

OFFICIAL STATEMENT

New Issue

This Official Statement has been prepared by the State of Wisconsin and provides information on the 2004 Series 2 Bonds. Some of the information appears on this cover page for ready reference. A prospective investor should read the entire Official Statement to make an informed investment decision. Unless otherwise indicated, capitalized terms are defined in **APPENDIX C**.

\$107,025,000
STATE OF WISCONSIN
CLEAN WATER REVENUE REFUNDING BONDS, 2004 SERIES 2

Dated: Date of Delivery

Due: June 1, as shown below

| | | |
|----------------|------------------|--|
| Ratings | Based on MBIA | Underlying |
| | <u>Insurance</u> | <u>Ratings</u> |
| | AAA | AA+ Fitch Ratings |
| | Aaa | Aa2 Moody's Investors Service, Inc. |
| | AAA | AA+ Standard & Poor's Ratings Services |

Tax Exemption Interest on the 2004 Series 2 Bonds is, for federal income tax purposes, excluded from gross income and is not an item of tax preference. Interest on the 2004 Series 2 Bonds is subject to State of Wisconsin income and franchise taxes—*Pages 13-15*.

Redemption The 2004 Series 2 Bonds maturing on or after June 1, 2017 are callable at par (100%) on or after June 1, 2015—*Page 4*.

Security The 2004 Series 2 Bonds are payable solely from (1) Loan repayments, (2) the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund (which holds cash and general obligation bonds of the State), and (3) any other Pledged Receipts. One municipal entity is currently the source of approximately 20 percent of the cash flow servicing the Outstanding Bonds—*Pages 5-6*.

Priority The 2004 Series 2 Bonds are issued on a parity with all other bonds previously or hereafter issued under the General Resolution —*Page 5*.

Insurance Payment of the principal of and interest on the 2004 Series 2 Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the 2004 Series 2 Bonds—*Pages 10-12*.



Purpose Proceeds of the 2004 Series 2 Bonds are being used to advance refund previously issued Outstanding Bonds and to pay for costs of issuance—*Pages 1-2*.

Interest Payment Dates June 1 and December 1, commencing June 1, 2005

Delivery/Settlement On or about January 25, 2005

Denominations \$5,000 or integral multiples thereof

Trustee/Registrar/Paying Agent U.S. Bank National Association

Bond Counsel Michael Best & Friedrich LLP

Issuer Contact Wisconsin Capital Finance Office—(608) 266-2305; capfin@doa.state.wi.us

Book-Entry-Only Form The Depository Trust Company—*Page 7*

2003 Annual Report This Official Statement incorporates by reference **Parts I, II, and VI** of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2003. **APPENDIX A** of this Official Statement includes additions to information presented in Part VI of the 2003 Annual Report, namely, the financial statements and independent auditor's report on the financial statements for the Environmental Improvement Fund for the years ended June 30, 2004 and 2003.

The price and yields listed below were determined on December 9, 2004 at a negotiated sale. The 2004 Series 2 Bonds were purchased at an aggregate purchase price of \$117,830,812.95.

| CUSIP | Year (June 1) | Principal Amount | Interest Rate | Yield at Issuance | Price at Issuance | First Optional Redemption Date | Call Price |
|------------|------------------|---------------------|------------------|----------------------|----------------------|-----------------------------------|------------|
| 977092 ND3 | 2009 | \$ 4,350,000 | 3.25% | 2.80% | 101.828% | Not Callable | - |
| 977092 NE1 | 2010 | 8,085,000 | 5.00 | 3.06 | 109.503 | Not Callable | - |
| 977092 NF8 | 2011 | 3,775,000 | 5.25 | 3.24 | 111.448 | Not Callable | - |
| 977092 NG6 | 2012 | 12,195,000 | 5.25 | 3.41 | 111.868 | Not Callable | - |
| 977092 NH4 | 2013 | 13,085,000 | 5.25 | 3.56 | 112.110 | Not Callable | - |
| 977092 NJ0 | 2014 | 13,765,000 | 5.25 | 3.66 | 112.489 | Not Callable | - |
| 977092 NK7 | 2015 | 14,465,000 | 5.25 | 3.76 | 112.672 | Not Callable | - |
| 977092 NL5 | 2016 | 9,265,000 | 5.25 | 3.84 | 112.868 | Not Callable | - |
| 977092 NM3 | 2017 | 10,675,000 | 5.00 | 3.92 | 109.111 | (a) 6/1/2015 | 100% |
| 977092 NN1 | 2018 | 5,520,000 | 5.00 | 3.99 | 108.490 | (a) 6/1/2015 | 100 |
| 977092 NP6 | 2019 | 5,790,000 | 5.00 | 4.05 | 107.961 | (a) 6/1/2015 | 100 |
| 977092 NQ4 | 2020 | 6,055,000 | 5.00 | 4.11 | 107.436 | (a) 6/1/2015 | 100 |

^(a) These bonds are priced to the June 1, 2015 call date.

Morgan Stanley

Robert W. Baird & Co.

Ramirez & Co., Inc.

This document is the State’s *official* statement about the offering of the 2004 Series 2 Bonds; that is, it is the only document the State has authorized for providing information about the 2004 Series 2 Bonds. This document is not an offer or solicitation for the 2004 Series 2 Bonds, and no unlawful offer, solicitation, or sale may occur through the use of this document or otherwise. This document is not a contract, and it provides no investment advice. Prospective investors should consult their advisors and legal counsel with questions about this document, the 2004 Series 2 Bonds, and anything else related to the offering.

The purpose of this document is to provide prospective investors with information that may be important in making an investment decision. It may not be used for any other purpose without the State’s permission. The State is the author of this document and is responsible for its accuracy and completeness. The Underwriters are not the authors of this document. In accordance with their responsibilities under federal securities laws, the Underwriters are required to review the information in this document and must have a reasonable basis for their belief in the accuracy and completeness of its key representations.

The estimates, forecasts, projections, and opinions in this document are not hard facts, and no one guarantees them. Some of the people who prepared, compiled, or reviewed this information had specific functions that covered some aspects of the offering but not others. For example, financial staff focused on quantitative financial information, and legal counsel focused on specific documents or legal issues assigned to them.

No dealer, broker, sales representative, or other person has been authorized to give any information or to make any representations about the 2004 Series 2 Bonds other than what is in this document. The information and expressions of opinion in this document may change without notice. Neither the delivery of this document nor any sale of the 2004 Series 2 Bonds implies that there has been no change in the other matters contained in this document since its date. Material referred to in this document is not part of this document unless expressly included.

In connection with the offering of the 2004 Series 2 Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such 2004 Series 2 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF THE 2004 SERIES 2 BONDS

BUILDING COMMISSION MEMBERS

| Voting Members | Term of Office Expires |
|---|--|
| Governor Jim Doyle, Chairperson | January 8, 2007 |
| Senator Fred A. Risser, Vice-Chairperson | January 3, 2005 |
| Senator Robert Cowles | January 3, 2005 |
| Senator Carol Roessler | January 3, 2005 |
| Representative Spencer Black | January 3, 2005 |
| Representative Jeff Fitzgerald | January 3, 2005 |
| Representative Daniel Vrakas | January 3, 2005 |
| Mr. Terry McGuire, Citizen Member | At the pleasure of the Governor |
| Nonvoting, Advisory Members | |
| Mr. Adel Tabrizi, State Chief Engineer Department of Administration | _____ |
| Mr. Dave Haley, State Chief Architect Department of Administration | _____ |
| Building Commission Secretary | |
| Mr. Robert G. Cramer, Administrator Division of Facilities Development Department of Administration | At the pleasure of the Building Commission and the Secretary of Administration |

OTHER PARTICIPANTS

| | |
|--|---------------------------------|
| Ms. Peggy A. Lautenschlager State Attorney General | January 8, 2007 |
| Mr. Marc J. Marotta, Secretary Department of Administration | At the pleasure of the Governor |
| Mr. P. Scott Hassett, Secretary Department of Natural Resources | At the pleasure of the Governor |

DEBT MANAGEMENT AND DISCLOSURE

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Capital Finance Office
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SUMMARY DESCRIPTION OF THE 2004 SERIES 2 BONDS

Selected information is presented on this page for the convenience of the user. A prospective investor should read the entire Official Statement to make an informed investment decision. Certain capitalized terms are defined in APPENDIX C.

| | |
|---------------------------|--|
| Description: | State of Wisconsin Clean Water Revenue Refunding Bonds, 2004 Series 2 |
| Principal Amount: | \$107,025,000 |
| Denominations: | \$5,000 or integral multiples thereof |
| Dated Date: | Date of Delivery |
| Interest Payment: | June 1 and December 1, commencing June 1, 2005 |
| Maturities: | June 1, 2009-2020 |
| Record Date: | May 15 and November 15 |
| Redemption: | <i>Optional</i> —2004 Series 2 Bonds maturing on or after June 1, 2017 are subject to optional redemption at par (100%) on or after June 1, 2015—See “2004 SERIES 2 BONDS; Redemption Provisions”. |
| Form: | Book-entry-only form. |
| Trustee/Paying Agent: | All payments of principal and interest on the 2004 Series 2 Bonds will be paid by U.S. Bank National Association, as successor to Firststar Trust Company. All payments initially will be made to DTC, which will distribute payments through DTC Participants, as described herein. |
| Security for Bonds: | <p>The 2004 Series 2 Bonds, and all other parity Bonds previously issued or to be issued in the future, are payable solely from:</p> <ul style="list-style-type: none">• Loan Repayments,• The Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund (which holds cash and general obligation bonds of the State), each established by the General Resolution, and• Any other Pledged Receipts. <p>Based on cash-flow calculations as of September 30, 2004, there is one municipal entity that was the source of approximately 20 percent of the cash flow servicing the Outstanding Bonds. This is the Milwaukee Metropolitan Sewerage District, which has issued Municipal Obligations to evidence repayment of Loans made from the Leveraged Loan Portfolio—See “2004 SERIES 2 BONDS; Security”.</p> |
| Insurance: | Payment of the principal of and interest on the 2004 Series 2 Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the 2004 Series 2 Bonds—See “OTHER MATTERS; The MBIA Insurance Corporation Financial Guaranty Insurance Policy”. |
| Outstanding Parity Bonds: | \$682,935,000 as of September 30, 2004. |
| Authority for Issuance: | The 2004 Series 2 Bonds are authorized under the Act and Chapter 18, Wisconsin Statutes. |
| Purpose: | Proceeds of the 2004 Series 2 Bonds are being issued to advance refund previously issued Outstanding Bonds and to pay costs of issuance —See “PLAN OF REFUNDING”. |
| Additional Bonds: | Additional Bonds may be issued without limitation as to the amount, subject to any applicable statutory limitation, payable on a parity with the 2004 Series 2 Bonds and all other Bonds previously issued, provided that the Loan Credit Reserve Fund Requirement and the Subsidy Bond Requirement is satisfied—See “2004 SERIES 2 BONDS; Security”. |

