STATE OF WISCONSIN

Notice of **Material Information** #2003-07
Dated January 6, 2003

This document provides information which may be material to financial evaluation of the State of Wisconsin, however neither the preparation nor submission of this document constitutes a Listed Event pursuant to the State's Master Agreement on Continuing Disclosure.

Issuer:	State of Wisconsin Clean Water Revenue Obligations
CUSIP Numbers:	Bonds—977092 Prefix (All)
Type of Information:	Financial Statements or CAFR Pursuant to Rule 15c2-12 Attached are the financial statements for the year ended June 30, 2002 for the Environmental Improvement Fund and Leveraged Loan Portfolio.
Fiscal Period Covered:	July 1, 2001 through June 30, 2002
Type of Filing:	Filed in both electronic and paper form with each Nationally Recognized Municipal Securities Information Repository.

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing Annual Reports and giving notice of Listed Material Events when notice is required by the State's Master Agreement on Continuing Disclosure.

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STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

Financial Statements for the Year Ended June 30, 2002 and 2001, Supplemental Information for the Year Ended June 30, 2002 and Independent Auditors' Report

AND

LEVERAGED LOAN PORTFOLIO

Financial Statements for the Year Ended June 1, 2002 and Independent Auditors' Report

STATE OF WISCONSIN

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin) as of June 30, 2002, and the related statements of revenues, expenses and changes in fund equity and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended June 30, 2001, before restatement, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated September 20, 2001.

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 State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2002, and the changes in its equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2002 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, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, in 2002 the State of Wisconsin Environmental Improvement Fund changed its method of accounting for certain operating transfers and its method of classifying assets, liabilities and fund equity to conform to GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* and, retroactively, restated the 2001 financial statements for the change. We audited the adjustments described in Note 1 that were applied to restate the 2001 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the State of Wisconsin Environmental Improvement Fund other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic 2002 financial statements taken as a whole. The supplemental financial statements by program as of and for the year ended June 30, 2002 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These supplemental financial statements by program are also the responsibility of management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic 2002 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2002 financial statements taken as a whole.

Deloitte & Touche LLP

October 8, 2002

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

BALANCE SHEETS
JUNE 30, 2002 AND 2001

ASSETS	2002	2001
Current assets:		
Cash and cash equivalents	$ 244,688,416	$ 209,199,167
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	23,386,624	23,386,486
Investments - State of Wisconsin general obligation clean water bonds, at fair value	7,647,960	5,906,372
Receivables:		
Loans to Wisconsin municipalities - current portion	68,489,849	61,884,007
Due from State of Wisconsin	253,016	51,584
Due from other governmental entities	5,824,667	5,750,333
Accrued investment income	329,808	337,356
Other assets	4,241	5,858
Total current assets	350,624,581	306,521,163
Noncurrent assets:		
Restricted assets - cash equivalents	58,903,293	55,246,841
Investment, State of Wisconsin general obligation clean water bonds, at fair value	101,404,706	101,716,554
Loans to Wisconsin municipalities	1,014,833,313	953,785,468
Deferred debt expense	2,888,893	3,091,871
Total noncurrent assets	1,178,030,205	1,113,840,734
TOTAL ASSETS	$ 1,528,654,786	$ 1,420,361,897

LIABILITIES AND FUND EQUITY	2002	2001
Current liabilities:		
Accrued expenses	$ 146,296	$ 137,198
Accrued interest on bonds	2,982,484	3,190,344
Due to other funds	1,644,505	2,429,377
Revenue obligation bonds - current maturities	35,410,000	30,975,000
Total current liabilities	40,183,285	36,731,919
Noncurrent liabilities:		
Revenue obligation bonds, net (including deferred charge)	624,040,606	556,809,489
Due to other governmental entities	2,673,236	2,175,334
Accrued expenses	26,078	19,746
Total noncurrent liabilities	626,739,920	559,004,569
Total liabilities	666,923,205	595,736,488
Fund equity:		
Unrestricted	32,388,146	30,322,892
Restricted	829,343,435	794,302,517
Total fund equity	861,731,581	824,625,409
TOTAL LIABILITIES AND FUND EQUITY	$ 1,528,654,786	$ 1,420,361,897

See notes to financial statements.

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
YEARS ENDED JUNE 30, 2002 AND 2001

	2002	2001
OPERATING REVENUES:		
Loan interest	$ 32,605,478	$ 30,598,368
Other	23,142	2,293
Total operating revenues	32,628,620	30,600,661
OPERATING EXPENSES:		
Interest	32,425,670	31,011,773
Salaries and benefits	3,465,367	3,968,806
Contractual services and other	1,896,234	1,848,948
Depreciation	1,485	1,889
Total operating expenses	37,788,756	36,831,416
OPERATING (LOSS)	(5,160,136)	(6,230,755)
NONOPERATING REVENUES (EXPENSES):		
Investment income	18,627,763	29,268,723
Operating grants	23,460,107	19,727,697
Hardship grants awarded	(4,706,562)	(5,151,498)
Total nonoperating revenues, net	37,381,308	43,844,922
INCOME BEFORE OPERATING TRANSFERS	32,221,172	37,614,167
Operating Transfers in	4,885,000	16,700,000
INCREASE IN FUND EQUITY	37,106,172	55,314,167
TOTAL FUND EQUITY - BEGINNING OF YEAR	824,625,409	770,311,242
TOTAL FUND EQUITY - END OF YEAR	$ 861,731,581	$ 824,625,409

See notes to financial statements.

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2002 AND 2001

	2002	2001
OPERATING ACTIVITIES:		
Payments to employees for services	$ (4,138,171)	$ (3,086,815)
Payments to suppliers and other	(2,293,037)	(1,761,673)
Net cash used in operations	(6,431,208)	(4,848,488)
NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	23,616,977	19,466,236
Grants paid	(4,706,562)	(5,151,498)
Operating transfers in	4,885,000	16,700,000
Proceeds from issuance of long-term debt	102,495,341	70,797,963
Retirement of long-term debt	(30,975,000)	(27,245,000)
Interest payments	(32,162,421)	(29,644,623)
Net cash provided by noncapital financing activities	63,153,335	44,923,078
INVESTING ACTIVITIES:		
Origination of loans	(134,754,177)	(129,535,487)
Collection of loans	67,100,490	60,576,596
Interest received on loans	32,374,275	29,984,593
Purchase of investments	(51,762,882)	(56,771,140)
Liquidation of investments	52,669,117	51,328,516
Increase in restricted cash equivalents	(3,656,452)	(5,524,041)
Investment income receipts	16,796,751	22,122,781
Net cash used in investing activities	(21,232,878)	(27,818,182)
Net increase in cash and cash equivalents	35,489,249	12,256,408
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	209,199,167	196,942,759
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 244,688,416	$ 209,199,167

(Continued)

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2002 AND 2001

	2002	2001
RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED IN OPERATIONS - Operating (loss)	$ (5,160,136)	$ (6,230,755)
ADJUSTMENTS TO RECONCILE OPERATING (LOSS) TO NET CASH USED IN OPERATIONS:		
Depreciation	1,485	1,889
Amortization	663,316	808,284
Interest income classified as investing activity	(32,605,478)	(30,598,368)
Interest expense classified as noncapital financing activity	31,970,214	29,484,023
Changes in assets and liabilities:		
(Increase) decrease in other assets	131	(321)
Increase in deferred charges	(120,270)	(96,925)
Increase in due from State of Wisconsin	(201,432)	(169,646)
Increase (decrease) in accounts payable	9,316	(67,781)
Increase (decrease) in interest payable	(207,860)	719,467
Increase (decrease) in compensated absences accrual	4,028	(4,204)
Increase in due to other governmental entities	350	
Increase (decrease) in due to other funds	(784,872)	1,305,849
Total adjustments	(1,271,072)	1,382,267
NET CASH USED IN OPERATIONS	$ (6,431,208)	$ (4,848,488)

(Concluded)

See notes to financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Fund was established with the adoption of the 1997-1999 State of Wisconsin budget. The Fund replaced and expanded the Clean Water Fund Program. 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 following three portfolios comprise the Clean Water Fund Program:

- <u>Leveraged Loan Portfolio</u> - 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.

