independent trustee.

In April 2010, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$15,243,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2010 were \$16,463,654 and 5.47%, respectively. The Bond is registered in the name of the Fund and held by an independent trustee.

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

Years Ending June 30,	2010	2009
2011	\$ 19,190,325	\$ 19,190,325
2012	7,746,829	7,746,829
2013	9,662,930	9,662,930
2014	5,885,021	5,885,021
2015	6,463,280	6,463,280
2016-2020	49,251,336	49,251,336
2021-2025	33,053,121	31,458,121
2026-2030	32,164,139	26,231,138
2031	7,715,000	-
Totals	\$ 171,131,981	\$ 155,888,980

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, 2010 and 2009:

	2010	2009
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 755,119	\$ 3,362,798
MBIA Guaranteed Investment Agreement	-	2,153
Repurchase Agreement with Bayerische Landesbank	493,864	493,864
AIG Guaranteed Investment Agreement	1,769,209	1,769,209
United States Treasury Notes	2,393,825	2,375,864
State of Wisconsin General Obligation Bonds	6,800,087	20,511,736
Federal Interest on Build America Bonds	221,700	-
Total Interest	12,433,804	28,515,624

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2010 and 2009

NOTE 9 – INVESTMENT INCOME (cont.)

	2010	2009
Changes in Realized and Unrealized Gains (Losses)		
United States Treasury Notes	\$ 372	\$ 209,129
State of Wisconsin General Obligation Bonds	3,211,410	(4,460,281)
Total Changes in Unrealized Gains (Losses)	3,211,782	(4,251,152)
Total Interest and Changes in Unrealized Gains (Losses)	15,645,586	24,264,472
Change in Estimated Rebateable Arbitrage Liability	(829,222)	(541,387)
 TOTAL INVESTMENT INCOME	 \$ 14,816,364	 \$ 23,723,085

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 \$55.1 million for federal fiscal year 2010. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2010 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 2010 and a grant to Wisconsin of approximately \$23.4 million is expected for federal fiscal year 2010.

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 2010 and 2009, the Fund awarded hardship grants of \$1,179,598 and \$2,755,240, respectively. At June 30, 2010 and 2009, the Fund was committed to award \$40,358,613 and \$482,467, respectively, of additional hardship grants. At June 30, 2010 and 2009, the Fund had projected \$830,779 and \$155,541,252, respectively, of additional hardship grants.

SUPPLEMENTAL INFORMATION

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2010

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 163,135,372	\$ 14,673,299	\$ 42,284,033
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	-	47,733,940
Receivables			
Loans to local governments - current portion	76,167,941	1,567,524	68,817,256
Due from other funds	1,479	1,703,040	-
Due from other governmental entities	4,719,108	49,821	3,162,563
Accrued investment income	-	-	378,585
Other	72,560	-	-
Prepaid items	-	5,714	16,886
Total Current Assets	<u>244,096,460</u>	<u>17,999,398</u>	<u>162,393,263</u>
Noncurrent Assets			
Restricted assets - cash equivalents	-	-	106,528,312
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	-	163,850,321
Loans to local governments	770,137,688	10,544,195	671,276,728
Advances to other funds	2,477,500	-	-
Prepaid items	-	-	218,124
Deferred debt expense	-	-	3,521,752
Capital Assets			
Equipment	-	9,507	-
Less: Accumulated depreciation	-	(9,507)	-
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>	<u>-</u>	<u>-</u>
Total Noncurrent Assets	<u>772,615,188</u>	<u>10,544,195</u>	<u>945,395,237</u>
TOTAL ASSETS	<u>\$ 1,016,711,648</u>	<u>\$ 28,543,593</u>	<u>\$ 1,107,788,500</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 71,693,126	\$ -	\$ 291,785,830
-	-	47,733,940
14,096,050	-	160,648,771
-	(1,500,902)	203,617
1,076,311	-	9,007,803
-	-	378,585
164,244	-	236,804
-	-	22,600
<u>87,029,731</u>	<u>(1,500,902)</u>	<u>510,017,950</u>
-	-	106,528,312
-	-	163,850,321
206,858,384	-	1,658,816,995
-	-	2,477,500
-	-	218,124
-	-	3,521,752
10,850	-	20,357
(1,808)	-	(11,315)
<u>9,042</u>	<u>-</u>	<u>9,042</u>
<u>206,867,426</u>	<u>-</u>	<u>1,935,422,046</u>
<u>\$ 293,897,157</u>	<u>\$ (1,500,902)</u>	<u>\$ 2,445,439,996</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2010