OFFICIAL STATEMENT
\$107,025,000
STATE OF WISCONSIN
CLEAN WATER REVENUE REFUNDING BONDS, 2004 SERIES 2

INTRODUCTION

This Official Statement sets forth information about the \$107,025,000 Clean Water Revenue Refunding Bonds, 2004 Series 2 (**2004 Series 2 Bonds**) issued by the State of Wisconsin (**State**). This Official Statement includes by reference Parts I, II, and VI of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2003 (**2003 Annual Report**).

The 2004 Series 2 Bonds are authorized under the Wisconsin Statutes, a Clean Water Revenue Bond General Resolution (**General Resolution**) adopted by the State of Wisconsin Building Commission (**Commission**) on March 7, 1991, as amended by a resolution of the Commission on July 30, 2003, and a **Series Resolution** adopted by the Commission on February 18, 2004. The General Resolution and the Series Resolution are collectively referred to as the **Resolution**.

The Commission has authorized the State Department of Administration (**DOA**) to prepare this Official Statement. This Official Statement contains information furnished by the State or obtained from the sources indicated. Requests for additional information may be directed to:

Contact: Capital Finance Office
Attn: Capital Finance Director
Phone: (608) 266-2305
Mail: 101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
E-mail: capfin@doa.state.wi.us
Web site: www.doa.state.wi.us/capitalfinance

Unless otherwise indicated, capitalized terms are defined in **APPENDIX C**.

PLAN OF REFUNDING

General

The Wisconsin Statutes empower the Commission to issue refunding bonds. The Resolution authorizes the issuance of one or more series of refunding bonds to refund all or any part of one or more series of Outstanding Bonds.

The 2004 Series 2 Bonds are being issued for the advance refunding of certain maturities of previously issued Outstanding Bonds. The refunded maturities are currently outstanding in the aggregate principal amount of \$109,185,000 (**Refunded Bonds**). **APPENDIX F** identifies and provides information on the Refunded Bonds.

To provide for the advance refunding of the Refunded Bonds, 2004 Series 2 Bond proceeds will be used to purchase direct general obligations of the United States (**Government Obligations**). These Government Obligations, together with the interest to be earned and a beginning cash deposit, will be sufficient:

(i) to pay when due the interest on the Refunded Bonds to and including their respective redemption dates, and

(ii) to redeem the Refunded Bonds on their respective redemption dates at their respective amounts of maturing principal.

Refunding Escrow Agreement

The Government Obligations, the beginning cash balance and the interest earnings will be held in an escrow fund (**Escrow Fund**) created by a Refunding Escrow Agreement (**Escrow Agreement**), between the State and The Bank of New York (**Escrow Trustee**) solely for the benefit of the owners of the Refunded Bonds.

The Escrow Fund will be held by the Escrow Trustee in trust to make principal, redemption premium, if any, and interest payments on the Refunded Bonds. The Escrow Fund will be held by the Escrow Trustee separate and apart from all other funds or accounts held by the Escrow Trustee. The Escrow Trustee will have no lien whatsoever upon any moneys in the Escrow Fund for any of its fees and costs incurred in carrying out the provisions of the Escrow Agreement. Instead, the State will pay these fees and costs to the Escrow Trustee from proceeds of the 2004 Series 2 Bonds.

The arithmetical accuracy of the computations of the sufficiency of the amounts deposited into the Escrow Fund will be independently verified by Samuel Klein & Company, Certified Public Accountants (**Verification Agent**).

In the opinion of Bond Counsel, upon the State making the deposit described above into the Escrow Fund, the Refunded Bonds will be deemed to be paid and will no longer be considered Outstanding for purposes of the General Resolution.

ENVIRONMENTAL IMPROVEMENT FUND

The Environmental Improvement Fund provides for three separate environmental financing programs.

- **Clean Water Fund Program.** The Clean Water Fund Program is a municipal financial assistance program for water pollution control projects, has been in existence since 1990, and includes the State's implementation of a Federal State Revolving Fund Program under the Federal Water Quality Act of 1987.
- **Safe Drinking Water Loan Program.** The Safe Drinking Water Loan Program is a municipal loan program for drinking water projects and includes the State's implementation of the Federal Safe Drinking Water Act Amendments of 1996.
- **Land Recycling Loan Program.** The Land Recycling Loan Program is a municipal loan program for remediation of contaminated lands.

The State has used, or intends to use, proceeds of the Outstanding Bonds (other than refunding Bonds) to make loans under the Clean Water Fund Program (such loans having terms not exceeding 20 years and interest notes at or below market interest notes). Changes are needed to Wisconsin Statutes before any Bond proceeds may be used to make loans under the Safe Drinking Water Loan Program and Land Recycling Loan Program. There is currently no legislation pending.

CLEAN WATER FUND PROGRAM

The Clean Water Fund Program makes loans to Municipalities for the construction or improvement of their water treatment facilities. The Clean Water Fund Program is composed of the following:

- **Leveraged Loan Portfolio**, which is funded with Bond proceeds,
- **Direct Loan Portfolio**, which is funded with federal capitalization grants and required State match along with repayments of principal and interest, and
- **Proprietary Loan Portfolio**, which is funded with State general obligation bond proceeds along with repayments of principal and interest.

Repayments from all Leveraged Loans (**Loans**), but not from Direct Loans or Proprietary Loans, are pledged to the repayment of the Bonds.

Information concerning the Clean Water Fund Program is included as **APPENDIX A**, which includes by reference Part VI of the 2003 Annual Report. Part VI of the 2003 Annual Report presents the following information on the Clean Water Fund Program; (1) overview, (2) plan of finance, (3) financial assistance, (4) funding levels, (5) capitalization grants, (6) management, and (7) operating agreement with the United States Environmental Protection Agency (**EPA**). **APPENDIX A** also includes the financial statements and independent auditor's report on the financial statements for the Environmental Improvement Fund for the years ended June 30, 2004 and 2003, along with supplemental information as of June 30, 2004, and independent auditor's report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2004.

Leveraged Loan, Direct Loans, and Proprietary Loans are made to Municipalities pursuant to Financial Assistance Agreements. As evidence of each loan, the Municipality is required to issue and deliver to the State a bond or note of the Municipality (**Municipal Obligation**) obligating the Municipality to repay the loan on the maturity schedule and at the interest rate set forth in the Financial Assistance Agreement. Most loans have been and are expected to be made at interest rates that are below market rates.

2004 SERIES 2 BONDS

General

The **cover of this Official Statement** sets forth the maturity dates, amounts, and interest rates for the 2004 Series 2 Bonds.

The 2004 Series 2 Bonds will be dated the date of their delivery and will bear interest from that date payable on June 1 and December 1 of each year, beginning on June 1, 2005.

Interest on the 2004 Series 2 Bonds will be computed on the basis of a 30-day month and a 360-day year. Payment of principal and interest for each 2004 Series 2 Bond will be paid to the registered owner of the 2004 Series 2 Bonds. The 2004 Series 2 Bonds are being issued initially in book-entry-only form, so the registered owner will be a securities depository, which is The Depository Trust Company, New York, New York (**DTC**). See "2004 SERIES 2 BONDS; Book-Entry-Only Form"

The 2004 Series 2 Bonds are issued as fully registered bonds without coupons in principal denominations of \$5,000 or integral multiples thereof.

U. S. Bank National Association, as successor to Firststar Trust Company, is the trustee for the Bonds (**Trustee**). In addition, the Trustee is the registrar (**Registrar**) and paying agent (**Paying Agent**) for the 2004 Series 2 Bonds.

Redemption Provisions

Optional Redemption

The 2004 Series 2 Bonds maturing June 1, 2009 through June 1, 2016 are not subject to optional redemption. The 2004 Series 2 Bonds maturing on or after June 1, 2017 are subject to optional redemption on June 1, 2015 or any date after that date in whole or in part in multiples of \$5,000, at a redemption price equal to par (100%) plus accrued interest to the redemption date. The Commission may decide whether to redeem the 2004 Series 2 Bonds, and it may direct the amounts and maturities of the 2004 Series 2 Bonds to be redeemed.

Selection of 2004 Series 2 Bonds

If less than all the 2004 Series 2 Bonds of a particular maturity are to be redeemed, the selection of 2004 Series 2 Bonds to be redeemed depends on whether the 2004 Series 2 Bonds are in book-entry-only form or in certificated form. See “**2004 SERIES 2 BONDS; Book-Entry-Only Form**”. If in book-entry-only form, selection of the beneficial owners affected by the redemption will be made by the securities depository and its participants in accordance with their rules. If not in book-entry-only form, selection shall be by lot.

Notice of Redemption

If the 2004 Series 2 Bonds are in book-entry-only form, any redemption notice will be sent by the Trustee (by registered or first class mail, postage prepaid) to the securities depository between 30 and 60 days before the redemption date.