- <u>Direct Loan Portfolio</u> - 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). Loans in this portfolio are made for wastewater projects that comply with EPA eligibility and reporting requirements.

- <u>Proprietary Portfolio</u> - This portfolio is funded by operating transfers from the State. Assets of this portfolio are used for other various wastewater projects including both loans and hardship grants.

The Safe Drinking Water Loan Program was established in 1997 and provides municipal loans for the construction or repair of drinking water facilities.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. There have been three loans granted under this program for a total of $6,891,730. As of June 30, 2002 the total amount drawn on these loans was $5,483,619. The Land Recycling Program loans are included in the Direct Loan Portfolio for reporting purposes.

Net Operating Losses - The Fund incurred net operating losses of $5.2 million and $6.2 million in 2002 and 2001, respectively. Management expects the Fund will generally incur net operating losses for the foreseeable future. As explained in Note 2, these losses result from the Fund's statutory mission to provide loans to municipalities at interest rates below the Fund's own cost of funds. The losses have historically been funded by EPA grants and operating transfers from the State of Wisconsin. EPA grants were approximately $23.5 million and $19.7 million in 2002 and 2001, respectively, and are classified as operating grants. Operating transfers from the State of Wisconsin were approximately $4.9 million and

$16.7 million and are classified as operating transfers in. Management expects the grants and operating transfers will continue for the foreseeable future sufficient to fund both the future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

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

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

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements - The Fund holds United States Treasury Notes as investments at June 30, 2002 and records the notes at amortized cost. The Fund purchased these securities which mature on November 30, 2002, in accordance with the Forward Delivery Agreements (see Note 4).

GASB Statement No. 31 (GASB 31) states that investments in participating interest-earning investment contracts must be reported at fair value. Management is uncertain as to whether the four forward delivery agreements described at Note 4 meet the definition of participating investment contracts under GASB 31. At June 30, 2002, management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost. Had the agreements been accounted for as participating interest-earning investment contracts, management would have reported the investment contracts (at fair value) as an asset on the Fund's balance sheet, rather than reporting the cost of the treasury securities that the Fund owns at June 30, 2002. At June 30, 2002, the fair value of its interest in the four agreements exceeded the cost of the treasury securities owned by approximately $480,000. At June 30, 2001, the cost of the treasury securities owned exceeded the fair value of the Fund's interest by approximately $580,000. Management believes that the determination as to whether the agreements should be accounted for as participating interest-earning investment contracts or as short-term treasury securities does not have a material impact on the financial statements.

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

Deferred Debt Expense - Issuance costs relating to the revenue obligation bonds are capitalized and are being amortized using the effective rate method.

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

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

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

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

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

Revenue Recognition - Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expenditure occurs.

Hardship Grants - Hardship grants are recognized as an expense when the funds are disbursed.

Reclassifications - Certain reclassifications were made to the 2001 financial statements in order to conform with the 2002 presentation.

New Accounting Pronouncements - In December 1998, the Government Accounting Standards Board ("GASB") issued GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 establishes standards for nonexchange transactions involving financial or capital resources. Among other things, the Statement requires proprietary funds to recognize capital contributions from other government entities as revenues. The Fund adopted GASB No. 33 in fiscal 2001. Accordingly, $23.5 million and $19.7 million of contributions received from the EPA are included in operating grants received in the fiscal 2002 and 2001 statements of revenues and expenses, respectively.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments." GASB No. 34 establishes financial reporting standards for state and local governments, including states, counties, cities and special purpose governments such as school districts and public utilities. The Fund adopted GASB No. 34 in fiscal 2002.

The adoption of GASB No. 34 requires the Fund to record capital contributions from the State of Wisconsin in the statement of revenues and expenses after nonoperating revenues and expenses. In prior years, contributions from the State of Wisconsin were recorded as additions to contributed capital. The fiscal 2001 financial statements have been restated to conform with this presentation. This restatement increased fiscal 2001 income and decreased contributed capital by $16.7 million. This restatement did not impact the Fund's total equity as of June 30, 2001.

The adoption of GASB No. 34 also requires the Fund to present its assets and liabilities in a classified format to distinguish between current and long-term assets and liabilities. The fiscal 2001 balance sheet has been reclassified to conform with this presentation. The adoption of this statement did not impact the Fund's total assets or total liabilities as of June 30, 2001.

The adoption of GASB No. 34 also requires the Fund to classify its equity based on the presence or absence of restrictions. As a result, all of the equity is classified as either unrestricted or restricted at June 30, 2002. In prior years, the Fund's equity was classified as either contributed capital or retained earnings. The fiscal 2001 financial statements have been restated to conform with this presentation. This restatement did not impact the Fund's total equity as of June 30, 2001.

2. LOANS TO WISCONSIN MUNICIPALITIES

Loans to Wisconsin municipalities at June 30, 2002 and 2001, represent loans for waste water treatment projects or drinking water 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, virtually all of the loans issued by the Clean Water Fund 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 is funded by State operating transfers. Interest rates ranged from 0% to 5.8% in both 2002 and 2001. The weighted average interest rate was 3.04% and 3.06% at June 30, 2002 and 2001, respectively. The loans contractually are revenue obligations or general obligations of the municipalities, 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 municipality, induce an additional charge to the amount of property taxes levied by the county in which the applicable municipality is located, or both. Accordingly, no reserve for loan loss is deemed necessary. At June 30, 2002, all loans were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2002 and 2001, $258,479,881 and $224,289,127 (24% and 22%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program has made additional financial assistance commitments of $204,077,095 as of June 30, 2002. From July 1, 2002 to October 8, 2002, the Fund made loan disbursements of $21,629,451 from these additional commitments. These loan commitments are generally met through the proceeds from additional Federal grants and from the issuance of additional revenue obligation bonds. (See Note 5.)

3. CASH AND CASH EQUIVALENTS

As of June 30, 2002 and 2001, cash and cash equivalents consisted of the following:

	2002	2001
State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP"), at fair value	$267,901,426	$228,755,725
Investments reported at cost:		
MBIA Guaranteed Investment Agreement	6,250,292	6,250,292
Repurchase Agreement with Bayerische Landesbank	7,597,910	7,597,910
American International Group Matched Funding Corp. (AIG) Guaranteed Investment Agreement	21,842,081	21,842,081
	303,591,709	264,446,008
Less - Amounts classified as restricted assets (see Note 5)	(58,903,293)	(55,246,841)
Total cash and cash equivalents	$244,688,416	$209,199,167

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to 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 30, 2002, the current yield on the LGIP was 1.82%. The LGIP is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 30, 2002, the investment had a market value of $6,846,270 and was accruing interest at the rate of 6.2%. The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 30, 2002, the agreement had a market value of $26,923,243 and was accruing interest at the rate of 8.1%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 30, 2002, the repurchase agreement had a market value of $8,577,714. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement along with the MBIA and AIG investment agreements provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

4. FORWARD DELIVERY AGREEMENTS

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

Every six months during the term of the agreements, First Union and WLG 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 First Union 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 First Union. If the agreements were terminated at a time when a payment would be due to First Union, 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 WLG may be terminated at the option of the Fund and no compensation payment is made by either party; at termination the Fund would receive cash based on the cost of the Treasury Securities plus accrued interest to the termination date.