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accrued expenses	\$ 67,507	\$ 40,539	\$ -
Accrued interest on bonds	-	-	3,551,125
Due to other funds	93,722	1,971,105	1,500,902
Due to other governmental entities	-	-	-
Revenue obligation bonds - current maturities	-	-	70,690,000
Total Current Liabilities	<u>161,229</u>	<u>2,011,644</u>	<u>75,742,027</u>
Noncurrent Liabilities			
Revenue obligation bonds, net (including deferred charge)	-	-	811,477,469
Due to other governmental entities	-	-	1,199,608
Accrued expenses	-	106,727	-
Total Noncurrent Liabilities	<u>-</u>	<u>106,727</u>	<u>812,677,077</u>
Total Liabilities	<u>161,229</u>	<u>2,118,371</u>	<u>888,419,104</u>
Net Assets			
Restricted for environmental improvement	1,016,550,419	5,260,042	219,369,396
Unrestricted	-	21,165,180	-
Total Net Assets	<u>1,016,550,419</u>	<u>26,425,222</u>	<u>219,369,396</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,016,711,648</u>	<u>\$ 28,543,593</u>	<u>\$ 1,107,788,500</u>

Safe Drinking Water Loan Program		
<u>Program</u>	<u>Eliminations</u>	<u>Totals</u>
\$ 70,019	\$ -	\$ 178,065
-	-	3,551,125
5,895	(1,500,902)	2,070,722
168,410	-	168,410
<u>-</u>	<u>-</u>	<u>70,690,000</u>
<u>244,324</u>	<u>(1,500,902)</u>	<u>76,658,322</u>
-	-	811,477,469
-	-	1,199,608
-	-	106,727
<u>-</u>	<u>-</u>	<u>812,783,804</u>
<u>244,324</u>	<u>(1,500,902)</u>	<u>889,442,126</u>
293,652,833	-	1,534,832,690
-	-	21,165,180
<u>293,652,833</u>	<u>-</u>	<u>1,555,997,870</u>
<u>\$ 293,897,157</u>	<u>\$ (1,500,902)</u>	<u>\$ 2,445,439,996</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BY PROGRAM
June 30, 2010

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
OPERATING REVENUES			
Loan interest	\$ 23,109,000	\$ 309,948	\$ -
Interest income used as security for revenue bonds	-	-	19,885,350
Miscellaneous other	-	48,490	-
Total Operating Revenues	<u>23,109,000</u>	<u>358,438</u>	<u>19,885,350</u>
OPERATING EXPENSES			
Interest	-	-	39,387,474
Salaries and benefits	2,113,340	264,366	1,057,466
Contractual services and other	84,052	110,859	546,059
Depreciation	-	-	-
Total Operating Expenses	<u>2,197,392</u>	<u>375,225</u>	<u>40,990,999</u>
Operating Income (Loss)	<u>20,911,608</u>	<u>(16,787)</u>	<u>(21,105,649)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	304,690	34,179	221,700
Investment income used as security for revenue bonds	-	-	14,097,177
Operating grants	98,508,059	-	-
Grants awarded	(74,733,100)	(1,348,010)	-
Total Nonoperating Revenues (Expenses)	<u>24,079,649</u>	<u>(1,313,831)</u>	<u>14,318,877</u>
INCOME (LOSS) BEFORE TRANSFERS	44,991,257	(1,330,618)	(6,786,772)
Transfers in/(out)	<u>(10,581,437)</u>	<u>(2,218,109)</u>	<u>15,243,000</u>
Change in Net Assets	34,409,820	(3,548,727)	8,456,228
TOTAL NET ASSETS - Beginning of Year	<u>982,140,599</u>	<u>29,973,949</u>	<u>210,913,168</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 1,016,550,419</u>	<u>\$ 26,425,222</u>	<u>\$ 219,369,396</u>

