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**State of Wisconsin**  
**Event Filing #2011-26**  
Dated November 21, 2011

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This Event Filing concerns an event described in Securities and Exchange Act Rule 15c2-12, as amended.

**Issuer:** State of Wisconsin  
Clean Water Revenue Bonds

**CUSIP Numbers:** 977092 Prefix (All)

**Type of Information:** Financial/Operating Data Disclosures Filing  
Rule 15c2-12 Disclosure  
Audited Financial Statements

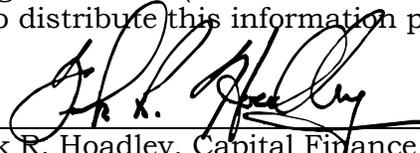
Attached are (1) financial statements for the years ended June 30, 2011 and June 30, 2010, supplemental information for the year ended June 30, 2011, and independent auditor's report for the State of Wisconsin Environmental Improvement Fund, and (2) financial statements for the ended June 1, 2011 and independent auditor's report for the Leveraged Loan Portfolio.

The attached items will also be included in the State's Continuing Disclosure Annual Report, which will be filed on or before December 27, 2011.

The State of Wisconsin is providing this Event Filing with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. This Event Filing is also available on the State of Wisconsin Capital Finance Office web site at:

[www.doa.state.wi.us/capitalfinance](http://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 Event Filings pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010), and is authorized to distribute this information publicly.



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Frank R. Hoadley, Capital Finance Director  
State of Wisconsin Capital Finance Office  
Wisconsin Department of Administration  
101 East Wilson Street, FLR 10  
Madison, WI 53703  
Phone: (608) 266-2305  
Fax: (608) 266-7645  
E-mail: [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
Website: [www.doa.state.wi.us/capitalfinance](http://www.doa.state.wi.us/capitalfinance)

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

FINANCIAL STATEMENTS  
For the Years Ended June 30, 2011 and 2010,  
SUPPLEMENTAL INFORMATION  
For the Year Ended June 30, 2011, and  
Independent Auditors' Report

**AND**

**LEVERAGED LOAN PORTFOLIO**

FINANCIAL STATEMENTS  
For the Year Ended June 1, 2011, and  
Independent Auditors' Report

# STATE OF WISCONSIN

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Baker Tilly Virchow Krause, LLP  
Ten Terrace Ct, PO Box 7398  
Madison, WI 53707-7398  
tel 608 249 6622  
fax 608 249 8532  
bakertilly.com

## 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, 2011 and 2010, 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, 2011 and 2010, 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 November 8, 2011 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" as listed in the table of contents 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 Vinchow Krause, LLP*

Madison, Wisconsin  
November 8, 2011

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET ASSETS  
June 30, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Unrestricted cash and cash equivalents	\$ 337,568,816	\$ 291,785,830
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	47,733,224	47,733,940
Receivables		
Loans to local governments - current portion	149,185,685	160,648,771
Due from other funds	222,359	203,617
Due from other governmental entities	8,428,133	9,007,803
Accrued investment income	231,147	378,585
Other	-	236,804
Prepaid items	23,194	22,600
Total Current Assets	543,392,558	510,017,950
<b>Noncurrent Assets</b>		
Restricted assets - cash equivalents	99,784,832	106,528,312
Investments - State of Wisconsin general obligation clean water bonds, at fair value	172,883,650	163,850,321
Loans to local governments	1,750,677,951	1,658,816,995
Advances to other funds	3,450,650	2,477,500
Prepaid items	201,237	218,124
Deferred debt expense	3,934,941	3,521,752
<b>Capital Assets</b>		
Equipment	20,357	20,357
Less: Accumulated depreciation	(14,932)	(11,315)
Total Capital Assets (Net of Accumulated Depreciation)	5,425	9,042
Total Noncurrent Assets	2,030,938,686	1,935,422,046
<b>TOTAL ASSETS</b>	<b>\$ 2,574,331,244</b>	<b>\$ 2,445,439,996</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accrued expenses	\$ 142,874	\$ 176,866
Accrued interest on bonds	3,690,707	3,551,125
Due to other funds	865,114	2,070,722
Due to other governmental entities	209,739	168,410
Compensated absences - current portion	45,548	1,199
Revenue obligation bonds - current maturities	58,170,000	70,690,000
Total Current Liabilities	63,123,982	76,658,322
<b>Noncurrent Liabilities</b>		
Accrued expenses	28,308	22,314
Due to other governmental entities	518,363	1,199,608
Compensated absences	40,064	84,413
Revenue obligation bonds, net (including deferred charge)	878,781,402	811,477,469
Total Noncurrent Liabilities	879,368,137	812,783,804
Total Liabilities	942,492,119	889,442,126
<b>Net Assets</b>		
Restricted for environmental improvement	1,609,417,153	1,534,832,690
Unrestricted	22,421,972	21,165,180
Total Net Assets	1,631,839,125	1,555,997,870
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,574,331,244</b>	<b>\$ 2,445,439,996</b>

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, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Loan interest	\$ 29,349,975	\$ 28,417,040
Interest income used as security for revenue bonds	21,219,541	19,885,350
Miscellaneous other	44,925	48,490
Total Operating Revenues	50,614,441	48,350,880
 <b>OPERATING EXPENSES</b>		
Interest	41,782,670	39,387,474
Salaries and benefits	4,577,744	4,491,347
Contractual services and other	1,929,449	1,966,052
Depreciation	3,617	1,808
Total Operating Expenses	48,293,480	45,846,681
 Operating Income	2,320,961	2,504,199
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	1,226,948	719,187
Investment income used as security for revenue bonds	22,418,723	14,097,177
Operating grants	77,618,989	140,550,400
Grants awarded	(41,743,752)	(102,747,131)
Total Nonoperating Revenues (Expenses)	59,520,908	52,619,633
 <b>INCOME BEFORE TRANSFERS</b>	61,841,869	55,123,832
 Transfers in	46,718,179	43,348,919
Transfers out	(32,718,793)	(34,759,084)
 Increase in Net Assets	75,841,255	63,713,667
 TOTAL NET ASSETS - Beginning of Year	1,555,997,870	1,492,284,203
 <b>TOTAL NET ASSETS - END OF YEAR</b>	\$ 1,631,839,125	\$ 1,555,997,870