If the 2004 Series 2 Bonds are not in book-entry-only form, any redemption notice will be sent by the Trustee (by registered or first class mail, postage prepaid) to the owners of the 2004 Series 2 Bonds being redeemed between 30 and 60 days before the redemption date.

All redemption notices will also be sent to the Information Services. Failure to give any required notice of redemption as to any particular 2004 Series 2 Bonds will not affect the validity of the call for redemption of any 2004 Series 2 Bonds in respect of which no such failure has occurred. Any notice mailed as provided in the General Resolution shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice.

Interest on any 2004 Series 2 Bond called for redemption will cease to accrue on the redemption date so long as the 2004 Series 2 Bond is paid or money is provided for its payment.

Ratings

At the State’s request, several rating agencies have rated the 2004 Series 2 Bonds with the understanding that a financial guaranty insurance policy guaranteeing the scheduled payment of principal of and interest on the 2004 Series 2 Bonds will be issued by MBIA Insurance Corporation (**MBIA**) concurrently with the delivery of the 2004 Series 2 Bonds:

| <u>Rating</u> | <u>Rating Agency</u> |
|---------------|------------------------------------|
| AAA | Fitch Ratings |
| Aaa | Moody’s Investors Service, Inc. |
| AAA | Standard & Poor’s Ratings Services |

In addition, at the State’s request, these Rating Agencies have assigned an underlying rating to the 2004 Series 2 Bonds:

| <u>Rating</u> | <u>Rating Agency</u> |
|---------------|------------------------------------|
| AA+ | Fitch Ratings |
| Aa2 | Moody's Investors Service, Inc. |
| AA+ | Standard & Poor's Ratings Services |

Any explanation of the significance of a rating may only be obtained from the Rating Agency furnishing that rating. No one can offer any assurance that a rating given to the 2004 Series 2 Bonds will be maintained for any period of time; a rating agency may lower or withdraw the rating it gives if in its judgment circumstances so warrant. Any such downgrade or withdrawal of a rating may adversely affect the market price of the 2004 Series 2 Bonds.

Security

The 2004 Series 2 Bonds are issued on a parity with all other bonds previously or to be issued pursuant to the General Resolution. The 2004 Series 2 Bonds and all other bonds issued under the General Resolution are collectively referred to as the **Bonds**.

The 2004 Series 2 Bonds are the twelfth Series of Bonds to be issued under the General Resolution. The legislature has authorized the issuance of \$1.616 billion of revenue bonds (not including refunding bonds) for the Clean Water Fund Program. The State has previously issued \$909 million of Bonds and an additional \$289 million of refunding Bonds. As of September 30, 2004, \$683 million of Bonds were Outstanding.

The Bonds are special obligations of the State, payable solely from the revenues, receipts, funds, and moneys pledged under the General Resolution. Debt service on the 2004 Series 2 Bonds and all other parity Bonds is secured by a pledge of:

- Repayment of Loans made to Municipalities.
- Amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund (which holds cash and State general obligation bonds), each established pursuant to the General Resolution.
- Any other Pledged Receipts.

The State is not obligated to pay the principal of, interest on, or redemption premium of the 2004 Series 2 Bonds and all other parity Bonds from any funds of the State other than those pledged pursuant to the General Resolution, and neither the full faith and credit nor the taxing power of the State or any agency, instrumentality, or political subdivision thereof is pledged to the payment of the principal of, interest on, or redemption premium of the 2004 Series 2 Bonds and all other parity Bonds.

Prior to the issuance of additional parity Bonds the State must certify that, upon the delivery of such Bonds, there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement, and in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

Further information on the security and source of payment for the Bonds, including information on (1) Pledged Receipts, (2) Loans, (3) Subsidy Fund, (4) Loan Credit Reserve Fund, (5) Statutory Powers, (6) State financial participation, (7) Additional Bonds, and (8) the General Resolution, is included as **APPENDIX A**, which incorporates by reference Part VI of the 2003 Annual Report.

Loan Credit Reserve Funds

The General Resolution establishes the amount and timing of funds and securities required to be deposited or on deposit in the Loan Credit Reserve Fund, based on Loan Credit Reserve Fund Schedules reviewed by no less than two Rating Agencies. To the extent the amount of deposit required by the Schedule approved by one Rating Agency differs from the amount required by another Rating Agency, the larger amount is required. As of the date of this Official Statement, the amount held in the Loan Credit Reserve Fund consisted of \$59 million in cash and investments and \$17 million in a Debt Service Reserve Insurance Policy (**Surety Bond**) issued by XL Capital Assurance Inc. This total of \$76 million exceeded the amount required on such date, which was approximately \$71 million. See [APPENDIX A](#) and [APPENDIX D](#).

Subsidy Fund Requirement

Since most loans are made at interest rates below the Clean Water Fund Program's cost of borrowing, the General Resolution created a Subsidy Fund, Subsidy Fund Requirement, and Subsidy Fund Transfer Account. Prior to disbursement from the Loan Fund the State is required by the Resolution, to meet the Subsidy Fund Requirement by depositing cash, Subsidy Funds, or loan assets in the appropriate funds and accounts. As of September 30, 2004, the Environmental Improvement Fund had purchased \$157 million of State general obligation bonds that were deposited into the Subsidy Fund, and the amortized balance was \$117 million. The State may transfer funds from the Loan Fund to the Revenue Fund to pay a portion of Debt Service on the Bonds, provided that following such transfer the Subsidy Fund Requirement is met.

Milwaukee Metropolitan Sewerage District

Based on cash-flow calculations as of September 30, 2004, the Milwaukee Metropolitan Sewerage District (**MMSD**) was the source of approximately 20 percent of the gross cash flow servicing the Outstanding Bonds. MMSD has issued Municipal Obligations to evidence repayments of Loans made from the Leveraged Loan Portfolio. The Municipal Obligations issued by MMSD are general obligations, for which MMSD has made an irrevocable levy of ad valorem property taxes sufficient to pay debt service when due.

Information concerning MMSD is included in [APPENDIX A](#), which includes by reference the MMSD Comprehensive Annual Financial Report for the period ending December 31, 2003.

The State

The Subsidy Fund currently holds general obligation bonds of the State. Based on Subsidy Fund levels and cash flow calculations as of September 30, 2004, the State was the source of approximately 19 percent of the gross cash flow servicing the Outstanding Bonds. This percentage will not change significantly as a result of the issuance of the 2004 Series 2 Bonds.

The State is located in the Midwest among the northernmost tier of states. The State ranks 20th among the states in population and 26th in land area. Wisconsin attained statehood in 1848, its capital is Madison, and its largest city is Milwaukee.

Information concerning the State and its financial condition is included as [APPENDIX B](#), which includes by reference Part II of the 2003 Annual Report.

Sources and Uses of Funds

It is anticipated that the proceeds of the 2004 Series 2 Bonds shall be applied as follows.

Sources

| | |
|---|--------------------------|
| Principal Amount of 2004 Series 2 Bonds | \$ 107,025,000.00 |
| Original Issue Premium..... | 11,408,668.45 |
| Total Sources..... | <u>\$ 118,433,668.45</u> |

Uses

| | |
|---|--------------------------|
| Deposit to Escrow Fund..... | \$ 117,380,148.38 |
| Underwriters' Discount..... | 602,855.50 |
| Premium on Financial Guaranty Insurance Policy..... | 321,000.00 |
| Costs of Issuance..... | 129,664.57 |
| Total Uses..... | <u>\$ 118,433,668.45</u> |

Book-Entry-Only Form

The 2004 Series 2 Bonds will initially be issued in book-entry-only form. Purchasers of the 2004 Series 2 Bonds will not receive bond certificates but instead will have their ownership in the 2004 Series 2 Bonds recorded in the book-entry system.

2004 Series 2 Bond certificates are to be issued and registered in the name of a nominee of DTC, which acts as securities depository for the 2004 Series 2 Bonds. Ownership of the 2004 Series 2 Bonds by the purchasers is shown in the records of brokers and other organizations participating in the DTC book-entry system (**DTC Participants**). All transfers of ownership in the 2004 Series 2 Bonds must be made, directly or indirectly, through DTC Participants.

Payment

The Paying Agent will make all payments of principal of, interest on, and any redemption premium on the 2004 Series 2 Bonds to DTC. Owners of the 2004 Series 2 Bonds will receive payments through the DTC Participants.

Notices and Voting Rights

The State or the Trustee will provide notices and other communications about the 2004 Series 2 Bonds to DTC. Owners of the 2004 Series 2 Bonds will receive any notices or communications through the DTC Participants. In any situation involving voting rights, DTC will not vote but rather give a proxy through the DTC Participants.

Redemption

If less than all of the 2004 Series 2 Bonds of a given maturity are being redeemed, DTC's practice is to determine by lottery the amount of the 2004 Series 2 Bonds to be redeemed from each DTC Participant.

Discontinued Service

In the event that participation in DTC's book-entry system were to be discontinued and a successor securities depository were not obtained, 2004 Series 2 Bond certificates would be executed and delivered to DTC Participants.

Further Information

Further information concerning DTC and DTC's book-entry system is available at www.dtcc.com. Neither the State nor the Trustee is responsible for any information available on DTC's web site. That information may be subject to change without notice.

Neither the State nor the Trustee is responsible for a failure by DTC or any DTC Participant to transfer payments or notices to the owners of the 2004 Series 2 Bonds or to follow the procedures established by DTC for its book-entry system.

Payment and Registration of 2004 Series 2 Bonds

How the 2004 Series 2 Bonds are paid depends on whether or not they are in book-entry-only form.

If the 2004 Series 2 Bonds are in book-entry-only form, payment of principal will be made by wire transfer to the securities depository or its nominee upon the presentation and surrender of the 2004 Series 2 Bonds at the principal office of the Paying Agent—which is the Trustee. Payment of interest will be made by wire transfer on the payment date to the securities depository or its nominee.