By the GASB Statement No. 3 definition, these securities are classified as category one investments. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2002, are as follows:

	Par Value	Coupon Rate	Cost	Agreement Rate	Agreement Maturity Date
Series 1997-1 Agreement	$ 6,986,000	5.75 %	$ 6,991,699	5.58 %	June 1, 2017
Series 1998-1 Agreement	7,266,000	5.75	7,292,103	5.01	June 1, 2018
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013
Series 1999-1 Agreement	6,938,000	5.75	6,918,830	6.32	June 1, 2020

5. REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

Revenue obligation serial and term bonds as of June 30, 2002 and 2001, consisted of the following:

	2002	2001
1991 Series 1:		
Serial Bonds, optional redemption for bonds at 102% of par, June 1, 2001, declining to 100% of par, June 1, 2003		$ 11,375,000
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	$ 57,445,000	57,445,000
	57,445,000	68,820,000
Unamortized discount on bonds	(196,717)	(214,837)
	57,248,283	68,605,163
1993 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	28,935,000	33,030,000
Unamortized discount on bonds	(130,057)	(169,690)
	28,804,943	32,860,310
1993 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	76,120,000	76,770,000
Unamortized premium on bonds	996,432	1,183,189
	77,116,432	77,953,189
1995 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2006	26,990,000	30,630,000
Unamortized premium on bonds	208,920	378,675
	27,198,920	31,008,675

	2002	2001
1997 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	$ 45,215,000	$ 48,225,000
Unamortized premium on bonds	145,629	195,307
	45,360,629	48,420,307
1998 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	77,565,000	80,850,000
Unamortized premium on bonds	288,347	401,041
	77,853,347	81,251,041
1998 Series 2:		
Serial Bonds, no optional redemption	102,560,000	102,560,000
Unamortized premium on bonds	5,715,011	6,269,209
	108,275,011	108,829,209
1999 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	74,885,000	77,495,000
Unamortized discount on bonds	(103,082)	(57,314)
	74,781,918	77,437,686
2001 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	67,690,000	70,000,000
Unamortized premium on bonds	820,693	982,131
	68,510,693	70,982,131
2002 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	100,000,000	
Unamortized premium on bonds	2,386,608	
	102,386,608	
Total of all series	667,536,784	597,347,711
Unamortized deferred charge related to debt defeasance (Note 6)	(8,086,178)	(9,563,222)
Revenue obligation bonds, net of deferred charge	$659,450,606	$587,784,489

The original issue discount or premium and weighted average yield at June 30, 2002, on the following bonds were:

Series	Original Issue Discount/(Premium)	Weighted Average Yield
1991 Series 1	$ 1,366,407	6.88 %
1993 Series 1	907,852	4.87
1993 Series 2	(2,349,252)	5.35
1995 Series 1	(1,253,936)	5.68
1997 Series 1	(288,312)	5.30
1998 Series 1	(811,362)	4.78
1998 Series 2	(7,739,808)	5.39
1999 Series 1	(58,061)	5.37
2001 Series 1	(1,022,362)	4.87
2002 Series 1	(2,426,001)	5.04

Yields range from 2.25% to 6.88% on the remaining maturities of the bonds.

Principal maturities of the bonds, net of advance refundings, as of June 30, 2002, are as follows:

Years Ending June 30,	1991 Series 1	1993 Series 1	1993 Series 2	1995 Series 1	1997 Series 1	1998 Series 1	1998 Series 2	1999 Series 1	2001 Series 1	2002 Series 1	Total
2003		$ 4,280,000	$ 680,000	$ 3,870,000	$ 3,150,000	$ 3,415,000	$ 12,160,000	$ 2,715,000	$ 2,390,000	$ 2,750,000	$ 35,410,000
2004		4,480,000	13,610,000	4,110,000	3,290,000	3,555,000		2,830,000	2,475,000	2,955,000	37,305,000
2005		4,690,000	14,255,000	4,365,000	3,445,000	3,705,000		2,955,000	2,570,000	3,105,000	39,090,000
2006		4,915,000	14,935,000	4,640,000	3,625,000	3,865,000		3,085,000	2,665,000	3,255,000	40,985,000
2007		5,155,000	15,845,000	4,875,000	3,845,000	4,035,000		3,225,000	2,770,000	3,420,000	43,170,000
2008 - 2023	$57,445,000	5,415,000	16,795,000	5,130,000	27,860,000	58,990,000	90,400,000	60,075,000	54,820,000	84,515,000	461,445,000
	$57,445,000	$28,935,000	$76,120,000	$26,990,000	$45,215,000	$77,565,000	$102,560,000	$74,885,000	$67,690,000	$100,000,000	$657,405,000

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2002 and 2001, the total assets of the Leveraged Loan Portfolio were $817,778,704 and $736,266,365, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheet consist of substantially all of the MBIA, AIG, Bayerische Landesbank investments, (Note 3), and treasury securities held as part of the forward delivery agreements (Note 4). These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

6. ADVANCE REFUNDING

On September 23, 1998, the State issued $104,360,000 in State of Wisconsin Clean Water Refunding Bonds, 1998 Series 2, dated August 15, 1998, with a weighted average interest rate of 5.4%. The refunding bonds were issued at a premium, resulting in proceeds of $112,690,471, including accrued interest of $590,663. The purpose of the issue was primarily to advance refund $104,105,000 of outstanding Revenue Obligation Bonds from various previously issued series with a weighted average interest rate of 5.6%. Approximately $111,464,000 of the proceeds were used to purchase United States Treasury Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on a portion of the 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 Revenue Obligation Bonds. As a result, $104,105,000 of Revenue Obligation Bonds are considered to be defeased; the liability for those bonds has been removed from the Fund's balance sheet as of the date of defeasance and the Treasury securities in the irrevocable trust are not reported on the Fund's balance sheet.

As a result of the defeasance, the Fund reduced its aggregate debt service payments by approximately $4,778,000 and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $3,208,000.

The new bonds, issued at a premium of $7,739,808, consisted of the following:

	Principal Amount
1998 Series 2 Bonds, maturities beginning June 1, 1999 through June 1, 2017, with no optional redemption	$ 104,360,000

The Revenue Obligation Bonds defeased by the 1998 Series 2 Refunding Bonds were as follows:

Series	Maturity	Principal Amount
1991 Series 1	June 1, 2003	$ 12,120,000
1993 Series 1	June 1, 2009	5,690,000
	June 1, 2010	5,985,000
	June 1, 2011	6,300,000
	June 1, 2012	6,635,000
	June 1, 2013	6,985,000
		31,595,000
1995 Series 1	June 1, 2009	5,400,000
	June 1, 2010	5,695,000
	June 1, 2011	6,110,000
	June 1, 2012	4,760,000
	June 1, 2013	4,395,000
	June 1, 2014	6,195,000
	June 1, 2015	4,340,000
		36,895,000
1997 Series 1	June 1, 2014	5,545,000
	June 1, 2015	5,850,000
	June 1, 2016	6,170,000
	June 1, 2017	5,930,000
		23,495,000
	Total	$104,105,000

In accordance with GASB 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, the Fund deferred $7,571,888 related to the defeasance of debt described above which is being amortized over the life of the 1998 Series 2 Bonds.

In 1993, the Fund defeased a portion of the 1991 Series 1 Revenue Obligation Bonds by placing proceeds of the issuance of the 1993 Series 2 Refunding Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. As of June 30, 2002, $73,765,000 of the 1991 Series 1 Bonds had been called using the proceeds of the 1993 Series 2 Refunding Bonds and $12,120,000 of the 1991 Series 1 Bonds had been called using the proceeds of the 1998 Series 2 Refunding Bonds.