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM (BY) OPERATING ACTIVITIES</b>		
Payments to employees for services	\$ (5,552,761)	\$ (3,561,338)
Payments to suppliers and other	(3,068,699)	(2,791,115)
Other operating revenues	44,925	48,489
Net Cash Flows From (by) Operating Activities	<u>(8,576,535)</u>	<u>(6,303,964)</u>
 <b>CASH FLOWS FROM (BY) NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	78,487,629	140,090,055
Grants paid	(41,743,752)	(102,747,131)
Transfers in	46,718,179	43,348,919
Transfers out	(32,718,793)	(34,759,084)
Proceeds from issuance of long-term debt	172,424,459	139,158,600
Refunded debt	(39,510,000)	(14,990,000)
Retirement of long-term debt	(70,690,000)	(66,865,000)
Interest payments	(48,413,023)	(43,011,659)
Advances to other funds	(973,150)	(2,477,500)
Net Cash Flows From (by) Noncapital Financing Activities	<u>63,581,549</u>	<u>57,747,200</u>
 <b>CASH FLOWS FROM (BY) INVESTING ACTIVITIES</b>		
Origination of loans	(251,907,835)	(180,323,720)
Collection on loans	171,509,966	154,730,938
Interest received on loans	9,960,771	20,336,624
Purchase of investments	(155,056,137)	(112,897,003)
Liquidation of investments	159,247,178	110,426,454
Investment and interest income	50,280,549	39,797,598
Net Cash Flows From (by) Investing Activities	<u>(15,965,508)</u>	<u>32,070,891</u>
 <b>CASH FLOWS FROM (BY) CAPITAL AND FINANCING ACTIVITIES</b>		
Acquisition of capital assets	-	(10,850)
Net Cash Flows From (by) Capital and Financing Activities	<u>-</u>	<u>(10,850)</u>
 <b>Net Increase in Cash and Cash Equivalents</b>	 39,039,506	 83,503,277
 CASH AND CASH EQUIVALENTS - Beginning of Year	 <u>398,314,142</u>	 <u>314,810,865</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	 <u>\$ 437,353,648</u>	 <u>\$ 398,314,142</u>

	<u>2011</u>	<u>2010</u>
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 2,320,961	\$ 2,504,199
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO</b>		
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Amortization	(3,813,714)	(2,798,067)
Interest income classified as investing activity	(50,569,516)	(48,302,391)
Interest expense classified as noncapital financing activity	45,456,802	42,023,375
Noncash items in operating income		
Depreciation	3,617	1,808
Changes in assets and liabilities		
Due from other funds	(569,647)	544,987
Other receivables	164,244	384,020
Prepaid items	16,293	16,177
Deferred debt expense	(1,083,781)	(933,831)
Accrued expenses	(28,002)	59,788
Accrued interest on bonds	139,582	162,167
Due to other funds	(654,703)	11,246
Due to other governmental entities	41,329	22,558
Total Adjustments	<u>(10,897,496)</u>	<u>(8,808,163)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ (8,576,535)</b>	<b>\$ (6,303,964)</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE</b>		
<b>STATEMENT OF NET ASSETS</b>		
Unrestricted cash and cash equivalents - statement of net assets	\$ 337,568,816	\$ 291,785,830
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	47,733,224	47,733,940
Investments in State of Wisconsin general obligation clean water bonds	172,883,650	163,850,321
Restricted cash and cash equivalents - statement of net assets	<u>99,784,832</u>	<u>106,528,312</u>
Total Cash and Investments	<u>657,970,522</u>	<u>609,898,403</u>
Less: Non-cash equivalents	<u>(220,616,874)</u>	<u>(211,584,261)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 437,353,648</b>	<b>\$ 398,314,142</b>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:</b>		
Net change in unrealized gains and losses	<u>\$ 13,223,658</u>	<u>\$ 3,211,782</u>

See accompanying notes to financial statements.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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

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**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, 2011 and 2010, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2011 and 2010, the total amount drawn on these loans was \$13,500,343. 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, 2011 and 2010

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

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**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 \$2.3 million in 2011 and net operating income of \$2.5 million in 2010. 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 \$77.6 million and \$140.5 million in 2011 and 2010, respectively, and are classified as operating grants. Transfers from the State of Wisconsin were approximately \$1.5 million and \$6.1 million in 2011 and 2010, 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, 2011 and 2010 and records the notes at cost. The Fund 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 30, 2011, the fair value of the Fund’s interest in these agreements was above the cost of the treasury securities owned by \$1,180,707. At June 30, 2010, the fair value was above the cost by \$3,103,120.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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

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**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.

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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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

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**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. Capital assets are not material to the financial statements.

**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 \$77.6 million and \$140.5 million of EPA contributions in 2011 and 2010, 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.

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### NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS

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Loans to local governments at June 30, 2011 and 2010 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 2011 and 2010. The weighted average interest rate was 2.475% and 2.510% at June 30, 2011 and 2010, 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, 2011, 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 \$3,699,098. The State is currently considering alternative options to improve the likelihood of full collection of principal and interest from the village.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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

Of the loans outstanding at June 30, 2011 and 2010, \$627,933,146 and \$605,040,680 (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 \$195,586,529 of new loans and \$4,044,050 of new grants during fiscal year 2011. For fiscal year 2010, these same programs entered into \$220,990,556 of new loans and \$142,558,218 of new grants. As of June 30, 2011, they had undisbursed commitments of \$199,193,376 relating to loans and \$2,680,786 relating to grants. For fiscal year 2010, they had undisbursed commitments of \$270,315,924 relating to loans and \$40,358,613 relating to grants. From July 1, 2011 to September 14, 2011, the Fund made additional loan disbursements of \$31,603,790 for financial assistance agreements that were outstanding prior to June 30, 2011. \$26,610,511 of additional loans were executed between July 1, 2011 and September 14, 2011. 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, 2011 and 2010, cash and cash equivalents consisted of the following:

	2011	2010
State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP"), at fair value	\$ 429,755,041	\$ 368,844,846
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
Miscellaneous cash	697	29,305
	437,353,648	398,314,142
Less: Amounts classified as restricted assets (see Note 6)	(99,784,832)	(106,528,312)
Total Unrestricted Cash and Cash Equivalents	\$ 337,568,816	\$ 291,785,830

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, 2011, the current yield on the LGIP was 0.11%, compared to 0.22% as of June 30, 2010. 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. This investment matured on June 1, 2011, and therefore, was not included in the year end investment balance. At June 30, 2010, the agreement had a market value of \$23,274,028 and was accruing interest at the rate of 8.1%.