Safe Drinking Water Loan Program	Totals
\$ 4,998,092	\$ 28,417,040
-	19,885,350
-	48,490
<u>4,998,092</u>	<u>48,350,880</u>
-	39,387,474
1,056,175	4,491,347
1,225,082	1,966,052
1,808	1,808
<u>2,283,065</u>	<u>45,846,681</u>
<u>2,715,027</u>	<u>2,504,199</u>
158,618	719,187
-	14,097,177
42,042,341	140,550,400
(26,666,021)	(102,747,131)
<u>15,534,938</u>	<u>52,619,633</u>
18,249,965	55,123,832
<u>6,146,381</u>	<u>8,589,835</u>
24,396,346	63,713,667
<u>269,256,487</u>	<u>1,492,284,203</u>
<u>\$ 293,652,833</u>	<u>\$ 1,555,997,870</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2010

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES			
Payments to employees for services	\$ (2,051,854)	\$ 1,330,567	\$ (1,792,671)
Payments to suppliers and other	(85,530)	(392,699)	(1,460,917)
Other operating revenues	-	48,489	-
Net Cash Flows From (Used by) Operating Activities	<u>(2,137,384)</u>	<u>986,357</u>	<u>(3,253,588)</u>
CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES			
Operating grants received	98,067,819	-	-
Grants paid	(74,733,100)	(1,348,010)	-
Transfers in (out)	(10,581,437)	(2,218,109)	15,243,000
Proceeds from issuance of long-term debt	-	-	139,158,600
Refunded debt	-	-	(14,990,000)
Retirement of long-term debt	-	-	(66,865,000)
Interest payments	-	-	(43,011,659)
Advances to other funds	(2,477,500)	-	-
Net Cash Flows From (Used by) Noncapital Financing Activities	<u>10,275,782</u>	<u>(3,566,119)</u>	<u>29,534,941</u>
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES			
Origination of loans	(60,684,361)	(1,264,271)	(88,178,882)
Collection on loans	76,126,047	1,649,587	63,875,484
Interest received on loans	232,130	34,179	19,911,697
Purchase of investments	-	-	(112,897,003)
Liquidation of investments	-	-	110,426,454
Investment and interest income	23,196,632	310,551	11,348,608
Net Cash Flows From (Used by) Investing Activities	<u>38,870,448</u>	<u>730,046</u>	<u>4,486,358</u>
CASH FLOWS FROM (USED BY) CAPITAL AND FINANCING ACTIVITIES			
Acquisition of capital assets	-	-	-
Net Cash Flows From (Used by) Capital and Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	47,008,846	(1,849,716)	30,767,711
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>116,126,526</u>	<u>16,523,015</u>	<u>118,044,634</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 163,135,372</u>	<u>\$ 14,673,299</u>	<u>\$ 148,812,345</u>

Safe Drinking Water Loan Program	Totals
\$ (1,047,380)	\$ (3,561,338)
(851,969)	(2,791,115)
-	48,489
(1,899,349)	(6,303,964)
42,022,236	140,090,055
(26,666,021)	(102,747,131)
6,146,381	8,589,835
-	139,158,600
-	(14,990,000)
-	(66,865,000)
-	(43,011,659)
-	(2,477,500)
21,502,596	57,747,200
(30,196,206)	(180,323,720)
13,079,820	154,730,938
158,618	20,336,624
-	(112,897,003)
-	110,426,454
4,941,807	39,797,598
(12,015,961)	32,070,891
(10,850)	(10,850)
(10,850)	(10,850)
7,576,436	83,503,277
64,116,690	314,810,865
\$ 71,693,126	\$ 398,314,142