7. OPERATING TRANSFERS IN

Operating transfers in consist of contributions from the State of Wisconsin, net of amounts returned to the State of Wisconsin (all of which are statutorily mandated). Fiscal 2002 operating transfers in consist of $15,085,000 of contributions offset by $10,200,000 returned to the State of Wisconsin. Fiscal 2001 operating transfers in consist of $20,700,000 of contributions offset by $4,000,000 returned to the State of Wisconsin. The statutorily mandated return of capital is based on amounts the State general fund requires for debt service payments on obligations the State incurred to fund certain operating transfers to the fund. The Fund will be required to return $6,000,000 of capital to the State in fiscal 2003.

Using cash contributed by the State, the Fund owned $95,735,139 (par value) of State of Wisconsin General Obligation Bonds ($37,787,745 of Clean Water Fund Series 1 Bonds of 1991, $3,413,392 of Clean Water Fund Series A Bonds of 1993, $15,883,699 of Clean Water Fund Series 1 Bonds of 1994, $3,769,416 of Clean Water Fund Series 1 Bonds of 1995, $4,336,257 of Clean Water Fund Series A Bonds of 1996, $7,936,446 of Clean Water Fund Series A Bonds of 1997, $4,403,184 of Clean Water Fund Series A Bonds of 1998, $4,330,000 of Clean Water Fund Series A Bonds of 1999, $4,750,000 of Clean Water Fund Series A Bonds of 2000, $4,750,000 of Clean Water Fund Series A Bonds of 2001, $4,375,000 of Clean Water Fund Series B Bonds of 2001) as of June 30, 2002. The full faith, credit and taxing power of the State are irrevocably pledged for payment of the principal of and interest on the General Obligation Bonds. Although the intent of the Fund is to hold the Bonds to maturity, the Bonds can be sold without restriction. The estimated market value and the weighted average coupon interest rate of the State of Wisconsin General Obligation Bonds-Clean Water Fund Series are as follows:

	Fair Value		Weighted Average Interest Rate	
	2002	**2001**	**2002**	**2001**
1991 Series 1	$ 45,668,481	$ 47,449,443	9.5 %	9.5 %
1993 Series A	3,951,782	4,066,270	8.3	8.2
1994 Series 1	17,153,790	17,329,176	6.8	6.8
1995 Series 1	4,182,755	4,280,137	7.5	7.4
1996 Series A	4,836,270	5,033,686	7.5	7.4
1997 Series A	8,854,878	9,022,296	7.6	7.5
1998 Series A	4,503,704	4,574,029	6.3	6.1
1999 Series A	4,885,865	4,936,577	7.7	7.6
2000 Series A	5,338,125	5,465,656	7.7	7.7
2001 Series A	5,338,125	5,465,656	7.7	7.7
2001 Series B	4,338,891		5.3	
Total	$109,052,666	$107,622,926		

The Bonds are registered in the name of the Fund and held by an independent trustee. By the GASB Statement No. 3 definition these securities are classified as category one (insured or registered with securities held by the Fund's agent in the Fund's name).

Principal maturities of the bonds as of June 30, 2002 are as follows:

Years Ending June 30,	1991 Series 1	1993 Series A	1994 Series 1	1995 Series 1	1996 Series A	1997 Series A	1998 Series A	1999 Series A	2000 Series A	2001 Series A	2001 Series B	Total
2003	$ 2,866,085	$ 254,008	$ 1,029,652	$ 184,185	$ 333,141	$ 374,683	$ 181,646	$ 175,000	$ 0	$ 0	$1,000,000	$ 6,398,400
2004	3,127,933	269,728	1,139,119	176,883	330,529	393,770	180,371	197,500			250,000	6,065,833
2005	3,417,123	294,573	1,151,359	212,909	386,320	425,401	178,158	195,000				6,260,843
2006	3,736,370	323,840	1,222,620	228,535	415,555	455,420	173,780	195,000				6,751,120
2007	4,085,485	354,038	1,291,129	244,965	446,480	490,147	167,367	185,000				7,264,611
2008 - 2019	20,554,749	1,917,205	10,049,820	2,721,939	2,424,232	5,797,025	3,521,862	3,382,500	4,750,000	4,750,000	3,125,000	62,994,332
	$37,787,745	$3,413,392	$15,883,699	$3,769,416	$4,336,257	$7,936,446	$4,403,184	$4,330,000	$4,750,000	$4,750,000	$4,375,000	$95,735,139

8. INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2002 and 2001:

	2002	2001
Interest:		
State of Wisconsin Investment Board Local Government Investment Pool	$ 5,130,627	$ 11,088,368
MBIA Guaranteed Investment Agreement	387,518	387,518
Repurchase Agreement with Bayerishe Landesbank	493,864	493,864
AIG Guaranteed Investment Agreement	1,769,209	1,769,209
United States Treasury Notes	1,299,668	1,362,179
State of Wisconsin General Obligation Bonds	7,921,549	7,594,085
Cash held by trustee		20,348
Total interest	17,002,435	22,715,571
Changes in Unrealized Gains (Losses):		
State of Wisconsin Investment Board Local Government Investment Pool	(213,232)	(273,986)
State of Wisconsin General Obligation Bonds	2,336,112	7,326,453
Total changes in unrealized gains (losses)	2,122,880	7,052,467
Total interest and changes in unrealized gains (losses)	19,125,315	29,768,038
Estimated Rebatable Arbitrage Liability	(497,552)	(499,315)
TOTAL INVESTMENT INCOME	$ 18,627,763	$ 29,268,723

9. TRANSACTIONS WITH RELATED PARTIES

The DNR and DOA have statutory duties to manage the Fund. Expenses relating to the management of the Fund are allocated to and paid by the Fund. Total allocated expenses from DNR and DOA, which are reflected in the statement of revenues, expenses and changes in fund equity for the years ended June 30, 2002 and 2001, were $4,298,652 and $4,737,827, respectively. The Fund charges all DNR and DOA expenses to the Direct Loan Portfolio, the Proprietary Portfolio, and the Safe Drinking Water Loan Program. Thus, certain expenses have been allocated to the Leveraged Loan Portfolio to more accurately reflect the expenses incurred by each program.

The following details total salaries and benefits by agency for the fiscal years ended June 30, 2002 and 2001:

	2002	2001
DNR	$2,944,419	$3,497,487
DOA	520,948	471,319
	$3,465,367	$3,968,806

10. OPERATING, HARDSHIP AND OTHER GRANTS

Operating Grants - The Federal Water Quality Act of 1987 (the "Water Quality Act") established a joint Federal and state program with the U.S. Environmental Protection Agency ("EPA") to assist in providing financial assistance to municipalities within the states for governmentally owned waste water 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 waste water treatment projects in a number of ways, provided that such assistance is not in the form of a grant. Reauthorization of the Water Quality Act of 1987 is not expected to be acted upon by the present Congress of the United States, although the allocation of capitalization grants to states are expected to result in a grant to Wisconsin of approximately $15.9 million for federal fiscal year 2002. Authorization levels for years after 2002 are unknown at this time.

Hardship and Other Grants - Wisconsin statutes require that the Fund provide financial hardship assistance for those 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 2002, the fund expended hardship grants of $3,377,254. At fiscal year end, the Fund had committed to award $112,290 of additional hardship grants. In addition, the Fund expended $1,600,178 of other grants in 2002.

11. SUBSEQUENT EVENT

In August 2002, the State issued $85,575,000 in State of Wisconsin Clean Water Revenue Refunding Bonds, 2002 Series 2, dated August 1, 2002, with a weighted average interest rate of 5.0%. The refunding bonds were issued at a premium, resulting in proceeds of $92,919,710, including accrued interest of $71,354. The purpose of the issue was primarily to advance refund $86,095,000 of outstanding Revenue Obligation Bonds from various previously issued series with a weighted average interest rate of 5.2%. Approximately $92,044,000 of the proceeds were used to purchase United States Treasury Securities which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on a portion of the 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1 and 1999 Series 1 Revenue Obligation Bonds. In accordance with GASB 23, this transaction will be reflected as a defeasance of debt in the Fund's fiscal 2003 financial statements.