If the 2004 Series 2 Bonds are not in book-entry-only form, payment of principal will be made by check or draft issued upon the presentation and surrender of the 2004 Series 2 Bonds at the principal office of the Paying Agent. Payment of interest due on the 2004 Series 2 Bonds will be made by check or draft, mailed to the person in whose name the 2004 Series 2 Bond is registered at the close of business on the 15th day next preceding each interest payment date or, if such day shall not be a business day, the immediately preceding business day (**Record Date**), or with respect to the owner of \$1 million principal amount or more of 2004 Series 2 Bonds outstanding, by wire transfer to such account as the owner may designate.

LOANS

The Wisconsin Statutes set forth some of the requirements for eligibility of a Municipality to receive financial assistance from the Clean Water Fund Program. Additional information concerning the loan application process, lending criteria, levy limit for counties, commitments, and financial assistance agreements is described under “LOANS” in Part VI of the 2003 Annual Report. See [APPENDIX A](#).

OTHER MATTERS

Borrowing Plans for 2004

This is the second series of Clean Water Revenue Bonds to be issued in this calendar year. The State has previously issued \$117 million of Clean Water Revenue Bonds to make loans under the Clean Water Fund Program (\$100 million) and to current refund some Outstanding Bonds on June 1, 2004 (\$17 million). After the issuance of the 2004 Series 2 Bonds, there will remain authority for approximately \$33 million of additional clean water revenue refunding bonds. The timing and amount of any issuance of additional refunding bonds depends on market conditions.

Underwriting

The 2004 Series 2 Bonds are being purchased by the Underwriters, for which Morgan Stanley & Co. Incorporated is acting as representative. The Underwriters have agreed, subject to certain conditions, to purchase from the State the 2004 Series 2 Bonds described on the front cover of this Official Statement at an aggregate purchase price of \$117,830,812.95, reflecting an original issue premium of \$11,408,668.45 and underwriters’ discount of \$602,855.50. The Underwriters have agreed to reoffer the 2004 Series 2 Bonds at the public offering prices or yields set forth on the front cover of this Official Statement. The 2004 Series 2 Bonds may be offered and sold to certain dealers (including dealers depositing the 2004 Series 2 Bonds into investment trusts) at prices lower than such public offering prices and such prices may be changed, from time to time, by the Underwriters. The Underwriters’ obligations are subject to certain conditions precedent,

and they will be obligated to purchase all the 2004 Series 2 Bonds if any 2004 Series 2 Bonds are purchased.

Certain legal matters will be passed upon for the Underwriters by their counsel, Gonzalez, Saggio & Harlan, L.L.P.

Reference Information About 2004 Series 2 Bonds

The following table—as well as the table on the cover—includes information about the 2004 Series 2 Bonds and is provided for reference. The CUSIP number for each maturity has been obtained from sources believed to be reliable, but the State is not responsible for the correctness of the CUSIP numbers. The reoffering yields and prices have been provided by the Underwriters in order to allow the computation of yield for federal tax law compliance. For each of the 2004 Series 2 Bonds maturing on or after June 1, 2017, the dollar price at issuance is computed to the lower of the first optional redemption date or the nominal maturity date.

\$107,025,000
State of Wisconsin
Clean Water Revenue Refunding Bonds, 2004 Series 2

Dated Date: Delivery Date
First Interest Date: June 1, 2005
Delivery Date: On or About January 25, 2005

| CUSIP | Year (June 1) | Principal Amount | Interest Rate | Yield at Issuance | Price at Issuance | First Optional Redemption Date | Call Price |
|--------------|--------------------------|-----------------------------|--------------------------|------------------------------|------------------------------|---|-------------------|
| 977092 ND3 | 2009 | \$ 4,350,000 | 3.25% | 2.80% | 101.828% | Not Callable | - |
| 977092 NE1 | 2010 | 8,085,000 | 5.00 | 3.06 | 109.503 | Not Callable | - |
| 977092 NF8 | 2011 | 3,775,000 | 5.25 | 3.24 | 111.448 | Not Callable | - |
| 977092 NG6 | 2012 | 12,195,000 | 5.25 | 3.41 | 111.868 | Not Callable | - |
| 977092 NH4 | 2013 | 13,085,000 | 5.25 | 3.56 | 112.110 | Not Callable | - |
| 977092 NJ0 | 2014 | 13,765,000 | 5.25 | 3.66 | 112.489 | Not Callable | - |
| 977092 NK7 | 2015 | 14,465,000 | 5.25 | 3.76 | 112.672 | Not Callable | - |
| 977092 NL5 | 2016 | 9,265,000 | 5.25 | 3.84 | 112.868 | Not Callable | - |
| 977092 NM3 | 2017 | 10,675,000 | 5.00 | 3.92 | 109.111 | ^(a) 6/1/2015 | 100% |
| 977092 NN1 | 2018 | 5,520,000 | 5.00 | 3.99 | 108.490 | ^(a) 6/1/2015 | 100 |
| 977092 NP6 | 2019 | 5,790,000 | 5.00 | 4.05 | 107.961 | ^(a) 6/1/2015 | 100 |
| 977092 NQ4 | 2020 | 6,055,000 | 5.00 | 4.11 | 107.436 | ^(a) 6/1/2015 | 100 |

^(a) These bonds are priced to the June 1, 2015 call date.

Legal Investment

State law provides that the 2004 Series 2 Bonds are legal investments for the following:

- Banks and bankers, savings and loan associations, credit unions, trust companies, savings banks and institutions, investment companies, insurance companies, insurance associations, and other persons or entities carrying on a banking or insurance business.
- Personal representatives, guardians, trustees, and other fiduciaries.
- The State, the investment board, public officers, municipal corporations, political subdivisions, and public bodies.

Financial Advisor

First Albany Capital Inc. has been employed by the State to perform professional services in the capacity of financial advisor. The financial advisor has provided advice on the plan of refunding and the structure of the 2004 Series 2 Bonds, reviewed certain legal and disclosure documents, including this Official Statement, for financial matters, and reviewed the pricing of the 2004 Series 2 Bonds by the Underwriters.

Verification of Mathematical Computations

The arithmetical accuracy of certain computations was independently verified by the Verification Agent. These computations, which were provided by the Underwriters, indicate (i) the sufficiency of the receipts from the Government Obligations, together with an initial cash deposit, to pay the principal and interest requirements on the Refunded Bonds and (ii) the yield of the Escrow Fund is less than the yield on the 2004 Series 2 Bonds. The Verification Agent relied upon assumptions and information supplied by the Underwriters on behalf of the State and has not made any study or examination of them, except as noted in its report. The Verification Agent has not expressed an opinion on the reasonableness of the assumptions or the likelihood that the debt service requirements of the Refunded Bonds will be paid as described in its report.

The MBIA Insurance Corporation Financial Guaranty Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to **APPENDIX G** for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the State to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2004 Series 2 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 2004 Series 2 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (**Preference**).

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2004 Series 2 Bond. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2004 Series 2 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the 2004 Series 2 Bonds resulting from the insolvency, negligence, or any other act or omission of the Paying Agent or any other paying agent for the 2004 Series 2 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a 2004 Series 2 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2004 Series 2 Bonds or presentment of such other proof of ownership of the 2004 Series 2 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2004 Series 2 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2004 Series 2 Bonds in any legal

proceeding related to payment of insured amounts on the 2004 Series 2 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such 2004 Series 2 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (**Company**). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States, and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore, and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments, and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control, and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to (i) the accuracy of the information regarding the policy and MBIA set forth under the heading "OTHER MATTERS; The MBIA Insurance Corporation Financial Guaranty Insurance Policy" and (ii) the specimen policy included as APPENDIX G. Additionally, MBIA makes no representation regarding the 2004 Series 2 Bonds or the advisability of investing in the 2004 Series 2 Bonds.

The Financial Guaranty Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (SEC) are incorporated herein by reference:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2003; and
- The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the 2004 Series 2 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly, and special reports, information statements, and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004, and September 30, 2004), are available (i) over the Internet at the SEC's web site; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004, MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

- Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."
- Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA "AAA."
- Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell, or hold the 2004 Series 2 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2004 Series 2 Bonds. MBIA does not guarantee the market price of the Bonds, nor does it guarantee that the ratings on the 2004 Series 2 Bonds will not be revised or withdrawn.

Certain Legal Matters

Legal matters incident to the authorization, issuance and sale of the 2004 Series 2 Bonds are subject to the approval of Michael Best & Friedrich LLP (**Bond Counsel**), whose approving opinion, substantially in the form shown in **APPENDIX E**, will be delivered on the date of issue of the 2004 Series 2 Bonds. In the event certificated 2004 Series 2 Bonds are issued, the opinion will be printed on the reverse side of each 2004 Series 2 Bond.

As a condition to making a Loan, the State will require an opinion of counsel (which counsel need not be a nationally recognized bond counsel) to the effect that (subject to certain exceptions for bankruptcy, insolvency and similar laws affecting creditors' rights or remedies and equitable principles), among other things, the Financial Assistance Agreement and the Municipal Obligation constitute legal, valid and binding obligations of the Municipality enforceable against the Municipality in accordance with their respective terms.

Absence of Litigation

Upon delivery of the 2004 Series 2 Bonds, the State shall furnish an opinion of the Attorney General of the State, dated the date of delivery of the 2004 Series 2 Bonds, to the effect that there is no action, suit, or proceeding, either pending or threatened in writing, known to the State, restraining or enjoining the issuance, sale, execution, or delivery of the 2004 Series 2 Bonds, or in any way contesting or affecting the titles to their respective offices of any of the State officers involved in the issuance of the 2004 Series 2 Bonds, or the validity of the 2004 Series 2 Bonds or any of the proceedings of the State taken with respect to the issuance and sale thereof or the pledge or application of any moneys or security provided for the payment of the 2004 Series 2 Bonds.