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

### NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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#### **NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)**

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The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 30, 2011 and 2010, the repurchase agreement had a market value of \$8,747,922 and \$8,745,634, 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, 2011</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	\$ 429,755,041	N/A	Not rated	73 days weighted average maturity	N/A	N/A	65.9%
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.2
Treasury notes – Forward delivery	47,733,224	\$0	N/A	See Note 4	N/A	N/A	7.3
GO Bonds-WI	166,941,656	\$0	Aa2	5-1-31 final maturity	N/A	N/A	25.6
Miscellaneous cash	697	N/A	N/A	N/A	N/A	N/A	0.0
<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	5-1-31 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, 2011 and 2010

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### **NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)**

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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 \$99,784,832 and \$106,528,312 at June 30, 2011 and 2010, 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%.

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### **NOTE 4 – FORWARD DELIVERY AGREEMENTS**

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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.

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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

### NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2011, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1993-1* Agreement	\$ 2,241,000	N/A	\$ 2,183,992	5.22%	June 1, 2013	\$ 2,240,426
Series 1997-1 Agreement	7,160,000	0.75%	6,991,701	5.58	June 1, 2017	7,184,259
Series 1998-1 Agreement	7,447,000	0.75	7,292,131	5.01	June 1, 2018	7,472,232
Series 1999-1 Agreement	7,110,000	0.75	6,918,025	6.32	June 1, 2020	7,134,090
Series 2006-1 Agreement	6,568,000	N/A	6,421,514	4.56	June 1, 2027	6,566,100
Series 2006-2 Agreement	8,193,000	N/A	7,999,280	4.84	June 1, 2027	8,190,630
Series 2008-1 Agreement	10,092,000	0.75	9,926,581	4.10	June 1, 2028	10,126,194

\* - 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, 2011.

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 1993-1 Agreement	\$ 2,241,000	N/A	\$ 2,183,992	5.22%	June 1, 2013	\$ 2,239,330
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 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, 2011 and 2010

### **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	\$ 7,854,328	State Match
Proprietary Portfolio	Capital Improvement	21,565,440	Future Debt Service
Safe Drinking Water Loan Program	Capital Improvement	941,619	State Match
Bond Security and Redemption	Direct Loan Portfolio	9,000,000	G.O. Bond Debt Service
Debt Service Fund Program	Proprietary Portfolio	112,249	Personal Services
Leveraged Loan Portfolio	Proprietary Portfolio	15,000,000	Future Debt Service
Capital Improvement	Proprietary Portfolio	7,012	Capital Expenditure
Direct Loan Portfolio	Capital Improvement	611,588	State Match
Safe Drinking Water Loan Program	Proprietary Portfolio	745,204	State Match
Subtotal		55,837,440	
Less: Eliminations		(41,838,054)	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Assets		\$ 13,999,386	

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

### **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, 2011 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 854,625,000	\$ 153,050,000	\$ 110,200,000*	\$ 897,475,000	\$ 58,170,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(6,689,058)	(3,154,019)	(1,676,282)	(8,166,795)	-
Premiums/discounts	34,231,527	19,374,459	5,962,789	47,643,197	-
<b>Totals</b>	<b>\$ 882,167,469</b>	<b>\$ 169,270,440</b>	<b>\$ 114,486,507</b>	<b>\$ 936,951,402</b>	<b>\$ 58,170,000</b>

\* Includes \$39,510,000 of refunded bonds.

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	-
<b>Totals</b>	<b>\$ 829,268,792</b>	<b>\$ 137,899,364</b>	<b>\$ 85,000,687</b>	<b>\$ 882,167,469</b>	<b>\$ 70,690,000</b>

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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

#### **REVENUE OBLIGATION BONDS (cont.)**

Revenue obligation serial and term bonds as of June 30, 2011 and 2010 consisted of the following:

	2011	2010
<b>1991 Series 1:</b>		
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	\$ -	\$ 20,435,000
Unamortized (discount) on bonds	-	(9,907)
	-	20,425,093
<b>1998 Series 2:</b>		
Serial Bonds, no optional redemption, June 1, 2017	55,600,000	67,895,000
Unamortized premium on bonds	1,021,792	1,429,719
	56,621,792	69,324,719
<b>2001 Series 1:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	-	3,265,000
Unamortized premium on bonds	-	3,452
	-	3,268,452
<b>2002 Series 1:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	4,350,000	48,005,000
Unamortized premium (discount) on bonds	33,127	(219,758)
	4,383,127	47,785,242
<b>2002 Series 2:</b>		
Serial Bonds, no optional redemption, June 1, 2016	25,055,000	34,905,000
Unamortized premium on bonds	785,008	1,096,504
	25,840,008	36,001,504
<b>2004 Series 1:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	76,825,000	81,070,000
Unamortized premium on bonds	1,547,445	1,944,949
	78,372,445	83,014,949
<b>2004 Series 2:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	90,815,000	94,590,000
Unamortized premium on bonds	3,949,191	5,075,719
	94,764,191	99,665,719
<b>2006 Series 1:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	69,575,000	72,375,000
Unamortized premium on bonds	3,244,531	3,582,618
	72,819,531	75,957,618

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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

<i>REVENUE OBLIGATION BONDS</i> (cont.)	2011	2010
2006 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	\$ 86,965,000	\$ 90,465,000
Unamortized premium on bonds	2,518,311	2,870,347
	89,483,311	93,335,347
2008 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	90,640,000	93,885,000
Unamortized premium on bonds	5,285,695	5,970,177
	95,925,695	99,855,177
2008 Series 2:		
Serial Bonds, no optional redemption, June 1, 2018	27,335,000	27,335,000
Unamortized premium on bonds	2,303,474	2,638,884
	29,638,474	29,973,884
2008 Series 3:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	86,090,000	89,225,000
Unamortized premium on bonds	1,802,690	2,137,321
	87,892,690	91,362,321
2010 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	67,415,000	67,415,000
Unamortized premium on bonds	5,091,291	5,705,223
	72,506,291	73,120,223
2010 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	14,070,000	14,070,000
Unamortized premium on bonds	1,832,776	2,006,279
	15,902,776	16,076,279
2010 Series 3:		
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	49,690,000	49,690,000

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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

#### REVENUE OBLIGATION BONDS (cont.)

	2011	2010
2010 Series 4:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	\$ 116,290,000	\$ -
Unamortized premium on bonds	12,706,697	-
	128,996,697	-
2010 Series 5:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	36,760,000	-
Unamortized premium on bonds	5,521,169	-
	42,281,169	-
Total of All Series	945,118,197	888,856,527
Unamortized deferred charge related to debt defeasance (Note 7)	(8,166,795)	(6,689,058)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 936,951,402	\$ 882,167,469

The original issue discount or premium at issuance and the interest rates at June 30, 2011, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
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%*
2010 Series 4	(13,528,717)	3.00 – 5.00%
2010 Series 5	(5,845,742)	5.00%

\* - 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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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

#### **REVENUE OBLIGATION BONDS** (cont.)

Principal maturities of the bonds, net of advance refundings, as of June 30, 2011, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2012	\$ 58,170,000	\$ 44,288,483	\$ 102,458,483
2013	59,170,000	41,533,670	100,703,670
2014	56,250,000	38,725,446	94,975,446
2015	56,930,000	35,803,033	92,733,033
2016	58,550,000	32,961,771	91,511,771
2017-2021	276,365,000	122,528,447	398,893,447
2022-2026	222,965,000	59,370,461	282,335,461
2027-2031	109,075,000	14,253,650	123,328,650
Totals	<u>\$ 897,475,000</u>	<u>\$ 389,464,961</u>	<u>\$ 1,286,939,961</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2011 and 2010, the total assets of the Leveraged Loan Portfolio were \$1,178,105,945 and \$1,107,788,500, 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.