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2010

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 20,911,608	\$ (16,787)	\$ (21,105,649)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Amortization	-	-	(2,798,067)
Interest income classified as investing activity	(23,109,000)	(309,949)	(19,885,350)
Interest expense classified as noncapital financing activity	-	-	42,023,375
Noncash items in operating income			
Depreciation	-	-	-
Changes in assets and liabilities:			
Due from other funds	(1,478)	546,465	-
Other receivables	-	-	-
Prepaid items	-	(710)	16,887
Deferred debt expense	-	-	(933,831)
Accrued expenses	53,719	8,307	-
Accrued interest on bonds	-	-	162,167
Due to other funds	7,767	759,031	(733,120)
Due to other governmental entities	-	-	-
Total Adjustments	<u>(23,048,992)</u>	<u>1,003,144</u>	<u>17,852,061</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (2,137,384)</u>	<u>\$ 986,357</u>	<u>\$ (3,253,588)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
Unrestricted cash and cash equivalents - statement of net assets	\$ 163,135,372	\$ 14,673,299	\$ 42,284,033
Restricted cash and cash equivalents - statement of net assets	<u>-</u>	<u>-</u>	<u>106,528,312</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 163,135,372</u>	<u>\$ 14,673,299</u>	<u>\$ 148,812,345</u>

NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE

Safe Drinking Water Loan Program	<u>Totals</u>
\$ 2,715,027	\$ 2,504,199
-	(2,798,067)
(4,998,092)	(48,302,391)
-	42,023,375
1,808	1,808
-	544,987
384,020	384,020
-	16,177
-	(933,831)
(2,238)	59,788
-	162,167
(22,432)	11,246
<u>22,558</u>	<u>22,558</u>
<u>(4,614,376)</u>	<u>(8,808,163)</u>
\$ (1,899,349)	\$ (6,303,964)
\$ 71,693,126	\$ 291,785,830
<u>-</u>	<u>106,528,312</u>
<u>\$ 71,693,126</u>	<u>\$ 398,314,142</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)
Years Ended June 30, 2010 and 2009

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, 2010 and have issued our report thereon dated October 18, 2010. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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 October 18, 2010.

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

Baker Tilly) Muchow Krause LLP

Madison, Wisconsin
October 18, 2010

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO
FINANCIAL STATEMENTS
For the Year Ended June 1, 2010 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, 2010, 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 or the State of Wisconsin Environmental Improvement Fund, and their changes in financial position and, where applicable, their 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, 2010, 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, as they apply to enterprise funds of governmental entities.

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 54 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.

Baker Tilly) Virchow Krause LLP

Madison, Wisconsin
October 18, 2010

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF NET ASSETS
June 1, 2010

ASSETS	
Current Assets	
Unrestricted cash and cash equivalents	\$ 68,483,062
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	47,734,490
Receivables	
Loans to local governments - current portion	67,843,739
Due from other governmental entities	1,608,083
Prepaid items	236,417
Total Current Assets	<u>185,905,791</u>
Noncurrent Assets	
Restricted assets - cash equivalents	104,445,810
Investments - State of Wisconsin general obligation clean water bonds, at fair value	168,948,989
Loans to local governments	648,163,474
Deferred debt expense	3,512,565
Total Noncurrent Assets	<u>925,070,838</u>
TOTAL ASSETS	<u>\$ 1,110,976,629</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Due to other funds	\$ 1,375,827
Revenue obligation bonds - current maturities	70,690,000
Total Current Liabilities	<u>72,065,827</u>
Noncurrent Liabilities	
Due to other governmental entities	1,180,213
Revenue obligation bonds, net (including deferred charge)	811,770,328
Total Noncurrent Liabilities	<u>812,950,541</u>
Total Liabilities	<u>885,016,368</u>
Net Assets	
Restricted for environmental improvement	225,960,261
Total Net Assets	<u>225,960,261</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,110,976,629</u>

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, 2010

OPERATING REVENUES

Interest income used as security for revenue bonds	\$ 19,898,300
Total Operating Revenues	<u>19,898,300</u>

OPERATING EXPENSES

Interest	39,196,435
Salaries and benefits	1,118,733
Contractual services and other	<u>547,292</u>
Total Operating Expenses	<u>40,862,460</u>

Operating Loss	<u>(20,964,160)</u>
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NONOPERATING REVENUES

Investment income used as security for revenue bonds	<u>19,410,815</u>
Total Nonoperating Revenues	<u>19,410,815</u>