Each Municipality entering into a Financial Assistance Agreement is required, as a condition of the Loan, to deliver a certificate to the effect that there is no controversy or litigation of any nature pending or, to its knowledge, threatened against the Municipality contesting or affecting the validity or enforceability of the Financial Assistance Agreement or the Municipal Obligation or the use of the proceeds of the Municipal Obligation. In addition, such certificate shall state that there is no controversy or litigation of any nature now pending or, to its knowledge, threatened by or against the Municipality wherein an adverse ruling could have a material adverse impact on the financial condition of the Municipality or adversely affect the power of the Municipality to levy, collect and enforce the levying or collection of taxes, the imposition of rates or charges, or the collection of any of the foregoing, as applicable, for the payment of its Municipal Obligation which has not been disclosed to the State.

TAX MATTERS

Certain Requirements of Code

The Internal Revenue Code of 1986, as amended (**Code**) establishes certain requirements which must be met subsequent to the issuance and delivery of the 2004 Series 2 Bonds in order that the interest on the 2004 Series 2 Bonds be and remain excluded from gross income pursuant to Section 103 of the Code. Noncompliance could cause interest on the 2004 Series 2 Bonds to be included in gross income of the owners thereof for federal income tax purposes retroactive to the date of issue, irrespective of the date on which such noncompliance occurs or is ascertained. The Tax Regulatory Agreement entered into by the State describes the application to be made of certain funds held under the General Resolution and sets forth certain representations, statements of intention, conditions and covenants relating to the use of proceeds of the 2004 Series 2 Bonds necessary for, or related to, compliance with the requirements of Section 103 and related provisions of the Code including the arbitrage limitations imposed with respect to the investment of 2004 Series 2 Bond proceeds pursuant to Section 148 of the Code. The State agrees generally that it will take such actions as may be necessary and within its reasonable control to ensure that the 2004 Series 2 Bonds will continue to be obligations described in Section 103(a) of the Code. The Financial Assistance Agreement for each Loan contains a provision that the Municipality will not take any action or fail to take any action, which action or failure to act would cause the 2004 Series 2 Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

Opinion of Bond Counsel

Federal Taxes

In the opinion of Bond Counsel, whose approving opinion is substantially in the form shown in **APPENDIX E**, under existing statutes and court decisions, interest on the 2004 Series 2 Bonds is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code and such interest will not be treated as a preference item to be included in calculating

alternative minimum taxable income under the Code with respect to individuals and corporations. As summarized in “**TAX MATTERS; Certain Additional Federal Tax Consequences**”, such interest, however, is to be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the alternative minimum tax and the foreign branch profits tax.

State Taxes

Interest on the 2004 Series 2 Bonds is subject to State of Wisconsin income and franchise taxes.

Basis of Federal Income Tax Opinion

In rendering the foregoing opinion, Bond Counsel has relied upon and assumed compliance by the State and the Municipalities with the procedures and covenants set forth respectively in the Tax Regulatory Agreement entered into by the State and the Financial Assistance Agreement executed by each Municipality.

Certain Additional Federal Tax Consequences

General

The following is a discussion of certain federal income tax matters under existing statutes. It is for general information only and does not purport to deal with all aspects of federal taxation that may be relevant to particular owners of the 2004 Series 2 Bonds. Prospective investors, particularly those who may be subject to special tax rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2004 Series 2 Bonds, as well as any tax consequences arising under the laws of any foreign state or other taxing jurisdiction.

Alternative Minimum Tax

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the 2004 Series 2 Bonds is not treated as a preference item in calculating alternative minimum taxable income.

Social Security and Railroad Retirement Payments

The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement payments is to be included in taxable income of individuals.

Branch Profits Tax

The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

Borrowed Funds

The Code provides that interest paid on borrowed funds to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

Financial Institutions

The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct their cost of carrying certain obligations (other than certain “qualified” obligations), effective for obligations acquired after August 7, 1986. The 2004 Series 2 Bonds are not “qualified” obligations for this purpose.

Property and Casualty Companies

The Code contains provisions relating to property and casualty companies whereunder the amount of certain cost deductions otherwise allowed is reduced (in certain cases below zero) by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

S Corporations

The Code imposes a tax on excess net passive income of certain S corporations that have subchapter C earnings and profits. Passive investments include interest on tax-exempt obligations.

Original Issue Premium

All of the 2004 Series 2 Bonds (**Premium Bonds**) are being sold at an amount in excess of the amount payable on maturity. Such excess constitutes bond premium under Section 171 of the Code. Under Section 171 of the Code, amortizable bond premium on a Premium Bond is determined on a constant yield basis (except to the extent regulations may provide otherwise) over the term of the Premium Bond. No deduction from the income of an owner of a Premium Bond is allowed with respect to the amount of amortizable bond premium. The basis of each Premium Bond will be reduced by the amount of amortizable bond premium for a taxable year required to be taken into account by an owner.

CONTINUING DISCLOSURE

The State has made an undertaking, for the benefit of the beneficial owners of the 2004 Series 2 Bonds, to provide an annual report presenting certain financial information and operating data about the State (**Annual Reports**). By about December 27 of each year, the State will send the Annual Report to each nationally recognized municipal securities information repository (**NRMSIR**) and to any appropriate state information depository (**SID**). Between the date of this Official Statement and the delivery date of the 2004 Series 2 Bonds, it is expected that the State will complete and release a new Annual Report, and at such time, this new Annual Report may be obtained as described below. The State will also provide notices of occurrence of certain events specified in the undertaking to each NRMSIR, or the Municipal Securities Rulemaking Board (**MSRB**), and any SID. As of the date of this Official Statement, no appropriate SID has been established. [Part I of the 2003 Annual Report, which contains information on the undertaking, is included by reference as part of this Official Statement.](#)

Copies of the Annual Reports and notices may be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
capfin@doa.state.wi.us
www.doa.state.wi.us/capitalfinance

The undertaking also describes the consequences of any failure to provide the required information. The State must report the failure to the NRMSIRS, or the MSRB, and to any SID. In the last five years, there has been no failure to comply in any material respect with this or any similar undertaking.

FURTHER INFORMATION

The State has covenanted to file with the Trustee, and to make available from DOA upon request, a copy of the audited financial statements for the Environmental Improvement Fund. **APPENDIX A** includes the independent auditor's report and financial statements for the years ended June 30, 2004 and 2003, along with supplemental information as of June 30, 2004 and independent auditor's report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2004.

The following language has been provided by the independent auditors of the Environmental Improvement Fund, Deloitte & Touche LLP, and is included at their request.

Financial Information

The Fund's financial statements are public records, no consent to their inclusion or incorporation by reference herein from Deloitte & Touche LLP, independent accountant, is required and neither such firm nor the Auditor of the State of Wisconsin has performed any review of such financial matters, nor performed any "bring down" procedures, since September 20, 2004.

Copies of the General Resolution, any Series Resolution, the Financial Assistance Agreements, and the Municipal Obligations are available for inspection during normal business hours at the offices of DOA. The State has not otherwise committed to update information in this Official Statement or to provide any other continuing disclosure concerning the Environmental Improvement Fund or the Clean Water Fund Program, except as provided in "**CONTINUING DISCLOSURE**".

Dated: December 10, 2004

STATE OF WISCONSIN

/s/ JIM DOYLE

Governor Jim Doyle, Chairperson
State of Wisconsin Building Commission

/s/ MARC J. MAROTTA

Marc J. Marotta, Secretary
State of Wisconsin Department of Administration

/s/ ROBERT G. CRAMER

Robert G. Cramer, Secretary
State of Wisconsin Building Commission

APPENDIX A

INFORMATION ABOUT THE CLEAN WATER FUND PROGRAM

This appendix includes information concerning the State of Wisconsin Clean Water Fund Program. [Part VI of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2003 \(2003 Annual Report\)](#) is included by reference as part of this APPENDIX A. This appendix also includes changes or additions to the information presented in Part VI of the 2003 Annual Report. The additional information includes the independent auditor's report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2004 and 2003, along with supplemental information as of June 30, 2004, and independent auditor's report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2004.

[Part VI to the 2003 Annual Report](#) contains certain general information on the Environmental Improvement Fund and the Clean Water Fund Program. More specifically, that part presents information on the following matters:

- Security and Source of Payment of the Bonds
- Pledged Revenues
- Loans
- Subsidy Fund
- Loan Credit Reserve Fund (including the Loan Credit Reserve Fund Schedule for each Rating Agency)
- Statutory Powers
- State financial participation
- Additional Bonds
- Municipalities
- General Resolution

The 2003 Annual Report has been filed with each nationally recognized municipal securities information repository (NRMSIR). As of the date of this Official Statement, [Part VI](#) of the 2003 Annual Report is available from the part of the Capital Finance Office web site called "Official Disclosure for Bonds, Notes, and Other Securities Issued by the State of Wisconsin". The Capital Finance Office web site is located at the following address:

www.doa.state.wi.us/capitalfinance

Copies of the 2003 Annual Report may also be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us

Listed below, by reference to particular sections of the 2003 Annual Report, are changes or additions to the discussion contained in those particular sections. Many of the following changes or additions have not been filed with the NRMSIRs. However, the State has filed, and expects to continue to file, certain informational notices with the NRMSIRs, some of which may be notices that do not describe listed material events under the State's Master Agreement on Continuing Disclosure.