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 \$897.5 million in revenue bonds issued between 1998-2010. 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 56% of revenues. The total principal and interest remaining to be paid on the bonds is \$1,286,939,961. Principal and interest paid for the current year and total net revenues were \$116 million and \$115 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 Bayerische Landesbank investment (Note 3) and \$36.5 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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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### NOTE 7 – ADVANCE REFUNDING

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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, 2011, and 2010, there was \$56,805,000 and \$69,215,000, 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, 2011 and 2010, there was \$28,850,000 and \$38,405,000, 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, 2011 and 2010, there was \$92,585,000 and \$96,475,000, respectively, 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 30, 2011 and 2010, 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, 2011 and 2010, there was \$14,990,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

In 2010, the Fund defeased a portion of its 2002 Series 1 bonds through the issuance of \$36,760,000 of 2010 Series 5 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, 2011, there was \$39,510,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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### NOTE 7 – ADVANCE REFUNDING (cont.)

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The cash flow requirements on the refunded bonds prior to the 2010 advance refunding was \$59,787,818 from 2011 through 2023. The cash flow requirements on the 2010, Series 5 refunding bonds are \$55,463,122 from 2011 through 2023. 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 \$3,310,465.

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### NOTE 8 – GLOBAL CERTIFICATES

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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 both June 30, 2011 and 2010 were \$66,788,038 and 0.00% and \$73,276,720 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 30, 2011 were \$13,534,981 and 5.44% and \$7,371,937 and 5.76%, respectively. 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 Bonds are registered in the name of the Fund and held by an independent trustee.

In June 2008, two State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program (“Global Certificate”) for \$16,600,000 and \$10,300,000 (par value). The estimated market values of the Global Certificates at June 30, 2011 were \$19,680,304 and \$10,300,000. The weighted average coupon interest rate for the \$16,600,000 Global Certificate at June 30, 2011 was 6.16%. The estimated market values of the Global Certificates at June 30, 2010 were \$20,557,963 and \$10,300,000. The weighted average coupon interest rate for the \$16,600,000 Global Certificate at June 30, 2010 was 6.16%. The Bonds are registered in the name of the Fund 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 30, 2011 and 2010 were \$20,849,171 and 5.78% and \$21,127,461 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, 2011 and 2010 were \$17,149,319 and 5.47% and \$16,463,654 and 5.47%, respectively. The Bond is registered in the name of the Fund and held by an independent trustee.

In December 2010, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$15,000,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2011 were \$17,209,900 and 5.96%, respectively.

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

### NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

#### **NOTE 8 – GLOBAL CERTIFICATES (cont.)**

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

Years Ending June 30,	2011	2010
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	6,991,289	6,991,289
2017-2021	49,983,523	49,983,523
2022-2026	38,517,961	38,517,961
2027-2031	<u>41,690,823</u>	<u>26,690,823</u>
Totals	<u>\$ 166,941,656</u>	<u>\$ 151,941,656</u>

#### **NOTE 9 – INVESTMENT INCOME**

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2011 and 2010:

	2011	2010
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 651,134	\$ 755,119
Repurchase Agreement with Bayerische Landesbank	493,864	493,864
AIG Guaranteed Investment Agreement	1,621,775	1,769,209
United States Treasury Notes	2,394,113	2,393,825
State of Wisconsin General Obligation Bonds	3,952,922	6,800,087
Federal Interest on Build America Bonds	831,375	221,700
Total Interest	<u>9,945,183</u>	<u>12,433,804</u>
Changes in Realized and Unrealized Gains (Losses)		
United States Treasury Notes	5	372
State of Wisconsin General Obligation Bonds	13,223,653	3,211,410
Total Changes in Unrealized Gains (Losses)	<u>13,223,658</u>	<u>3,211,782</u>
Total Interest and Changes in Unrealized Gains (Losses)	23,168,841	15,645,586
Change in Estimated Rebateable Arbitrage Liability	<u>476,830</u>	<u>(829,222)</u>
TOTAL INVESTMENT INCOME	<u>\$ 23,645,671</u>	<u>\$ 14,816,364</u>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

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### NOTE 10 – OPERATING GRANTS AND HARDSHIP GRANTS

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***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 \$39.9 million for federal fiscal year 2011. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2011 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 2011 and a grant to Wisconsin of approximately \$18.4 million is expected for federal fiscal year 2011.

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 2011 and 2010, the Fund awarded hardship grants of \$56,055 and \$1,179,598, respectively. At June 30, 2011 and 2010, the Fund was committed to award \$2,680,786 and \$40,358,613, respectively, of additional hardship grants. At June 30, 2011 and 2010, the Fund had projected \$12,335,580 and \$830,779, respectively, of additional hardship grants.

**SUPPLEMENTAL INFORMATION**

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS  
BY PROGRAM  
June 30, 2011