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STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

BALANCE SHEET BY PROGRAM
JUNE 30, 2002

	Clean Water Fund Program					
ASSETS	**Direct Loan Portfolio**	**Proprietary Portfolio**	**Leveraged Loan Portfolio**	**Safe Drinking Water Loan Program**	**Eliminations**	**Total**
Current assets:						
Cash and cash equivalents	$ 80,196,010	$ 20,160,690	$ 108,168,875	$ 36,162,841		$ 244,688,416
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost			23,386,624			23,386,624
Investments - State of Wisconsin general obligation clean water bonds, at fair value			7,647,960			7,647,960
Receivables:						
Loans to Wisconsin municipalities - current portion	30,395,441	1,409,215	33,270,547	3,414,646		68,489,849
Due from State of Wisconsin		2,239,761			$ (1,986,745)	253,016
Due from other governmental entities	2,355,473	74,936	2,567,921	826,337		5,824,667
Accrued investment income			329,808			329,808
Other assets		4,241				4,241
Total current assets	112,946,924	23,888,843	175,371,735	40,403,824	(1,986,745)	350,624,581
Noncurrent assets:						
Restricted assets - cash equivalents			58,903,293			58,903,293
Investment, State of Wisconsin general obligation clean water bonds, at fair value			101,404,706			101,404,706
Loans to Wisconsin municipalities	449,753,086	19,179,819	479,210,077	66,690,331		1,014,833,313
Deferred debt expense			2,888,893			2,888,893
Total noncurrent assets	449,753,086	19,179,819	642,406,969	66,690,331		1,178,030,205
TOTAL ASSETS	$ 562,700,010	$ 43,068,662	$ 817,778,704	$ 107,094,155	$ (1,986,745)	$ 1,528,654,786

(Continued)

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

BALANCE SHEET BY PROGRAM
JUNE 30, 2002

LIABILITIES AND NET ASSETS	Clean Water Fund Program: Direct Loan Portfolio	Clean Water Fund Program: Proprietary Portfolio	Clean Water Fund Program: Leveraged Loan Portfolio	Safe Drinking Water Loan Program	Eliminations	Total
Current liabilities:						
Accrued expenses	$ 278	$ 91,099	$ 2,086	$ 52,833		$ 146,296
Accrued interest on bonds			2,982,484			2,982,484
Due to other funds		1,574,206	1,986,745	70,299	$ (1,986,745)	1,644,505
Revenue obligation bonds - current maturities			35,410,000			35,410,000
Total current liabilities	278	1,665,305	40,381,315	123,132	(1,986,745)	40,183,285
Noncurrent liabilities:						
Revenue obligation bonds, net (including deferred charge)			624,040,606			624,040,606
Due to other governmental entities			2,672,886	350		2,673,236
Accrued expenses		26,078				26,078
Total noncurrent liabilities		26,078	626,713,492	350		626,739,920
Total liabilities	278	1,691,383	667,094,807	123,482	$ (1,986,745)	666,923,205
Fund equity:						
Unrestricted		32,388,146				32,388,146
Restricted	562,699,732	8,989,133	150,683,897	106,970,673		829,343,435
Total fund equity	562,699,732	41,377,279	150,683,897	106,970,673		861,731,581
TOTAL LIABILITIES AND FUND EQUITY	$ 562,700,010	$ 43,068,662	$ 817,778,704	$ 107,094,155	$ (1,986,745)	$ 1,528,654,786

(Concluded)

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY BY PROGRAM
YEAR ENDED JUNE 30, 2002

	Clean Water Fund Program			Safe Drinking Water Loan Program	Eliminations	Total
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio			
OPERATING REVENUES:						
Loan interest	$ 14,401,862	$ 442,037	$ 15,973,355	$ 1,788,224	$	$ 32,605,478
Others		23,142				23,142
Total operating revenues	14,401,862	465,179	15,973,355	1,788,224		32,628,620
OPERATING EXPENSES:						
Interest			32,425,670			32,425,670
Salaries and benefits	922,140	363,286	1,453,146	726,795		3,465,367
Contractual services and other	72,556	133,400	599,011	1,091,267		1,896,234
Depreciation		1,485				1,485
Total operating expenses	994,696	498,171	34,477,827	1,818,062		37,788,756
OPERATING INCOME (LOSS)	13,407,166	(32,992)	(18,504,472)	(29,838)		(5,160,136)
NONOPERATING REVENUES (EXPENSES):						
Investment income	2,532,855	480,312	15,116,339	498,257		18,627,763
Operating grants	8,520,911			14,939,196		23,460,107
Hardship grants awarded		(4,706,562)				(4,706,562)
Total nonoperating revenues, net	11,053,766	(4,226,250)	15,116,339	15,437,453		37,381,308
INCOME (LOSS) BEFORE OPERATING TRANSFERS	24,460,932	(4,259,242)	(3,388,133)	15,407,615		32,221,172
Operating transfers in (out)	(17,113,362)	(61,349)	12,807,623	9,252,088		4,885,000
INCREASE (DECREASE) IN NET FUND EQUITY	7,347,570	(4,320,591)	9,419,490	24,659,703		37,106,172
FUND EQUITY, BEGINNING OF YEAR	555,352,162	45,697,870	141,264,407	82,310,970		824,625,409
FUND EQUITY, END OF YEAR	$ 562,699,732	$ 41,377,279	$ 150,683,897	$ 106,970,673	$	$ 861,731,581

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2002

	Clean Water Fund Program			Safe Drinking Water Loan Program	Eliminations	Total
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio			
OPERATING ACTIVITIES:						
Payments to employees for services	$ (1,504,906)	$ (127,228)	$ (1,366,826)	$ (1,139,211)	$	$ (4,138,171)
Payments to suppliers and other	(102,917)	(360,278)	(670,646)	(1,159,196)		(2,293,037)
Net cash used in operations	(1,607,823)	(487,506)	(2,037,472)	(2,298,407)		(6,431,208)
NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	8,704,354			14,912,623		23,616,977
Grants paid		(4,706,562)				(4,706,562)
Operating transfers in/(out)	(17,113,362)	(61,349)	12,807,623	9,252,088		4,885,000
Proceeds from issuance of long-term debt			102,495,341			102,495,341
Retirement of long-term debt			(30,975,000)			(30,975,000)
Interest payments			(32,162,421)			(32,162,421)
Net cash provided by (used in) noncapital financing activities	(8,409,008)	(4,767,911)	52,165,543	24,164,711		63,153,335
INVESTING ACTIVITIES:						
Origination of loans	(73,487,387)	(2,658,269)	(49,008,908)	(9,599,613)		(134,754,177)
Collection of loans	30,363,444	1,595,476	31,846,706	3,294,864		67,100,490
Interest received on loans	14,262,712	429,492	15,934,362	1,747,709		32,374,275
Purchase of investments			(51,762,882)			(51,762,882)
Liquidation of investments			52,669,117			52,669,117
Increase in restricted cash equivalents			(3,656,452)			(3,656,452)
Investment income receipts	2,532,855	480,312	13,285,327	498,257		16,796,751
Net cash provided by (used in) investing activities	(26,328,376)	(152,989)	9,307,270	(4,058,783)		(21,232,878)
Net increase (decrease) in cash and cash equivalents	(36,345,207)	(5,408,406)	59,435,341	17,807,521		35,489,249
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	116,541,217	25,569,096	48,733,534	18,355,320		209,199,167
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 80,196,010	$ 20,160,690	$ 108,168,875	$ 36,162,841	$	$ 244,688,416

(Continued)