Table VI-2; State of Wisconsin Environmental Improvement Fund Outstanding Loans (Pages 187-191). Update the table with the following:

**State of Wisconsin Environmental Improvement Fund
Outstanding Loans
September 30, 2004
(Amounts in Thousands)**

| Municipality ^(a) | FAA Loan Amount ^(b) | Total Loan Disbursed | Leveraged Balance ^(c) | Non-Leveraged Balance | Total Outstanding Balance ^(c) | Loan Remaining to Fund ^(d) | % of Revenue Bond Payment ^(e) |
|---|--------------------------------|----------------------|----------------------------------|-----------------------|--|---------------------------------------|--|
| <i>Leveraged Loans</i> | | | | | | | |
| Milwaukee Metropolitan Sewerage District | \$592,558 | \$519,921 | \$161,591 | \$208,606 | \$370,197 | \$65,594 | 20.1% |
| Madison Metropolitan Sewerage District | 95,410 | 75,262 | 53,104 | 3,595 | 56,699 | 16,964 | 6.9% |
| City of Manitowoc | 22,018 | 21,512 | 17,964 | - | 17,964 | - | 2.3% |
| Green Bay Metropolitan Sewerage District | 52,754 | 48,693 | 10,742 | 16,649 | 27,391 | - | 1.3% |
| Village of Saukville | 11,332 | 10,692 | 9,202 | - | 9,202 | - | 1.2% |
| Delafield - Hartland Pollution Control Commission | 10,000 | 8,888 | 8,888 | - | 8,888 | 1,112 | 1.2% |
| City of Racine | 103,820 | 94,709 | 8,009 | 80,530 | 88,539 | 8,450 | 1.0% |
| Village of Union Grove | 8,706 | 8,335 | 7,259 | - | 7,259 | 344 | 1.0% |
| City of Waupaca | 12,261 | 11,444 | 7,093 | 752 | 7,845 | 350 | 0.9% |
| City of Stevens Point | 13,560 | 13,117 | 6,998 | - | 6,998 | - | 0.8% |
| City of Fort Atkinson | 14,594 | 14,266 | 6,748 | - | 6,748 | - | 0.8% |
| City of Menomonie | 8,732 | 8,653 | 6,452 | - | 6,452 | - | 0.9% |
| City of Stoughton - Utilities | 9,463 | 8,820 | 6,062 | 128 | 6,190 | 445 | 0.8% |
| City of Brookfield | 30,606 | 29,304 | 5,999 | 17,141 | 23,140 | - | 0.8% |
| City of Mineral Point | 6,884 | 6,244 | 5,990 | - | 5,990 | - | 0.8% |
| City of Waupun | 6,249 | 5,937 | 5,734 | - | 5,734 | 312 | 0.8% |
| Village of Marshall | 7,744 | 7,507 | 5,643 | - | 5,643 | - | 0.7% |
| City of Ripon | 6,337 | 5,773 | 5,537 | - | 5,537 | 564 | 0.7% |
| Village of Sussex | 11,029 | 10,605 | 5,286 | - | 5,286 | - | 0.6% |
| Village of Twin Lakes | 5,941 | 5,941 | 5,024 | - | 5,024 | - | 0.7% |
| City of Bloomer | 6,694 | 6,690 | 4,972 | - | 4,972 | - | 0.6% |
| Village of Jackson | 6,130 | 6,130 | 4,816 | - | 4,816 | - | 0.6% |
| City of Brodhead | 6,549 | 6,284 | 4,725 | - | 4,725 | - | 0.6% |
| Green Lake Sanitary District | 8,674 | 8,388 | 4,649 | - | 4,649 | - | 0.5% |
| City of South Milwaukee | 6,413 | 6,344 | 4,558 | - | 4,558 | - | 0.6% |
| City of Sparta | 15,726 | 14,502 | 4,508 | 4,003 | 8,511 | 542 | 0.5% |
| City of Hudson | 6,165 | 5,823 | 4,369 | - | 4,369 | - | 0.5% |
| Village of Deerfield | 5,070 | 4,506 | 4,324 | - | 4,324 | 565 | 0.6% |
| Town of Salem | 6,359 | 6,193 | 4,307 | - | 4,307 | - | 0.5% |
| City of Richland Center | 6,998 | 6,660 | 4,286 | - | 4,286 | - | 0.6% |
| City of Dodgeville | 4,995 | 4,995 | 4,095 | - | 4,095 | - | 0.5% |
| City of Oconomowoc | 5,449 | 5,414 | 4,007 | - | 4,007 | - | 0.5% |
| City of Milton | 4,328 | 4,083 | 3,921 | - | 3,921 | 245 | 0.5% |
| Norway Sanitary District #1 | 5,547 | 4,424 | 3,689 | - | 3,689 | - | 0.5% |
| Village of West Salem | 4,990 | 4,634 | 3,561 | - | 3,561 | - | 0.4% |
| City of Chippewa Falls | 7,593 | 7,252 | 3,489 | 1,905 | 5,394 | - | 0.4% |
| City of Edgerton | 5,016 | 4,371 | 3,457 | - | 3,457 | - | 0.4% |
| Village of Lake Delton | 9,612 | 9,371 | 3,419 | 5,346 | 8,765 | 113 | 0.4% |
| City of De Pere | 8,892 | 7,994 | 3,379 | 3,458 | 6,837 | 453 | 0.4% |
| Village of Black Creek | 4,332 | 4,332 | 3,031 | - | 3,031 | - | 0.4% |
| City of Janesville | 6,897 | 5,805 | 2,955 | 2,080 | 5,035 | 997 | 0.4% |
| City of Antigo | 4,317 | 4,286 | 2,928 | - | 2,928 | - | 0.4% |
| City of Chilton | 3,945 | 3,843 | 2,834 | 425 | 3,259 | 101 | 0.4% |
| City of Lodi | 4,050 | 3,907 | 2,737 | - | 2,737 | - | 0.3% |
| Village of Plover | 6,730 | 6,730 | 2,698 | 2,949 | 5,647 | - | 0.3% |
| Town of Caledonia | 4,175 | 3,635 | 2,671 | 683 | 3,354 | 540 | 0.3% |
| City of Rhinelander | 5,136 | 5,123 | 2,654 | - | 2,654 | - | 0.3% |
| City of Marshfield | 24,170 | 22,996 | 2,441 | 16,154 | 18,595 | - | 0.3% |
| Village of Luxemburg | 3,178 | 2,931 | 2,419 | - | 2,419 | 90 | 0.3% |
| City of Mauston | 2,905 | 2,759 | 2,389 | - | 2,389 | - | 0.3% |
| City of New Richmond | 3,320 | 3,202 | 2,371 | - | 2,371 | - | 0.3% |
| City of Viroqua | 4,080 | 3,609 | 2,368 | 585 | 2,953 | 432 | 0.3% |
| Village of Somerset | 2,981 | 2,744 | 2,332 | - | 2,332 | - | 0.3% |
| City of Sheboygan | 13,517 | 11,238 | 2,288 | 6,377 | 8,665 | 2,279 | 0.3% |
| City of Neillsville | 3,238 | 3,210 | 2,245 | - | 2,245 | - | 0.3% |
| Village of Allouez | 3,072 | 3,062 | 2,141 | - | 2,141 | - | 0.3% |
| Town of Bristol | 4,211 | 3,995 | 2,096 | - | 2,096 | - | 0.3% |
| City of Monroe | 3,470 | 2,956 | 2,071 | - | 2,071 | - | 0.3% |
| Village of North Fond du Lac | 2,592 | 2,590 | 2,065 | - | 2,065 | - | 0.3% |
| Village of Silver Lake | 2,318 | 2,318 | 1,991 | - | 1,991 | - | 0.3% |
| City of Cuba City | 2,562 | 2,316 | 1,982 | - | 1,982 | - | 0.3% |
| City of Ashland | 14,010 | 13,595 | 1,972 | 5,011 | 6,983 | 134 | 0.2% |
| City of Tomahawk | 3,026 | 2,864 | 1,932 | - | 1,932 | - | 0.2% |
| City of Watoma | 6,848 | 6,847 | 1,891 | 2,485 | 4,376 | - | 0.2% |
| Village of Reedsville | 2,768 | 2,755 | 1,871 | - | 1,871 | - | 0.2% |
| Freedom Sanitary District #1 | 2,748 | 2,645 | 1,846 | - | 1,846 | - | 0.2% |
| City of Adams | 2,464 | 2,238 | 1,846 | - | 1,846 | - | 0.2% |
| Village of Slinger | 2,633 | 2,059 | 1,842 | - | 1,842 | 573 | 0.2% |
| Village of New Glarus | 3,503 | 3,434 | 1,802 | - | 1,802 | - | 0.2% |
| City of Merrill | 4,044 | 4,033 | 1,783 | - | 1,783 | - | 0.2% |