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>ASSETS</b>			
<b>Current Assets</b>			
Unrestricted cash and cash equivalents	\$ 183,414,419	\$ 10,218,732	\$ 65,892,302
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	-	47,733,224
<b>Receivables</b>			
Loans to local governments - current portion	69,631,674	1,464,127	62,484,852
Due from other funds	4,469	2,269,697	-
Due from other governmental entities	3,699,876	49,877	3,355,792
Accrued investment income	-	-	231,147
Prepaid items	-	6,308	16,886
<b>Total Current Assets</b>	<u>256,750,438</u>	<u>14,008,741</u>	<u>179,714,203</u>
<b>Noncurrent Assets</b>			
Restricted assets - cash equivalents	-	-	99,784,832
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	-	172,883,650
Loans to local governments	804,258,789	10,831,993	721,587,082
Advances to other funds	3,450,650	-	-
Prepaid items	-	-	201,237
Deferred debt expense	-	-	3,934,941
<b>Capital Assets</b>			
Equipment	-	9,507	-
Less: Accumulated depreciation	-	(9,507)	-
<b>Total Capital Assets (Net of Accumulated Depreciation)</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Noncurrent Assets</b>	<u>807,709,439</u>	<u>10,831,993</u>	<u>998,391,742</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,064,459,877</u>	<u>\$ 24,840,734</u>	<u>\$ 1,178,105,945</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 78,043,363	\$ -	\$ 337,568,816
-	-	47,733,224
15,605,032	-	149,185,685
-	(2,051,807)	222,359
1,322,588	-	8,428,133
-	-	231,147
-	-	23,194
<u>94,970,983</u>	<u>(2,051,807)</u>	<u>543,392,558</u>
-	-	99,784,832
-	-	172,883,650
214,000,087	-	1,750,677,951
-	-	3,450,650
-	-	201,237
-	-	3,934,941
10,850	-	20,357
(5,425)	-	(14,932)
<u>5,425</u>	-	<u>5,425</u>
<u>214,005,512</u>	-	<u>2,030,938,686</u>
<u>\$ 308,976,495</u>	<u>\$ (2,051,807)</u>	<u>\$ 2,574,331,244</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS  
BY PROGRAM  
June 30, 2011

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities</b>			
Accrued expenses	\$ 50,117	\$ 32,590	\$ 22
Accrued interest on bonds	-	-	3,690,707
Due to other funds	8,177	817,356	2,051,807
Due to other governmental entities	-	-	-
Compensated absences - current portion	-	45,548	-
Revenue obligation bonds - current maturities	-	-	58,170,000
<b>Total Current Liabilities</b>	<b>58,294</b>	<b>895,494</b>	<b>63,912,536</b>
<b>Noncurrent Liabilities</b>			
Accrued expenses	-	28,308	-
Due to other governmental entities	-	-	518,363
Compensated absences	-	40,064	-
Revenue obligation bonds, net (including deferred charge)	-	-	878,781,402
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>68,372</b>	<b>879,299,765</b>
<b>Total Liabilities</b>	<b>58,294</b>	<b>963,866</b>	<b>943,212,301</b>
<b>Net Assets</b>			
Restricted for environmental improvement	1,064,401,583	1,454,896	234,893,644
Unrestricted	-	22,421,972	-
<b>Total Net Assets</b>	<b>1,064,401,583</b>	<b>23,876,868</b>	<b>234,893,644</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,064,459,877</b>	<b>\$ 24,840,734</b>	<b>\$ 1,178,105,945</b>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 60,145	\$ -	\$ 142,874
-	-	3,690,707
39,581	(2,051,807)	865,114
209,739	-	209,739
-	-	45,548
-	-	58,170,000
<u>309,465</u>	<u>(2,051,807)</u>	<u>63,123,982</u>
-	-	28,308
-	-	518,363
-	-	40,064
-	-	878,781,402
-	-	<u>879,368,137</u>
<u>309,465</u>	<u>(2,051,807)</u>	<u>942,492,119</u>
308,667,030	-	1,609,417,153
-	-	22,421,972
<u>308,667,030</u>	-	<u>1,631,839,125</u>
<u>\$ 308,976,495</u>	<u>\$ (2,051,807)</u>	<u>\$ 2,574,331,244</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BY PROGRAM  
June 30, 2011

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>OPERATING REVENUES</b>			
Loan interest	\$ 23,618,910	\$ 333,292	\$ -
Interest income used as security for revenue bonds	-	-	21,219,541
Miscellaneous other	-	44,925	-
<b>Total Operating Revenues</b>	<u>23,618,910</u>	<u>378,217</u>	<u>21,219,541</u>
<b>OPERATING EXPENSES</b>			
Interest	-	-	41,782,670
Salaries and benefits	1,138,975	414,220	1,656,880
Contractual services and other	117,780	98,732	505,841
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<u>1,256,755</u>	<u>512,952</u>	<u>43,945,391</u>
Operating Income (Loss)	<u>22,362,155</u>	<u>(134,735)</u>	<u>(22,725,850)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	244,376	21,043	831,375
Investment income used as security for revenue bonds	-	-	22,418,723
Operating grants	55,416,019	-	-
Grants awarded	<u>(29,637,302)</u>	<u>(281,309)</u>	<u>-</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>26,023,093</u>	<u>(260,266)</u>	<u>23,250,098</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	48,385,248	(395,001)	524,248
Transfers in	8,465,916	21,565,440	15,000,000
Transfers out	<u>(9,000,000)</u>	<u>(23,718,793)</u>	<u>-</u>
<b>Change in Net Assets</b>	47,851,164	(2,548,354)	15,524,248
TOTAL NET ASSETS - Beginning of Year	<u>1,016,550,419</u>	<u>26,425,222</u>	<u>219,369,396</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 1,064,401,583</u>	<u>\$ 23,876,868</u>	<u>\$ 234,893,644</u>

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Safe Drinking Water Loan Program	Totals
\$ 5,397,773	\$ 29,349,975
-	21,219,541
-	44,925
<u>5,397,773</u>	<u>50,614,441</u>
-	41,782,670
1,367,669	4,577,744
1,207,096	1,929,449
3,617	3,617
<u>2,578,382</u>	<u>48,293,480</u>
<u>2,819,391</u>	<u>2,320,961</u>
130,154	1,226,948
-	22,418,723
22,202,970	77,618,989
<u>(11,825,141)</u>	<u>(41,743,752)</u>
<u>10,507,983</u>	<u>59,520,908</u>
13,327,374	61,841,869
1,686,823	46,718,179
-	<u>(32,718,793)</u>
15,014,197	75,841,255
<u>293,652,833</u>	<u>1,555,997,870</u>
<u>\$ 308,667,030</u>	<u>\$ 1,631,839,125</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM

For the Year Ended June 30, 2011

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>CASH FLOWS FROM (BY) OPERATING ACTIVITIES</b>			
Payments to employees for services	\$ (1,241,912)	\$ (1,932,420)	\$ (1,057,445)
Payments to suppliers and other	(120,769)	(302,289)	(1,621,244)
Other operating revenues	-	44,925	-
Net Cash Flows From (by) Operating Activities	<u>(1,362,681)</u>	<u>(2,189,784)</u>	<u>(2,678,689)</u>
<b>CASH FLOWS FROM (BY) NONCAPITAL FINANCING ACTIVITIES</b>			
Operating grants received	56,494,465	-	-
Grants paid	(29,637,302)	(281,309)	-
Transfers in	8,465,916	21,565,440	15,000,000
Transfers out	(9,000,000)	(23,718,793)	-
Proceeds from issuance of long-term debt	-	-	172,424,459
Refunded debt	-	-	(39,510,000)
Retirement of long-term debt	-	-	(70,690,000)
Interest payments	-	-	(48,413,023)
Advances to other funds	(973,150)	-	-
Net Cash Flows From (by) Noncapital Financing Activities	<u>25,349,929</u>	<u>(2,434,662)</u>	<u>28,811,436</u>
<b>CASH FLOWS FROM (BY) INVESTING ACTIVITIES</b>			
Origination of loans	(110,472,938)	(2,328,113)	(115,784,848)
Collection on loans	82,888,104	2,143,712	71,806,899
Interest received on loans	316,936	21,043	9,492,638
Purchase of investments	-	-	(155,056,137)
Liquidation of investments	-	-	159,247,178
Investment and interest income	23,559,697	333,237	21,026,312
Net Cash Flows From (by) Investing Activities	<u>(3,708,201)</u>	<u>169,879</u>	<u>(9,267,958)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	20,279,047	(4,454,567)	16,864,789
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>163,135,372</u>	<u>14,673,299</u>	<u>148,812,345</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 183,414,419</u>	<u>\$ 10,218,732</u>	<u>\$ 165,677,134</u>

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Safe Drinking Water Loan Program	Totals
\$ (1,320,984)	\$ (5,552,761)
(1,024,397)	(3,068,699)
-	44,925
(2,345,381)	(8,576,535)

21,993,164	78,487,629
(11,825,141)	(41,743,752)
1,686,823	46,718,179
-	(32,718,793)
-	172,424,459
-	(39,510,000)
-	(70,690,000)
-	(48,413,023)
-	(973,150)
11,854,846	63,581,549

(23,321,936)	(251,907,835)
14,671,251	171,509,966
130,154	9,960,771
-	(155,056,137)
-	159,247,178
5,361,303	50,280,549
(3,159,228)	(15,965,508)

6,350,237	39,039,506
71,693,126	398,314,142
\$ 78,043,363	\$ 437,353,648

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2011

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 22,362,155	\$ (134,735)	\$ (22,725,850)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Amortization	-	-	(3,813,714)
Interest income classified as investing activity	(23,618,910)	(333,292)	(21,219,541)
Interest expense classified as noncapital financing activity	-	-	45,456,802
Noncash items in operating income			
Depreciation	-	-	-
Changes in assets and liabilities:			
Due from other funds	(2,990)	(566,657)	-
Other receivables	-	-	-
Prepaid items	-	(594)	16,887
Deferred debt expense	-	-	(1,083,781)
Accrued expenses	(17,391)	(757)	21
Accrued interest on bonds	-	-	139,582
Due to other funds	(85,545)	(1,153,749)	550,905
Due to other governmental entities	-	-	-
Total Adjustments	(23,724,836)	(2,055,049)	20,047,161
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ (1,362,681)</b>	<b>\$ (2,189,784)</b>	<b>\$ (2,678,689)</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</b>			
Unrestricted cash and cash equivalents - statement of net assets	\$ 183,414,419	\$ 10,218,732	\$ 65,892,302
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	-	-	47,733,224
Investments in State of Wisconsin general obligation clean water bonds	-	-	172,883,650
Restricted cash and cash equivalents - statement of net assets	-	-	99,784,832
Total Cash and Investments	183,414,419	10,218,732	386,294,008
Less: Non-cash equivalents	-	-	(220,616,874)
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 183,414,419</b>	<b>\$ 10,218,732</b>	<b>\$ 165,677,134</b>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:</b>			
Net change in unrealized gains and losses	\$ -	\$ -	\$ 13,223,658

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Safe Drinking Water Loan Program	Totals
<u>\$ 2,819,391</u>	<u>\$ 2,320,961</u>
-	(3,813,714)
(5,397,773)	(50,569,516)
-	45,456,802
3,617	3,617
-	(569,647)
164,244	164,244
-	16,293
-	(1,083,781)
(9,875)	(28,002)
-	139,582
33,686	(654,703)
41,329	41,329
<u>(5,164,772)</u>	<u>(10,897,496)</u>
<u>\$ (2,345,381)</u>	<u>\$ (8,576,535)</u>
\$ 78,043,363	\$ 337,568,816
-	47,733,224
-	172,883,650
-	99,784,832
<u>78,043,363</u>	<u>657,970,522</u>
-	<u>(220,616,874)</u>
<u>\$ 78,043,363</u>	<u>\$ 437,353,648</u>
<u>\$ -</u>	<u>\$ 13,223,658</u>

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)  
Years Ended June 30, 2011 and 2010

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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 financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of June 30, 2011 and have issued our report thereon dated November 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 a 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. We consider the deficiency described below to be a material weakness.

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

### ***Internal Control Over Financial Reporting***

We are required to communicate to you about your internal controls. The definition of a material weakness in internal control includes consideration of the year end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

- > Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures.

The result of our audit procedures indicated the following conclusions about your internal control over financial reporting:

- > We identified material audit journal entries to the fund's records that resulted in changes to the financial statements.

Further details of these entries were provided to management. We are required to report a material weakness in your internal controls over financial reporting as a result of these entries.

### ***Compliance and Other Matters***

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

We noted certain matters that we reported to management of the State of Wisconsin Environmental Improvement Fund in a separate letter dated November 8, 2011.

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.

*BakerTilly Vinchow Krause, LLP*

Madison, Wisconsin  
November 8, 2011

**STATE OF WISCONSIN**  
**LEVERAGED LOAN PORTFOLIO**  
FINANCIAL STATEMENTS

For the Year Ended June 1, 2011 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, 2011, 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, 2011, 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" as listed in the table of contents 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  
November 8, 2011

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF NET ASSETS  
June 1, 2011

<b>ASSETS</b>	
<b>Current Assets</b>	
Unrestricted cash and cash equivalents	\$ 78,621,634
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	47,733,984
Receivables	
Loans to local governments - current portion	62,484,852
Due from other governmental entities	1,706,335
Prepaid items	16,886
Total Current Assets	<u>190,563,691</u>
<b>Noncurrent Assets</b>	
Restricted assets - cash equivalents	98,825,933
Investments - State of Wisconsin general obligation clean water bonds, at fair value	174,194,259
Loans to local governments	709,812,865
Prepaid items	202,644
Deferred debt expense	3,982,828
Total Noncurrent Assets	<u>987,018,529</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,177,582,220</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current Liabilities</b>	
Due to other funds	\$ 1,880,823
Revenue obligation bonds - current maturities	58,170,000
Total Current Liabilities	<u>60,050,823</u>
<b>Noncurrent Liabilities</b>	
Due to other governmental entities	498,968
Revenue obligation bonds, net (including deferred charge)	879,200,730
Total Noncurrent Liabilities	<u>879,699,698</u>
Total Liabilities	<u>939,750,521</u>
<b>Net Assets</b>	
Restricted for environmental improvement	237,831,699
Total Net Assets	<u>237,831,699</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,177,582,220</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, 2011