INCOME (LOSS) BEFORE TRANSFERS

(1,553,345)

Transfers in	<u>15,243,000</u>
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Increase in Net Assets	13,689,655
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TOTAL NET ASSETS - Beginning of Year	<u>212,270,606</u>
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TOTAL NET ASSETS - END OF YEAR	<u><u>\$ 225,960,261</u></u>
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**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF CASH FLOWS
For the Year Ended June 1, 2010

CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES

Payments to employees for services	\$ (1,792,671)
Payments to suppliers and other	<u>(1,407,444)</u>
Net Cash Flows From (Used by) Operating Activities	<u>(3,200,115)</u>

CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES

Transfers in	15,243,000
Proceeds from issuance of long-term debt	139,158,600
Refunded debt	(14,990,000)
Retirement of long-term debt	(66,865,000)
Interest payments	<u>(43,012,293)</u>
Net Cash Flows From (Used by) Noncapital Financing Activities	<u>29,534,307</u>

CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES

Origination of loans	(67,053,927)
Collection on loans	63,875,484
Interest and dividends received on loans	19,911,699
Purchase of investments	(112,897,003)
Liquidation of investments	110,426,454
Investment and interest income	<u>11,352,178</u>
Net Cash Flows From (Used by) Investing Activities	<u>25,614,885</u>

Net Increase in Cash and Cash Equivalents 51,949,077

CASH AND CASH EQUIVALENTS - Beginning of Year 120,979,795

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 172,928,872

**RECONCILIATION OF OPERATING LOSS TO NET CASH
FLOWS USED BY OPERATIONS**

Operating Loss \$ (20,964,160)

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

Amortization 3,815,858
Interest income classified as investing activity (19,898,300)
Interest expense classified as noncapital financing activity 35,380,577
Changes in assets and liabilities:
 Prepays 16,887
 Deferred debt expense (878,950)
 Due to other funds (672,027)
 Total Adjustments 17,764,045

NET CASH FLOWS USED BY OPERATING ACTIVITIES \$ (3,200,115)

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

Unrestricted cash and cash equivalents - statement of net assets \$ 68,483,062
Restricted cash and cash equivalents - statement of net assets 104,445,810

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 172,928,872

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2010

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Net Operating Loss—The Portfolio incurred an operating loss of \$20.9 million in 2010. 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. Transfers in of \$15,243,000 were required for this purpose in 2010. 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, 2010 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”); 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 1, 2010, the fair value of the Fund’s interest in these agreements exceeded the cost of the treasury securities owned by approximately \$3,321,760.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2010

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, including federal laws, the Clean Water Act of 1987, resolutions, state statutes, and Title XIV of the 1996 Safe Drinking Water Act, as amended.

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, 2010

NOTE 2 – FINANCIAL ASSISTANCE COMMITMENTS TO LOCAL GOVERNMENTS

Leveraged loans to local governments at June 1, 2010, 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 2010. The weighted average interest rate was 2.510% at June 1, 2010. 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, 2010, \$240,458,198 (34%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio entered into \$126,935,376 of new loans during the 12 month period ending June 1, 2010. As of June 1, 2010, the Portfolio had undisbursed loan commitments totaling \$164,688,144. From June 1, 2010 to September 8, 2010, the Portfolio made additional loan disbursements of \$14,429,750 for financial assistance agreements that were outstanding prior to June 1, 2010. \$13,768,834 of additional leverage loans were executed between June 1, 2010 and September 8, 2010. 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, 2010, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	\$ 143,485,852
Cash held by trustee	3,029
Investments reported at cost:	
Repurchase Agreement with Bayerische Landesbank	7,597,910
American International Group Matched Funding Corp. (AIG) Guaranteed Investment Agreement	<u>21,842,081</u>
	172,928,872
Less: Amounts classified as restricted assets (see Note 6)	<u>(104,445,810)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ 68,483,062</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2010

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 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, 2010, the current yield on the LGIP was 0.22%. The LGIP investment is stated at fair value.