**State of Wisconsin Environmental Improvement Fund
Outstanding Loans
September 30, 2004
(Amounts in Thousands)**

| Municipality ^(a) | FAA Loan Amount ^(b) | Total Loan Disbursed | Leveraged Balance ^(c) | Non-Leveraged Balance | Total Outstanding Balance ^(c) | Loan Remaining to Fund ^(d) | % of Revenue Bond Payment ^(e) |
|---|--------------------------------|----------------------|----------------------------------|-----------------------|--|---------------------------------------|--|
| Village of Howards Grove | 2,102 | 1,905 | 1,766 | - | 1,766 | - | 0.2% |
| Village of Shorewood | 2,512 | 2,298 | 1,732 | - | 1,732 | - | 0.2% |
| Village of Belleville | 2,563 | 2,413 | 1,684 | - | 1,684 | - | 0.2% |
| City of Colby | 2,837 | 2,647 | 1,600 | - | 1,600 | - | 0.2% |
| City of Amery | 3,060 | 2,909 | 1,586 | 391 | 1,977 | 147 | 0.2% |
| Rib Mountain Metro Sewerage District | 1,977 | 1,782 | 1,566 | - | 1,566 | - | 0.2% |
| City of Oshkosh | 57,410 | 54,160 | 1,444 | 39,292 | 40,736 | 1,982 | 0.2% |
| City of Delafield | 1,556 | 1,556 | 1,438 | - | 1,438 | - | 0.2% |
| City of Weyauwega | 3,285 | 3,108 | 1,425 | - | 1,425 | - | 0.2% |
| Village of Footville | 2,131 | 2,097 | 1,408 | 435 | 1,843 | - | 0.2% |
| Chain O'Lakes Sanitary District #1 | 2,082 | 2,063 | 1,392 | - | 1,392 | - | 0.2% |
| City of Kenosha | 33,144 | 29,370 | 1,385 | 14,956 | 16,341 | - | 0.2% |
| Village of Poynette | 2,288 | 2,112 | 1,372 | - | 1,372 | - | 0.2% |
| Village of Bangor | 1,587 | 1,584 | 1,340 | - | 1,340 | - | 0.2% |
| Village of Pewaukee | 8,191 | 7,695 | 1,316 | 4,429 | 5,745 | - | 0.2% |
| Village of Fremont | 1,867 | 1,815 | 1,272 | - | 1,272 | - | 0.2% |
| City of Baraboo | 2,382 | 2,276 | 1,249 | - | 1,249 | - | 0.1% |
| City of Kewaunee | 1,684 | 1,684 | 1,226 | - | 1,226 | - | 0.2% |
| Village of Monticello | 2,345 | 2,319 | 1,222 | - | 1,222 | - | 0.1% |
| Ixonia Sanitary District #1 | 1,340 | 1,308 | 1,216 | - | 1,216 | - | 0.2% |
| City of Jefferson | 7,534 | 6,924 | 1,147 | 5,295 | 6,442 | 433 | 0.1% |
| Black Wolf Sanitary District #1 | 4,327 | 4,065 | 1,114 | - | 1,114 | - | 0.1% |
| City of Whitewater | 1,564 | 1,564 | 1,093 | - | 1,093 | - | 0.1% |
| Village of Wrightstown | 1,427 | 1,427 | 1,064 | - | 1,064 | - | 0.1% |
| Village of Iron Ridge | 1,441 | 1,254 | 1,051 | - | 1,051 | - | 0.1% |
| Village of Trempealeau | 1,559 | 1,544 | 1,051 | - | 1,051 | - | 0.1% |
| Village of Lake Nebagamon | 1,539 | 1,456 | 1,048 | - | 1,048 | - | 0.1% |
| City of Lake Mills | 1,246 | 1,165 | 1,034 | - | 1,034 | - | 0.1% |
| Village of Newburg | 1,549 | 1,430 | 1,027 | - | 1,027 | - | 0.1% |
| City of Crandon | 1,537 | 1,454 | 1,013 | - | 1,013 | - | 0.1% |
| City of Two Rivers | 5,878 | 4,689 | 991 | 3,305 | 4,296 | 965 | 0.1% |
| Wisconsin Dells - Lake Delton Sewerage Commission | 1,935 | 1,892 | 980 | - | 980 | - | 0.1% |
| City of Lancaster | 1,688 | 1,601 | 974 | - | 974 | - | 0.1% |
| Village of Mount Horeb | 3,436 | 3,338 | 958 | 539 | 1,497 | - | 0.1% |
| Town of Menasha | 1,659 | 1,642 | 954 | - | 954 | - | 0.1% |
| Village of Dane | 1,228 | 1,228 | 938 | - | 938 | - | 0.1% |
| City of Manawa | 1,408 | 1,391 | 912 | - | 912 | - | 0.1% |
| City of Brillion | 1,064 | 1,061 | 903 | - | 903 | - | 0.1% |
| City of Beloit | 2,927 | 2,610 | 898 | - | 898 | - | 0.1% |
| City of Tomah | 17,480 | 16,483 | 885 | 12,254 | 13,139 | 132 | 0.1% |
| Potosi/Tennyson Sewerage Commission | 1,543 | 1,543 | 852 | - | 852 | - | 0.1% |
| Village of Valders | 1,538 | 1,538 | 851 | 74 | 925 | - | 0.1% |
| City of New Holstein | 1,100 | 990 | 838 | - | 838 | - | 0.1% |
| City of Mayville | 1,006 | 1,006 | 826 | - | 826 | - | 0.1% |
| City of Columbus | 1,235 | 1,235 | 801 | - | 801 | - | 0.1% |
| City of Watertown | 30,535 | 28,454 | 789 | 26,341 | 27,130 | 2,040 | 0.1% |
| City of Mosinee | 1,383 | 1,297 | 781 | - | 781 | - | 0.1% |
| City of Fond du Lac | 2,022 | 1,732 | 776 | - | 776 | - | 0.1% |
| City of Boscobel | 1,337 | 1,182 | 770 | - | 770 | - | 0.1% |
| Village of Mount Calvary | 1,430 | 1,430 | 767 | - | 767 | - | 0.1% |
| Village of Bay City | 1,224 | 1,200 | 756 | - | 756 | - | 0.1% |
| Western Racine County Sewerage District | 1,312 | 744 | 744 | - | 744 | 568 | 0.1% |
| Village of Blue Mounds | 1,152 | 1,064 | 744 | - | 744 | - | 0.1% |
| Village of Fontana | 2,725 | 2,652 | 740 | 1,327 | 2,067 | - | 0.1% |
| City of Black River Falls | 1,894 | 1,767 | 726 | - | 726 | - | 0.1% |
| Village of Hewitt | 1,467 | 1,298 | 685 | - | 685 | - | 0.1% |
| Village of Cross Plains | 896 | 887 | 675 | - | 675 | - | 0.1% |
| City of River Falls | 1,009 | 1,009 | 659 | - | 659 | - | 0.1% |
| City of Cumberland | 928 | 808 | 632 | - | 632 | - | 0.1% |
| Village of Mishicot | 718 | 679 | 627 | - | 627 | - | 0.1% |
| Wrightstown Sanitary District #1 | 1,081 | 1,036 | 623 | - | 623 | - | 0.1% |
| Village of Rockland | 967 | 867 | 623 | - | 623 | - | 0.1% |
| Village of Spring Green | 950 | 920 | 620 | - | 620 | - | 0.1% |
| Village of Muscoda | 898 | 777 | 609 | - | 609 | - | 0.1% |
| Village of Argyle | 1,467 | 1,380 | 579 | - | 579 | - | 0.1% |
| Village of Brokaw | 772 | 718 | 577 | - | 577 | - | 0.1% |
| Village of Highland | 825 | 784 | 564 | - | 564 | - | 0.1% |
| City of Galesville | 1,143 | 1,111 | 548 | - | 548 | - | 0.1% |
| Brazeau Sanitary District #1 | 793 | 758 | 542 | - | 542 | - | 0.1% |
| Wolf Treatment Plant Commission | 12,847 | 12,377 | 541 | 9,255 | 9,796 | - | 0.1% |
| Mercer Sanitary District #1 | 787 | 787 | 516 | - | 516 | - | 0.1% |
| Village of Montfort | 779 | 756 | 492 | - | 492 | - | 0.1% |

**State of Wisconsin Environmental Improvement Fund
Outstanding Loans
September 30, 2004
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|--|--------------------------------|----------------------|----------------------------------|-----------------------|--|---------------------------------------|--|
| Village of Rosholt | 662 | 649 | 483 | - | 483 | - | 0.1% |
| Silver Lake Sanitary District | 1,063 | 1,063 | 478 | - | 478 | - | 0.1% |
| City of Shullsburg | 687 | 626 | 472 | - | 472 | - | 0.1% |
| Village of Redgranite | 2,303 | 2,303 | 461 | 1,158 | 1,619 | - | 0.0% |
| Iron River Sanitary District #1 | 717 | 710 | 456 | - | 456 | - | 0.1% |
| City of Cudahy | 886 | 839 | 454 | - | 454 | - | 0.1% |
| Village of Knapp | 669 | 616 | 453 | - | 453 | 53 | 0.1% |
| City of Abbotsford | 722 | 660 | 447 | - | 447 | - | 0.1% |
| City of Plymouth | 5,848 | 5,422 | 420 | 2,911 | 3,331 | 149 | 0.1% |
| Sextonville Sanitary District | 589 | 564 | 408 | - | 408 | - | 0.1% |
| Village of Brownsville | 1,017 | 907 | 404 | 373 | 777 | 56 | 0.0% |
| City of Beaver Dam | 819 | 798 | 396 | - | 396 | - | 0.0% |
| City of Chetek | 528 | 512 | 386 | - | 386 | - | 0.0% |
| Neenah Sanitary District #2 | 1,057 | 1,057 | 377 | - | 377 | - | 0.0% |
| Silver Lake Sanitary District-Waushara Cty. | 722 | 722 | 348 | - | 348 | - | 0.0% |
| Laona Sanitary District #1 | 746 | 746 | 337 | - | 337 | - | 0.0% |
| City of Prescott | 5,349 | 4,956 | 322 | 2,682 | 3,004 | - | 0.0% |
| City of New Lisbon | 5,845 | 5,434 | 314 | 4,777 | 5,091 | 136 | 0.0% |
| Village of Kohler | 401 | 367 | 306 | - | 306 | - | 0.0% |
| Village of Prentice | 544 | 447 | 300 | - | 300 | - | 0.0% |
| City of Westby | 417 | 395 | 297 | - | 297 | - | 0.0% |
| Village of Almond | 530 | 504 | 291 | - | 291 | - | 0.0% |
| Village of Campbellsport | 405 | 359 | 290 | - | 290 | - | 0.0% |
| Village of North Freedom | 498 | 473 | 276 | - | 276 | - | 0.0% |
| Village of Linden | 389 | 369 | 275 | - | 275 | - | 0.0% |
| Village of Mattoon | 628 | 586 | 273 | 174 | 447 | - | 0.0% |
| Village of Cottage Grove | 506 | 360 | 271 | - | 271 | - | 0.0% |
| Village of Pulaski | 483 | 483 | 264 | - | 264 | - | 0.0% |
| Village of Belmont | 458 | 416 | 261 | - | 261 | - | 0.0% |
| Village of Ellsworth | 373 | 373 | 244 | - | 244 | - | 0.0% |
| Village of Random Lake | 464 | 441 | 242 | - | 242 | - | 0.0% |
| Iowa County | 486 | 486 | 241 | - | 241 | - | 0.0% |
| Village of Wyocena | 389 | 298 | 238 | - | 238 | - | 0.0% |
| Village of Walworth | 332 | 305 | 227 | - | 227 | - | 0.0% |
| Goodman Sanitary District #1 | 1,074 | 1,074 | 221 | 506 | 727 | - | 0.0% |
| Village of Cassville | 442 | 401 | 218 | - | 218 | - | 0.0% |
| City of Montello | 260 | 256 | 207 | - | 207 | - | 0.0% |
| Village of Pepin | 363 | 281 | 203 | - | 203 | - | 0.0% |
| Village of Coleman | 507 | 449 | 201 | - | 201 | - | 0.0% |
| City of Prairie du Chien | 4,645 | 4,590 | 196 | 2,334 | 2,530 | - | 0.0% |
| Village of Osceola | 298 | 298 | 195 | - | 195 | - | 0.0% |
| Village of Potosi | 291 | 260 | 188 | - | 188 | 23 | 0.0% |
| City of Shawano | 252 | 225 | 179 | - | 179 | - | 0.0% |
| Sunset Point Sanitary District | 686 | 655 | 175 | - | 175 | - | 0.0% |
| Village of Baldwin | 262 | 262 | 172 | - | 172 | - | 0.0% |
| Village of Hustisford | 1,503 | 1,000 | 168 | 593 | 761 | 495 | 0.0% |
| Village of Plum City | 249 | 249 | 146 | - | 146 | - | 0.0% |
| Grand Chute - Menasha West Sewerage Commission | 12,747 | 11,958 | 142 | 6,940 | 7,082 | 181 | 0.0% |
| Village of Blue River | 281 | 272 | 139 | - | 139 | - | 0.0% |
| Village of Prairie du Sac | 205 | 183 | 131 | - | 131 | - | 0.0% |
| Village of Gays Mills | 180 | 173 | 124 | - | 124 | - | 0.0% |
| Village of Hancock | 151 | 131 | 111 | - | 111 | - | 0.0% |
| City of Hillsboro | 160 | 129 | 93 | - | 93 | - | 0.0% |
| Little Elkhart Lake Rehabilitation District | 217 | 217 | 87 | - | 87 | - | 0.0% |
| Village of Webster | 204 | 194 | 85 | - | 85 | - | 0.0% |
| Village of Spring Valley | 120 | 120 | 79 | - | 79 | - | 0.0% |
| Village of Roberts | 81 | 81 | 54 | - | 54 | - | 0.0% |
| Village of Bowler | 794 | 495 | 43 | 389 | 432 | 290 | 0.0% |
| <i>Direct, Proprietary, and Drinking Water Loans</i> | | | | | | | |
| Village of Adell - Onion River | 721 | 721 | - | 293 | 293 | - | - |
| Village of Adell | 566 | 566 | - | 230 | 230 | - | - |
| Village of Albany | 536 | 472 | - | 384 | 384 | - | - |
| Algoma Sanitary District #1 | 8,029 | 6,911 | - | 6,911 | 6,911 | 1,118 | - |
| City of Algoma | 5,547 | 5,432 | - | 2,440 | 2,440 | - | - |
| City of Appleton | 16,474 | 13,989 | - | 7,023 | 7,023 | - | - |
| City of Arcadia | 1,078 | 869 | - | 869 | 869 | 209 | - |
| Village of Arena | 1,486 | 1,449 | - | 1,123 | 1,123 | - | - |
| Village of Arlington | 1,662 | 1,608 | - | 1,298 | 1,298 | - | - |
| Aurora Sanitary District #1 | 15 | 15 | - | 5 | 5 | - | - |