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<b>OPERATING REVENUES</b>	
Interest income used as security for revenue bonds	\$ 21,124,564
Total Operating Revenues	<u>21,124,564</u>
<b>OPERATING EXPENSES</b>	
Interest	41,767,363
Salaries and benefits	1,606,928
Contractual services and other	498,034
Total Operating Expenses	<u>43,872,325</u>
Operating Loss	<u>(22,747,761)</u>
<b>NONOPERATING REVENUES</b>	
Investment income used as security for revenue bonds	19,619,199
Total Nonoperating Revenues	<u>19,619,199</u>
<b>INCOME (LOSS) BEFORE TRANSFER</b>	<u>(3,128,562)</u>
Transfers in	<u>15,000,000</u>
<b>Increase in Net Assets</b>	11,871,438
TOTAL NET ASSETS - Beginning of Year	<u>225,960,261</u>
<b>TOTAL NET ASSETS - END OF YEAR</b>	<u>\$ 237,831,699</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF CASH FLOWS  
For the Year Ended June 1, 2011

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**CASH FLOWS FROM (BY) OPERATING ACTIVITIES**

Payments to employees for services	\$ (1,057,466)
Payments to suppliers and other	<u>(1,609,394)</u>
Net Cash Flows From (by) Operating Activities	<u>(2,666,860)</u>

**CASH FLOWS FROM (BY) NONCAPITAL FINANCING ACTIVITIES**

Transfers in	15,000,000
Proceeds from issuance of long-term debt	172,424,459
Refunded debt	(39,510,000)
Retirement of long-term debt	(70,690,000)
Interest payments	<u>(48,468,113)</u>
Net Cash Flows From (by) Noncapital Financing Activities	<u>28,756,346</u>

**CASH FLOWS FROM (BY) INVESTING ACTIVITIES**

Origination of loans	(128,097,404)
Collection on loans	71,806,899
Interest and dividends received on loans	9,502,360
Purchase of investments	(155,056,137)
Liquidation of investments	159,247,178
Investment and interest income	<u>21,026,313</u>
Net Cash Flows From (by) Investing Activities	<u>(21,570,791)</u>

**Net Increase in Cash and Cash Equivalents** 4,518,695

CASH AND CASH EQUIVALENTS - Beginning of Year 172,928,872

**CASH AND CASH EQUIVALENTS - END OF YEAR** \$ 177,447,567

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

Operating Loss \$ (22,747,761)

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

Amortization 6,700,751  
Interest income classified as investing activity (21,124,564)  
Interest expense classified as noncapital financing activity 35,066,613  
Changes in assets and liabilities:  
    Prepays 16,886  
    Deferred debt expense (1,083,781)  
    Due to other funds 504,996  
    Total Adjustments 20,080,901

**NET CASH FLOWS USED BY OPERATING ACTIVITIES** \$ (2,666,860)

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

Unrestricted cash and cash equivalents - statement of net assets \$ 78,621,634  
Investments in United States Treasury Notes, purchased in connection with  
    forward delivery agreements 47,733,984  
Investments in State of Wisconsin general obligation clean water bonds 174,194,259  
Restricted cash and cash equivalents - statement of net assets 98,825,933  
    Total Cash and Investments 399,375,810  
  
Less: Non-cash equivalents (221,928,243)

**CASH AND CASH EQUIVALENTS - END OF YEAR** \$ 177,447,567

**NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:**

Net change in unrealized gains and losses \$ 9,435,594

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

## NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2011

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

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**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 \$22.7 million in 2011. 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 \$15,000,000 were required for this purpose in 2011. 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, 2011 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, 2011, the fair value of the Fund’s interest in these agreements exceeded the cost of the treasury securities owned by approximately \$1,112,538.

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

## NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2011

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

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**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, 2011

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### NOTE 2 – FINANCIAL ASSISTANCE COMMITMENTS TO LOCAL GOVERNMENTS

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Leveraged loans to local governments at June 1, 2011, 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 2011. The weighted average interest rate was 2.475% at June 1, 2011. 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, 2011, \$261,832,531 (34%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio entered into \$52,557,504 of new loans during the 12 month period ending June 1, 2011. As of June 1, 2011, the Portfolio had undisbursed loan commitments totaling \$84,986,628. From June 1, 2011 to September 28, 2011, the Portfolio made additional loan disbursements of \$26,741,310 for financial assistance agreements that were outstanding prior to June 1, 2011. \$11,492,242 of additional leverage loans were executed between June 1, 2011 and September 28, 2011. 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.

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### NOTE 3 – CASH AND CASH EQUIVALENTS

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As of June 1, 2011, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	\$ 169,846,122
Cash held by trustee	3,535
Investments reported at cost:	
Repurchase Agreement with Bayerische Landesbank	<u>7,597,910</u>
	177,447,567
Less: Amounts classified as restricted assets (see Note 6)	<u>(98,825,933)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ 78,621,634</u>

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

### NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2011

#### **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, 2011, the current yield on the LGIP was 0.13%. The LGIP investment is stated at fair value.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 1, 2011, the repurchase agreement had a market value of \$8,766,769. 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 \$	3,535	\$0	N/A	N/A	N/A	N/A	0.0%
LGIP	169,846,122	N/A	Not rated	64 days weighted average maturity	N/A	N/A	43.3
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	2.0
Treasury notes – Forward delivery	47,733,984	\$0	N/A	See Note 4	N/A	N/A	12.2
GO Bonds-WI	166,941,656	\$0	Aa2	5-1-31 final maturity	N/A	N/A	42.5

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 \$98,825,933 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, 2011

#### **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, 2011, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1993-1 Agreement	\$ 2,241,000	N/A	\$ 2,184,752	5.22%	June 1, 2013	\$ 2,183,992
Series 1997-1 Agreement	7,160,000	0.75%	6,991,701	5.58	June 1, 2017	7,182,522
Series 1998-1 Agreement	7,447,000	0.75	7,292,131	5.01	June 1, 2018	7,470,424
Series 1999-1 Agreement	7,110,000	0.75	6,918,025	6.32	June 1, 2020	7,132,364
Series 2006-1 Agreement	6,568,000	N/A	6,421,514	4.56	June 1, 2027	6,564,652
Series 2006-2 Agreement	8,193,000	N/A	7,999,280	4.84	June 1, 2027	8,188,824
Series 2008-1 Agreement	10,092,000	0.75	9,926,581	4.10	June 1, 2028	10,123,744