The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 1, 2010, the agreement had a market value of \$21,842,081 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, 2010, the repurchase agreement had a market value of \$8,515,269. 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 AIG investment agreement, 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
Cash held by trustee	\$ 3,029	\$0	N/A	N/A	N/A	N/A	0.0%
LGIP	143,485,852	N/A	Not rated	50 days weighted average maturity	N/A	N/A	36.6
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	A3	6-1-11 final maturity	N/A	N/A	5.6
Treasury notes – Forward delivery	47,734,490	\$0	N/A	See Note 4	N/A	N/A	12.2
GO Bonds-WI	171,131,981	\$0	Aa2	5-1-24 final maturity	N/A	N/A	43.7

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

Restricted assets of \$104,445,810 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%.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2010

NOTE 4 – FORWARD DELIVERY AGREEMENTS

The Portfolio 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 Portfolio, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1993 Series 1, 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, 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.

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 1, 2010, 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	\$ 7,142,000	4.625%	\$ 6,991,489	5.58%	June 1, 2017	\$ 7,177,954
Series 1998-1 Agreement	7,429,000	4.625	7,292,636	5.01	June 1, 2018	7,466,399
Series 1999-1 Agreement	7,093,000	4.625	6,918,694	6.32	June 1, 2020	7,128,707
Series 2006-1 Agreement	6,527,000	6.250	6,421,308	4.56	June 1, 2027	6,559,858
Series 2006-2 Agreement	8,142,000	4.625	7,999,168	4.84	June 1, 2027	8,182,988
Series 2008-1 Agreement	10,067,000	4.625	9,926,653	4.10	June 1, 2028	10,117,679
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013	2,238,673

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2010

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	\$ 1,375,827
Total Due to Other Funds – Statement of Net Assets		<u>\$ 1,375,827</u>

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

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Leveraged Loan Portfolio	Capital Improvement	\$ 15,243,000	Future Debt Service
Total Transfers – Statement of Revenues, Expenses and Changes in Net Assets		<u>\$ 15,243,000</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.

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.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 805,305,000	\$ 131,175,000	\$ 81,855,000*	\$ 854,625,000	\$ 70,690,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(7,181,925)	(1,259,236)	(1,621,909)	(6,819,252)	-
Premiums/discounts	<u>31,465,194</u>	<u>7,983,600</u>	<u>4,794,214</u>	<u>34,654,580</u>	-
Totals	<u>\$ 829,588,269</u>	<u>\$ 137,899,364</u>	<u>\$ 85,027,305</u>	<u>\$ 882,460,328</u>	<u>\$ 70,690,000</u>

* Includes \$14,990,000 of refunded bonds.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2010

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

REVENUE OBLIGATION BONDS (cont.)

Revenue obligation serial and term bonds as of June 1, 2010 consisted of the following:

	2010
1991 Series 1:	
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	\$ 20,435,000
Unamortized discount on bonds	(10,791)
	20,424,209
1998 Series 2:	
Serial Bonds, no optional redemption, June 1, 2017	67,895,000
Unamortized premium on bonds	1,463,964
	69,358,964
2001 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	3,265,000
Unamortized premium on bonds	3,762
	3,268,762
2002 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	48,005,000
Unamortized discount on bonds	(218,595)
	47,786,405
2002 Series 2:	
Serial Bonds, no optional redemption, June 1, 2016	34,905,000
Unamortized premium on bonds	1,122,205
	36,027,205
2004 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	81,070,000
Unamortized premium on bonds	1,977,184
	83,047,184
2004 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	94,590,000
Unamortized premium on bonds	5,168,978
	99,758,978
2006 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	72,375,000
Unamortized premium on bonds	3,610,495
	75,985,495
2006 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	90,465,000
Unamortized premium on bonds	2,899,597
	93,364,597

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2010

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

<i>REVENUE OBLIGATION BONDS</i> (cont.)	2010
2008 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	\$ 93,885,000
Unamortized premium on bonds	6,026,900
	99,911,900
2008 Series 2:	
Serial Bonds, no optional redemption, June 1, 2018	27,335,000
Unamortized premium on bonds	2,666,518
	30,001,518
2008 Series 3:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	89,225,000
Unamortized premium on bonds	2,167,762
	91,392,762
2010 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	67,415,000
Unamortized premium on bonds	5,756,021
	73,171,021
2010 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	14,070,000
Unamortized premium on bonds	2,020,580
	16,090,580
2010 Series 3:	
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	49,690,000
Total of All Series	889,279,580
Unamortized deferred charge related to debt defeasance (Note 7)	(6,819,252)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 882,460,328