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2002

	Clean Water Fund Program			Safe Drinking Water Laon Program	Eliminations	Total
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio			
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATIONS -						
Operating income (loss)	$ 13,407,166	$ (32,992)	$ (18,504,472)	$ (29,838)	$	$ (5,160,136)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATIONS:						
Depreciation		1,485				1,485
Amortization			663,316			663,316
Interest income classified as investing activity	(14,401,861)	(442,037)	(15,973,356)	(1,788,224)		(32,605,478)
Interest expense classified as noncapital financing activity			31,970,214			31,970,214
Changes in Assets and Liabilities:						
Decrease in other assets		131				131
(Increase) in deferred charges			(120,270)			(120,270)
(Increase) in due from State of Wisconsin		(336,387)			134,955	(201,432)
Increase in accounts payable	278	2,368		6,670		9,316
Increase in interest payable			(207,860)			(207,860)
Increase in compensated absences		4,028				4,028
Increase in due to other government entities				350		350
Increase (decrease) in due to other funds	(613,406)	315,899	134,956	(487,366)	(134,955)	(784,872)
Total adjustments	(15,014,989)	(454,513)	16,467,000	(2,268,570)		(1,271,072)
NET CASH USED IN OPERATIONS	$ (1,607,823)	$ (487,505)	$ (2,037,472)	$ (2,298,408)	$	$ (6,431,208)

(Concluded)

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

Financial Statements for the Year Ended June 1, 2002 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Leveraged Loan Portfolio (an environmental financing program) of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin) as of June 1, 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 1, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund as of June 1, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 8, 2002

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

BALANCE SHEET
JUNE 1, 2002

ASSETS

Current assets:	
Cash and cash equivalents	$157,887,415
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	23,376,259
Investments - State of Wisconsin general obligation clean water bonds, at fair value	7,647,960
Receivables:	
Loans to Wisconsin municipalities - current portion	33,158,100
Due from other governmental entities	1,305,722
Accrued investment income	653,589
Total current assets	224,029,045
Noncurrent assets:	
Restricted assets - cash equivalents	58,610,906
Investments - State of Wisconsin general obligation clean water bonds, at fair value	99,887,446
Loans to Wisconsin municipalities	475,844,826
Deferred debt expense	2,925,018
Total noncurrent assets	637,268,196
TOTAL ASSETS	$861,297,241

LIABILITIES AND NET ASSETS

Current liabilities:	
Accrued expenses	$ 82,086
Accrued interest on bonds	16,023,795
Due to other funds	1,821,183
Revenue obligation bonds - current maturities	30,975,000
Total current liabilities	48,902,064
Noncurrent liabilities:	
Due to other governmental entities	2,625,304
Revenue obligation bonds, net (including deferred charge)	659,465,940
Total noncurrent liabilities	662,091,244
Total liabilities	710,993,308
Net assets -	
Restricted	150,303,933
Total net assets	150,303,933
TOTAL LIABILITIES AND NET ASSETS	$861,297,241

See notes to financial statements.

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 1, 2002

OPERATING REVENUES -	
Loan interest	$ 15,937,709
OPERATING EXPENSES:	
Interest, including discount amortization	32,881,795
Salaries and benefits	1,445,953
Contractual services and other	595,464
Total operating expenses	34,923,212
Operating loss	(18,985,503)
NONOPERATING REVENUES -	
Investment income	13,776,639
LOSS BEFORE OPERATING TRANSFERS	(5,208,864)
Operating transfers in	12,807,623
INCREASE IN NET ASSETS	7,598,759
TOTAL NET ASSETS - BEGINNING OF YEAR	142,705,174
TOTAL NET ASSETS - END OF YEAR	$ 150,303,933

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 1, 2002

OPERATING ACTIVITIES:	
Payments to employees for services	$ (592,901)
Payments to suppliers and other	(1,366,824)
Net cash used in operations	(1,959,725)
NONCAPITAL FINANCING ACTIVITIES:	
Operating transfers in	12,807,622
Proceeds from issuance of long-term debt	102,495,341
Interest payments	(16,364,623)
Net cash provided by noncapital financing activities	98,938,340
INVESTING ACTIVITIES:	
Origination of loans	(49,168,120)
Collection of loans	31,846,706
Interest received on loans	13,092,612
Purchase of investments	(28,376,259)
Liquidation of investments	29,292,858
Increase in restricted cash equivalents	(9,207,151)
Investment income receipts	15,934,362
Net cash used in investing activities	3,415,008
Net increase in cash and cash equivalents	100,393,623
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	57,493,792
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 157,887,415

(Continued)

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 1, 2002

RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED IN OPERATIONS - Operating (loss)	$ (18,985,503)
ADJUSTMENTS TO RECONCILE OPERATING (LOSS) TO NET CASH USED IN OPERATIONS:	
Amortization	337,778
Interest income classified as investing activity	(15,937,709)
Interest expense classified as noncapital financing activity	16,520,222
Changes in assets and liabilities:	
Increase in deferred charges	(42,017)
Increase in interest payable	16,023,795
Increase in due to other funds	123,709
Total adjustments	17,025,778
NET CASH USED IN OPERATIONS	$ (1,959,725)

(Concluded)

See notes to financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Net Operating Income - The Portfolio incurred an operating loss of $19.0 million in 2002. Management expects the Portfolio will generally incur net operating losses for the foreseeable future. As explained in Note 2, the losses result from the Portfolio's statutory mission to provide loans to municipalities at interest rates below the Portfolio's own cost of funds. The losses have historically been funded by operating transfers from the State. These operating transfers were approximately $12.8 million in 2002. Management expects operating transfers will continue for the foreseeable future sufficient to fund both the future operating losses and, together with additional borrowing, to fund additional loans to municipalities.

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

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements - The Portfolio holds United States Treasury Notes as investments at June 1, 2002 and records the notes at amortized cost. The Portfolio purchased these securities which mature on November 30, 2002, in accordance with the Forward Delivery Agreements (see Note 4).

GASB Statement No. 31 (GASB 31) states that investments in participating interest-earning investment contracts must be reported at fair value. Management is uncertain as to whether the four forward delivery agreements described at Note 4 meet the definition of participating investment contracts under GASB 31. At June 1, 2002, management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost. Had the agreements been accounted for as participating interest-earning investment contracts, management would have reported the investment contracts (at fair value) as an asset on the Portfolio's balance sheet, rather than reporting the cost of the treasury securities that the Portfolio owns at June 1, 2002. At June 1, 2002, the fair value of its interest in the four agreements exceeded the cost of the treasury securities owned by approximately $120,000. Management believes that the determination as to whether the agreements should be accounted for as participating interest-earning investment contracts or as short-term treasury securities does not have a material impact on the financial statements.

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

Deferred Debt Expense - Issuance costs relating to the revenue obligation bonds were capitalized and are being amortized using the effective rate method.

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

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

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

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

New Accounting Pronouncement - In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." GASB No. 34 establishes financial reporting standards for state and local governments, including states, counties, cities and special purpose governments such as school districts and public utilities. The Portfolio adopted GASB No. 34 in fiscal 2002.

The adoption of GASB No. 34 requires the Portfolio to record capital contributions from the State of Wisconsin in the statement of revenues and expenses after nonoperating revenues and expenses. In prior years, contributions from the State of Wisconsin were recorded as additions to contributed capital. The adoption of this statement did not impact the Portfolio's total net assets as of June 30, 2001.

The adoption of GASB No. 34 also requires the Portfolio to present its assets and liabilities in a classified format to distinguish between current and noncurrent assets and liabilities. The adoption of this statement did not impact the Portfolio's total assets or total liabilities as of June 30, 2001.