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

## NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2011

### **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	\$ 1,880,823
Total Due to Other Funds – Statement of Net Assets		<u>\$ 1,880,823</u>

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

The following is a schedule of interfund transfers:

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

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

### **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	\$ 854,625,000	\$ 153,050,000	\$ 110,200,000*	\$ 897,475,000	\$ 58,170,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(6,819,252)	(3,154,018)	(1,671,048)	(8,302,222)	-
Premiums/discounts	<u>34,654,580</u>	<u>19,374,459</u>	<u>5,831,087</u>	<u>48,197,952</u>	-
Totals	<u>\$ 882,460,328</u>	<u>\$ 169,270,441</u>	<u>\$ 114,360,039</u>	<u>\$ 937,370,730</u>	<u>\$ 58,170,000</u>

\* Includes \$39,510,000 of refunded bonds.

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

### NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2011

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

##### ***REVENUE OBLIGATION BONDS*** (cont.)

Revenue obligation serial and term bonds as of June 1, 2011 consisted of the following:

	2011
1998 Series 2:	
Serial Bonds, no optional redemption, June 1, 2017	\$ 55,600,000
Unamortized premium on bonds	1,042,430
	56,642,430
2002 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	4,350,000
Unamortized premium on bonds	36,102
	4,386,102
2002 Series 2:	
Serial Bonds, no optional redemption, June 1, 2016	25,055,000
Unamortized premium on bonds	810,632
	25,865,632
2004 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	76,825,000
Unamortized premium on bonds	1,576,853
	78,401,853
2004 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	90,815,000
Unamortized premium on bonds	4,039,588
	94,854,588
2006 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	69,575,000
Unamortized premium on bonds	3,272,539
	72,847,539
2006 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	86,965,000
Unamortized premium on bonds	2,545,031
	89,510,031
2008 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	90,640,000
Unamortized premium on bonds	5,340,341
	95,980,341

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

### NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2011

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

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<i>REVENUE OBLIGATION BONDS</i> (cont.)	2011
2008 Series 2:	
Serial Bonds, no optional redemption, June 1, 2018	\$ 27,335,000
Unamortized premium on bonds	2,332,066
	29,667,066
2008 Series 3:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	86,090,000
Unamortized premium on bonds	1,827,704
	87,917,704
2010 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	67,415,000
Unamortized premium on bonds	5,143,184
	72,558,184
2010 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	14,070,000
Unamortized premium on bonds	1,847,552
	15,917,552
2010 Series 3:	
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	49,690,000
2010 Series 4:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	116,290,000
Unamortized premium on bonds	12,818,500
	129,108,500
2010 Series 5:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	36,760,000
Unamortized premium on bonds	5,565,430
	42,325,430
Total of All Series	945,672,952
Unamortized deferred charge related to debt defeasance (Note 7)	(8,302,222)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 937,370,730

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

### NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2011

#### 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, 2011, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
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%
2010 Series 4	(13,528,717)	3.00 – 5.00%
2010 Series 5	(5,845,742)	5.00%

Principal maturities of the bonds, net of advance refundings, as of June 1, 2011, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2012	\$ 58,170,000	\$ 44,288,483	\$ 102,458,483
2013	59,170,000	41,533,670	100,703,670
2014	56,250,000	38,725,446	94,975,446
2015	56,930,000	35,803,033	92,733,033
2016	58,550,000	32,961,771	91,511,771
2017-2021	276,365,000	122,528,447	398,893,447
2022-2026	222,965,000	59,370,461	282,335,461
2027-2031	109,075,000	14,253,650	123,328,650
Totals	<u>\$ 897,475,000</u>	<u>\$ 389,464,961</u>	<u>\$ 1,286,939,961</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2011, the total assets of the Leveraged Loan Portfolio were \$1,177,582,220. 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, 2011

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

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#### *RESTRICTED ASSETS*

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheets consist of substantially all of the Bayerische Landesbank investment (Note 3) and \$36.5 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.

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### NOTE 7 – ADVANCE REFUNDING

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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, 2011, there was \$56,805,000 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, 2011, there was \$28,850,000 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, 2011, there was \$92,585,000 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, 2011, 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, 2011

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### NOTE 7 – ADVANCE REFUNDING (cont.)

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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, 2011, there was \$14,990,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

In 2010, the Fund defeased a portion of its 2002 Series 1 bonds through the issuance of \$36,760,000 of 2010 Series 5 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, 2011, there was \$39,510,000 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 \$59,787,818 from 2011 through 2023. The cash flow requirements on the 2010, Series 5 refunding bonds are \$55,463,122 from 2011 through 2023. 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 \$3,310,465.

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### NOTE 8 – GLOBAL CERTIFICATES

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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, 2011 is \$67,336,354 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, 2011 were \$13,649,352 and 5.44% and \$7,514,155 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In June 2008, two State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for \$16,600,000 and \$10,300,000 (par value). The estimated market values of the Global Certificates at June 1, 2011 were \$20,034,706 and \$10,300,000. The weighted average coupon interest rate for the \$16,600,000 Global Certificate at June 1, 2011 was 6.16%. The Bonds are registered in the name of the Fund 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, 2011 were \$21,106,815 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, 2011 were \$17,096,944 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, 2011

#### **NOTE 8 – GLOBAL CERTIFICATES (cont.)**

In December 2010, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$15,000,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2011, were \$17,155,933 and 5.96%, respectively.

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

Years Ending June 1,	2011
2012	\$ 7,746,829
2013	9,662,930
2014	5,885,021
2015	6,463,280
2016	6,991,289
2017-2021	49,983,523
2022-2026	38,517,961
2027-2031	41,690,823
Totals	\$ 166,941,656

#### **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, 2011:

Interest	
State of Wisconsin Investment Board Local Government Investment Pool	\$ 265,284
Repurchase Agreement with Bayerische Landesbank	493,864
AIG Guaranteed Investment Agreement	1,769,209
United States Treasury Notes	2,394,121
State of Wisconsin General Obligation Bonds	3,952,922
Federal Interest on Build America Bonds	831,375
Total Interest	9,706,775
Changes in Realized and Unrealized Gains (Losses)	
State of Wisconsin General Obligation Bonds	9,435,594
Total Interest and Changes in Unrealized Gains (Losses)	19,142,369
Change in Estimated Rebutable Arbitrage Liability	476,830
TOTAL INVESTMENT INCOME	\$ 19,619,199

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)  
For the Year Ended June 1, 2011

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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.