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2010

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, 2010, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1991 Series 1	\$ 1,366,407	6.875%
1998 Series 2	(7,739,808)	4.00 – 5.50%
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%
2008 Series 3	(2,764,120)	3.00 – 5.00%
2010 Series 1	(5,917,653)	3.00 – 5.00%
2010 Series 2	(2,065,947)	5.00%
2010 Series 3	-	3.957% - 5.441%

Principal maturities of the bonds, net of advance refundings, as of June 1, 2010, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2011	\$ 70,690,000	\$ 42,613,499	\$ 113,303,499
2012	54,465,000	38,873,743	93,338,743
2013	55,355,000	36,230,081	91,585,081
2014	52,280,000	33,574,455	85,854,455
2015	52,765,000	30,850,543	83,615,543
2016-2020	262,810,000	114,340,209	377,150,209
2021-2025	203,765,000	54,770,279	258,535,279
2026-2030	93,630,000	12,685,650	106,315,650
2031	8,865,000	443,250	9,308,250
Totals	\$ 854,625,000	\$ 364,381,709	\$ 1,219,006,709

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2010, the total assets of the Leveraged Loan Portfolio were \$1,110,976,629. 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, 2010

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 AIG, Bayerische Landesbank investments (Note 3) and \$27.5 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 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, 2010, there was \$69,215,000 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, 2010, there was \$38,405,000 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, 2010, there was \$96,475,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

In 2008, the Fund defeased a portion of its 1998 Series 1 and 2001 Series 1 bonds through the issuance of \$27,335,000 of 2008 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 liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2010, there was \$28,100,000 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, 2010

NOTE 7 – ADVANCE REFUNDING (cont.)

In 2010, the Fund defeased a portion of its 2001 Series 1 bonds through the issuance of \$14,070,000 of 2010 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, 2010, there was \$14,990,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2010 advance refunding was \$22,884,750 from 2010 through 2021. The cash flow requirements on the 2010 refunding bonds are \$21,363,600 from 2010 through 2021. 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 \$1,198,348.

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, 2010 is \$80,250,634 and 0.00%, 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, 2010 were \$13,918,858 and 5.44% and \$7,637,845 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 1, 2010 was \$19,874,851 and 6.16%, respectively. The Bond is registered in the name of the Portfolio and held by an independent trustee.

In January 2009, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for \$17,700,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2009 were \$20,558,037 and 5.78%, respectively.

In April 2010, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for \$15,243,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2010 were \$16,408,766 and 5.47%, respectively. 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, 2010

NOTE 8 – GLOBAL CERTIFICATES (cont.)

Principal maturities of the Global Certificates as of June 1 are as follows:

Years Ending June 1,	2010
2011	\$ 19,190,325
2012	7,746,829
2013	9,662,930
2014	5,885,021
2015	6,463,280
2016-2020	49,251,336
2021-2025	33,053,121
2026-2030	32,164,139
2031	7,715,000
Totals	\$ 171,131,981

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, 2010:

Interest	
State of Wisconsin Investment Board Local Government Investment Pool	\$ 261,192
Repurchase Agreement with Bayerische Landesbank	493,864
AIG Guaranteed Investment Agreement	1,769,209
United States Treasury Notes	2,394,579
State of Wisconsin General Obligation Bonds	6,800,087
Federal Interest on Build America Bonds	221,700
Total Interest	11,940,631
Changes in Realized and Unrealized Gains (Losses)	
State of Wisconsin General Obligation Bonds	8,299,406
Total Interest and Changes in Unrealized Gains (Losses)	20,240,037
Change in Estimated Rebtable Arbitrage Liability	(829,222)
TOTAL INVESTMENT INCOME	\$ 19,410,815

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)
For the Year Ended June 1, 2010

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.