The adoption of GASB No. 34 also requires the Portfolio to classify its net assets based on the presence or absence of restrictions. As a result, all of the Portfolio's net assets are classified as either unrestricted or restricted at June 30, 2002. In prior years, the Portfolio's net assets were classified as either contributed capital or retained earnings. The adoption of this statement did not impact the Portfolio's total net assets as of June 30, 2001.

2. LOANS TO WISCONSIN MUNICIPALITIES

Loans to Wisconsin municipalities at June 1, 2002, represent loans for waste water treatment projects or drinking water 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 is funded by State contributions. Interest rates ranged from 0% to 5.8% in 2002. The weighted average interest rate was 3.09% at June 1, 2002. The loans contractually are revenue obligations or general obligations of the municipalities, 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 municipality, induce an additional charge to the amount of property taxes levied by the county in which the applicable municipality is located, or both. Accordingly, no reserve for loan loss is deemed necessary.

Of the loans outstanding at June 1, 2002, $134,262,347 (26%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Portfolio has made additional financial assistance commitments of $28,571,806 as of June 1, 2002. From June 1, 2002 to October 8, 2002, the Portfolio made loan disbursements of $7,551,743 from these additional commitments. These loan commitments are generally met through the proceeds from additional Federal grants and from the issuance of additional revenue obligation bonds (see Note 5).

3. CASH AND CASH EQUIVALENTS

As of June 1, 2002, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	$180,796,245
Cash held by trustee	11,793
Investments reported at cost:	
MBIA Guaranteed Investment Agreement	6,250,292
Repurchase Agreement with Bayerische Landesbank	7,597,910
American International Group Matched Funding Corp. (AIG) Guaranteed Investment Agreement	21,842,081
	216,498,321
Less - Amounts classified as restricted assets (see Note 5)	58,610,906
Total cash and cash equivalents	$157,887,415

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to 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, 2002, the current yield on the LGIP was 1.82%. The LGIP is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 1, 2002, the investment had a market value of $6,765,472 and was accruing interest at the rate of 6.2%. The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 1, 2002, the agreement had a market value of $26,636,267 and was accruing interest at the rate of 8.1%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 1, 2002, the repurchase agreement had a market value of $8,463,146. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement along with the MBIA and AIG investment agreements provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

4. FORWARD DELIVERY AGREEMENTS

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

Every six months during the term of the agreements, First Union and WLG 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 First Union 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 First Union. If the agreements were terminated at a time when a payment would be due to First Union, 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 WLG may be terminated at the option of the Portfolio and no compensation payment is made by either party; at termination the Portfolio would receive cash based on the cost of the Treasury Securities plus accrued interest to the termination date.

By the GASB Statement No. 3 definition, these securities are classified as category one investments. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 1, 2002, are as follows:

	Par Value	Coupon Rate	Cost	Agreement Rate	Maturity Date
Series 1997-1 Agreement	$6,957,000	6.500 %	$6,987,954	5.58 %	June 1, 2017
Series 1998-1 Agreement	7,237,000	6.500	7,289,408	5.01	June 1, 2018
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013
Series 1999-1 Agreement	6,909,000	6.500	6,914,905	6.32	June 1, 2020

5. REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

Revenue obligation serial and term bonds as of June 1, 2002 consisted of the following:

1991 Series 1:	
Serial Bonds, optional redemption for bonds at 102% of par, June 1, 2001, declining to 100% of par, June 1, 2003	$ 11,375,000
Term Bonds, mandatory redemption of bonds at 100 of par, June 1, 2009 through June 1, 2011	57,445,000
	68,820,000
Unamortized discount on bonds	(198,297)
	68,621,703
1993 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	33,030,000
Unamortized discount on bonds	(133,001)
	32,896,999
1993 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	76,770,000
Unamortized premium on bonds	1,012,595
	77,782,595
1995 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2006	30,630,000
Unamortized premium on bonds	219,539
	30,849,539

1997 Series 1:	
Serial Bonds, optional redemption for bonds at 100 of par, June 1, 2008	$ 48,225,000
Unamortized premium on bonds	150,025
	48,375,025
1998 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008	80,850,000
Unamortized premium on bonds	297,888
	81,147,888
1998 Series 2:	
Serial Bonds, no optional redemption	102,560,000
Unamortized premium on bonds	5,762,535
	108,322,535
1999 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	77,495,000
Unamortized discount on bonds	(100,416)
	77,394,584
2001 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	70,000,000
Unamortized premium on bonds	832,509
	70,832,509
2002 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	100,000,000
Unamortized premium on bonds	2,426,001
	102,426,001
Total of all series	698,649,378
Unamortized deferred charge related to debt defeasance (Note 6)	(8,208,438)
Revenue obligation bonds, net of deferred charge	$690,440,940

The original issue discount or premium and weighted average yield at June 1, 2002, on the following bonds were:

Series	Original Issue Discount/(Premium)	Weighted Average Yield
1991 Series 1	$ 1,366,407	6.81 %
1993 Series 1	907,852	4.82
1993 Series 2	(2,349,252)	5.35
1995 Series 1	(1,253,936)	5.75
1997 Series 1	(288,312)	5.25
1998 Series 1	(811,362)	4.75
1998 Series 2	(7,739,808)	5.39
1999 Series 1	(58,061)	5.36
2001 Series 1	(1,022,362)	4.86
2002 Series 1	(2,426,001)	5.04

Yields range from 3.85% to 6.88% on the remaining maturities of the bonds.

Principal maturities of the bonds, net of advance refundings, as of June 1, 2002, are as follows:

Years Ending June 1,	1991 Series 1	1993 Series 1	1993 Series 2	1995 Series 1	1997 Series 1	1998 Series 1	1998 Series 2	1999 Series 1	2001 Series 1	2002 Series 1	Total
2002*	$11,375,000	$ 4,095,000	$ 650,000	$ 3,640,000	$ 3,010,000	$ 3,285,000	$ 0	$ 2,610,000	$ 2,310,000	$ 0	$ 30,975,000
2003		4,280,000	680,000	3,870,000	3,150,000	3,415,000	12,160,000	2,715,000	2,390,000	2,750,000	35,410,000
2004		4,480,000	13,610,000	4,110,000	3,290,000	3,555,000		2,830,000	2,475,000	2,955,000	37,305,000
2005		4,690,000	14,255,000	4,365,000	3,445,000	3,705,000		2,955,000	2,570,000	3,105,000	39,090,000
2006		4,915,000	14,935,000	4,640,000	3,625,000	3,865,000		3,085,000	2,665,000	3,255,000	40,985,000
2007		5,155,000	15,845,000	4,875,000	3,845,000	4,035,000		3,225,000	2,770,000	3,420,000	43,170,000
2008 - 2023	57,445,000	5,415,000	16,795,000	5,130,000	27,860,000	58,990,000	90,400,000	60,075,000	54,820,000	84,515,000	461,445,000
	$68,820,000	$33,030,000	$76,770,000	$30,630,000	$48,225,000	$80,850,000	$102,560,000	$77,495,000	$70,000,000	$100,000,000	$688,380,000

*June 1, 2002 principal maturities were not paid until June 3, 2002 as June 1 was not a business day.

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

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

6. ADVANCE REFUNDING

On September 23, 1998, the State issued $104,360,000 in State of Wisconsin Clean Water Refunding Bonds, 1998 Series 2, dated August 15, 1998, with a weighted average interest rate of 5.4%. The refunding bonds were issued at a premium, resulting in proceeds of $112,690,471, including accrued interest of $590,663. The purpose of the issue was primarily to advance refund $104,105,000 of outstanding Revenue Obligation Bonds from various previously issued series with a weighted average interest rate of 5.6%. Approximately $111,464,000 of the proceeds were used to purchase United States Treasury Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on a portion of the 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 Revenue Obligation Bonds. As a result, $104,105,000 of Revenue Obligation Bonds are considered to be defeased; the liability for those bonds has been removed from the Fund's balance sheet as of the date of defeasance and the Treasury securities in the irrevocable trust are not reported on the Portfolio's balance sheet.

As a result of the defeasance, the Portfolio reduced its aggregate debt service payments by approximately $4,778,000 and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $3,208,000.

The new bonds, issued at a premium of $7,739,808, consisted of the following:

	Principal Amount
1998 Series 2 Bonds, maturities beginning June 1, 1999 through June 1, 2017, with no optional redemption	$104,360,000

The Revenue Obligation Bonds defeased by the 1998 Series 2 Refunding Bonds were as follows:

Series	Maturity	Principal Amount
1991 Series 1	June 1, 2003	$ 12,120,000
1993 Series 1	June 1, 2009	5,690,000
	June 1, 2010	5,985,000
	June 1, 2011	6,300,000
	June 1, 2012	6,635,000
	June 1, 2013	6,985,000
		31,595,000
1995 Series 1	June 1, 2009	5,400,000
	June 1, 2010	5,695,000
	June 1, 2011	6,110,000
	June 1, 2012	4,760,000
	June 1, 2013	4,395,000
	June 1, 2014	6,195,000
	June 1, 2015	4,340,000
		36,895,000
1997 Series 1	June 1, 2014	5,545,000
	June 1, 2015	5,850,000
	June 1, 2016	6,170,000
	June 1, 2017	5,930,000
		23,495,000
	Total	$104,105,000

In accordance with GASB 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, the Portfolio deferred $7,571,888 related to the defeasance of debt described above which is being amortized over the life of the 1998 Series 2 Bonds.

In 1993, the Portfolio defeased a portion of the 1991 Series 1 Revenue Obligation Bonds by placing proceeds of the issuance of the 1993 Series 2 Refunding Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Portfolio's financial statements. As of June 1, 2001, $73,765,000 of the 1991 Series 1 Bonds had been called using the proceeds of the 1993 Series 2 Refunding Bonds and $12,120,000 of the 1991 Series 1 Bonds had been called using the proceeds of the 1998 Series 2 Refunding Bonds.

7. OPERATING TRANSFERS IN

Operating transfers in consist of contributions from the State of Wisconsin. Using cash contributed by the State, the Portfolio owned $95,735,139 (par value) of State of Wisconsin General Obligation Bonds ($37,787,745 of Clean Water Fund Series 1 Bonds of 1991, $3,413,392 of Clean Water Fund Series A Bonds of 1993, $15,883,699 of Clean Water Fund Series 1 Bonds of 1994, $3,769,416 of Clean Water Fund Series 1 Bonds of 1995, $4,336,257 of Clean Water Fund Series A Bonds of 1996, $7,936,446 of Clean Water Fund Series A Bonds of 1997, $4,403,184 of Clean Water Fund Series A Bonds of 1998, $4,330,000 of Clean Water Fund Series A Bonds of 1999, $4,750,000 of Clean Water Fund Series A Bonds of 2000, $4,750,000 of Clean Water Fund Series A Bonds of 2001, $4,375,000 of Clean Water Fund Series B Bonds of 2001) as of June 30, 2002. The full faith, credit and taxing power of the State are irrevocably pledged for payment of the principal of and interest on the General Obligation Bonds. Although the intent of the Portfolio is to hold the Bonds to maturity, the Bonds can be sold without restriction. The estimated market value and the weighted average coupon interest rate of the State of Wisconsin General Obligation Bonds-Clean Water Fund Series are as follows:

	Fair Value 2002	Weighted Average Interest Rate 2002
1991 Series 1	$ 45,036,974	9.5 %
1993 Series A	3,895,381	8.3
1994 Series 1	16,914,679	6.8
1995 Series 1	4,123,604	7.5
1996 Series A	4,769,288	7.5
1997 Series A	8,730,559	7.6
1998 Series A	4,440,547	6.3
1999 Series A	4,817,938	7.7
2000 Series A	5,259,890	7.7
2001 Series A	5,259,890	7.7
2001 Series B	4,286,656	5.3
Total	$107,535,406	

The Bonds are registered in the name of the Portfolio and held by an independent trustee. By the GASB Statement No. 3 definition these securities are classified as category one (insured or registered with securities held by the Portfolio's agent in the Portfolio's name).

Principal maturities of the Bonds as of June 1, 2002 are as follows:

Years Ending June 1,	1991 Series 1	1993 Series A	1994 Series 1	1995 Series 1	1996 Series A	1997 Series A	1998 Series A	1999 Series A	2000 Series A	2001 Series A	2001 Series B	Total
2003	$ 2,866,085	$ 254,008	$ 1,029,652	$ 184,185	$ 333,141	$ 374,683	$ 181,646	$ 175,000	$ 0	$ 0	$1,000,000	$ 6,398,400
2004	3,127,933	269,728	1,139,119	176,883	330,529	393,770	180,371	197,500			250,000	6,065,833
2005	3,417,123	294,573	1,151,359	212,909	386,320	425,401	178,158	195,000				6,260,843
2006	3,736,370	323,840	1,222,620	228,535	415,555	455,420	173,780	195,000				6,751,120
2007	4,085,485	354,038	1,291,129	244,965	446,480	490,147	167,367	185,000				7,264,611
2008 - 2019	20,554,749	1,917,205	10,049,820	2,721,939	2,424,232	5,797,025	3,521,862	3,382,500	4,750,000	4,750,000	3,125,000	62,994,332
	$37,787,745	$3,413,392	$15,883,699	$3,769,416	$4,336,257	$7,936,446	$4,403,184	$4,330,000	$4,750,000	$4,750,000	$4,375,000	$95,735,139

8. INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal year ended June 1, 2002:

Interest:	
State of Wisconsin Local Government Investment Pool	$ 1,569,141
MBIA Guaranteed Investment Agreement	387,518
Repurchase Agreement with Bayerishe Landesbank	493,864
AIG Guaranteed Investment Agreement	1,769,209
United States Treasury Notes	1,135,098
State of Wisconsin General Obligation Bonds	7,921,549
Total interest	13,276,379
Changes in Unrealized Gains (Losses):	
State of Wisconsin Investment Board Local Government Investment Pool	(183,535)
State of Wisconsin General Obligation Bonds	1,173,986
Total changes in unrealized gains (losses)	990,451
Total interest and changes in unrealized gains (losses)	14,266,830
Estimated Rebatable Arbitrage Liability	(490,191)
TOTAL INVESTMENT INCOME	$13,776,639

9. TRANSACTIONS WITH RELATED PARTIES

The DNR and DOA have statutory duties to manage the Portfolio. Expenses relating to the management of the Program are allocated to and paid by the Portfolio. Total allocated expenses from DNR and DOA, which are reflected in the statement of revenues, expenses and changes in net assets for the year ended June 1, 2002, were $1,821,183.

The following details total salaries and benefits by agency for the fiscal years ended June 1, 2002:

DNR	$1,034,535
DOA	411,418
	$1,445,953

10. SUBSEQUENT EVENT

In August 2002, the State issued $85,575,000 in State of Wisconsin Clean Water Revenue Refunding Bonds, 2002 Series 2, dated August 1, 2002, with a weighted average interest rate of 5.0%. The refunding bonds were issued at a premium, resulting in proceeds of $92,919,710, including accrued interest of $71,354. The purpose of the issue was primarily to advance refund $86,095,000 of outstanding Revenue Obligation Bonds from various previously issued series with a weighted average interest rate of 5.2%. Approximately $92,044,000 of the proceeds were used to purchase United States Treasury Securities which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on a portion of the 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1 and 1999 Series 1 Revenue Obligation Bonds. In accordance with GASB 23, this transaction will be reflected as a defeasance of debt in the Portfolio's fiscal 2003 financial statements.

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