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Outstanding Loans
September 30, 2004
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|---|--------------------------------|----------------------|----------------------------------|-----------------------|--|---------------------------------------|--|
| Village of Avoca | 359 | 344 | - | 224 | 224 | - | - |
| Village of Bagley | 229 | 218 | - | 174 | 174 | - | - |
| City of Bayfield | 276 | 212 | - | 187 | 187 | - | - |
| Village of Bayside | 1,612 | 1,342 | - | 1,342 | 1,342 | 270 | - |
| Village of Bear Creek | 432 | 387 | - | 260 | 260 | - | - |
| Village of Belgium | 3,855 | 3,838 | - | 3,525 | 3,525 | - | - |
| Town of Beloit | 956 | 843 | - | 812 | 812 | 112 | - |
| Village of Benton | 1,702 | 1,702 | - | 1,545 | 1,545 | - | - |
| Village of Black Earth | 4,278 | 4,125 | - | 3,383 | 3,383 | - | - |
| Village of Boaz | 106 | 106 | - | 42 | 42 | - | - |
| Bohner's Lake Sanitary District #1 | 8,007 | 7,857 | - | 3,441 | 3,441 | - | - |
| Brookfield Sanitary District #4 | 5,750 | 5,608 | - | 4,268 | 4,268 | - | - |
| Village of Brooklyn | 641 | 615 | - | 592 | 592 | - | - |
| Brule Sanitary District | 367 | 299 | - | 208 | 208 | - | - |
| City of Burlington | 18,488 | 17,855 | - | 7,767 | 7,767 | - | - |
| Butte des Morts Consolidated Sanitary District #1 | 2,144 | 2,144 | - | 476 | 476 | - | - |
| Calumet Sanitary District #1 | 505 | 505 | - | 46 | 46 | - | - |
| Village of Cameron | 365 | 365 | - | 349 | 349 | - | - |
| Caroline Sanitary District | 83 | 83 | - | 33 | 33 | - | - |
| Village of Cedar Grove | 577 | 573 | - | 526 | 526 | - | - |
| Christmas Mountain Sanitary District | 1,659 | 1,614 | - | 1,368 | 1,368 | - | - |
| Village of Cleveland | 3,610 | 3,452 | - | 2,240 | 2,240 | - | - |
| Village of Clinton | 4,962 | 4,877 | - | 4,288 | 4,288 | - | - |
| City of Clintonville | 1,035 | 381 | - | 381 | 381 | 655 | - |
| Cloverleaf Lakes Sanitary District #1 | 1,022 | 977 | - | 395 | 395 | - | - |
| Village of Cochrane | 454 | 441 | - | 366 | 366 | - | - |
| Consolidated S.D. No. 1 | 155 | 155 | - | 64 | 64 | - | - |
| Crestview Sanitary District | 290 | 238 | - | 210 | 210 | - | - |
| Village of Crivitz | 1,725 | 1,725 | - | 814 | 814 | - | - |
| Village of Curtiss | 157 | 36 | - | 36 | 36 | 121 | - |
| Cushing Sanitary District #1 | 116 | 116 | - | 85 | 85 | - | - |
| City of Darlington | 3,650 | 3,650 | - | 3,220 | 3,220 | - | - |
| Village of Denmark | 2,241 | 2,223 | - | 1,186 | 1,186 | - | - |
| Village of Dickeyville | 1,078 | 1,017 | - | 939 | 939 | - | - |
| Town of Dover | 1,787 | 1,507 | - | 1,450 | 1,450 | 280 | - |
| Dyckesville Sanitary District | 1,476 | 1,476 | - | 664 | 664 | - | - |
| City of Eagle River | 3,563 | 3,401 | - | 2,130 | 2,130 | - | - |
| Village of Eagle | 2,161 | 2,035 | - | 1,961 | 1,961 | 126 | - |
| Village of Eastman | 323 | 323 | - | 130 | 130 | - | - |
| Edgewood-Shangri La Sanitary District | 1,011 | 996 | - | 455 | 455 | - | - |
| Village of Egg Harbor | 508 | 504 | - | 381 | 381 | - | - |
| Elcho Sanitary District #1 | 956 | 956 | - | 633 | 633 | - | - |
| Village of Elk Mound | 350 | 349 | - | 219 | 219 | - | - |
| Village of Fairchild | 740 | 719 | - | 558 | 558 | - | - |
| Village of Fairwater | 1,554 | 1,444 | - | 1,444 | 1,444 | 110 | - |
| Village of Forestville | 585 | 552 | - | 443 | 443 | - | - |
| City of Fountain City | 451 | 399 | - | 399 | 399 | 51 | - |
| Fulton Sanitary District No. 2 | 211 | 211 | - | 200 | 200 | - | - |
| Village of Genoa City | 4,227 | 4,015 | - | 3,706 | 3,706 | 212 | - |
| Germantown Sanitary District | 34 | 34 | - | 14 | 14 | - | - |
| Gibbsville Sanitary District | 1,518 | 357 | - | 357 | 357 | 1,162 | - |
| Gordon Sanitary District #1 | 395 | 395 | - | 166 | 166 | - | - |
| Village of Gratiot | 724 | 723 | - | 694 | 694 | - | - |
| Green Valley Sanitary District #1 | 188 | 188 | - | 119 | 119 | - | - |
| Greenville Sanitary District No. 1 | 351 | 275 | - | 275 | 275 | 76 | - |
| Harmony Grove - Okee Sewerage Commission | 2,327 | 2,137 | - | 2,050 | 2,050 | 190 | - |
| City of Hartford | 13,168 | 13,081 | - | 9,701 | 9,701 | - | - |
| Hatfield Sanitary District #1 | 1,135 | 1,135 | - | 555 | 555 | - | - |
| Village of Haugen | 285 | 285 | - | 237 | 237 | - | - |
| Village of Hilbert | 2,502 | 2,496 | - | 1,622 | 1,622 | - | - |
| Village of Hingham - Onion River | 227 | 227 | - | 97 | 97 | - | - |
| Holland Sanitary District #1 | 1,380 | 1,380 | - | 1,249 | 1,249 | - | - |
| Hub-Rock Sanitary District No. 1 | 494 | 494 | - | 339 | 339 | - | - |
| Village of Ironton | 107 | 107 | - | 29 | 29 | - | - |
| Island View Sanitary District | 2,764 | 2,480 | - | 1,205 | 1,205 | - | - |
| Ithaca Sanitary District #1 | 412 | 412 | - | 280 | 280 | - | - |
| City of Juneau | 271 | 237 | - | 170 | 170 | - | - |
| Kelly Lake Sanitary District #1 | 2,439 | 2,413 | - | 2,034 | 2,034 | - | - |
| City of Kiel | 2,470 | 2,470 | - | 1,792 | 1,792 | - | - |
| Lake Como Sanitary District #1 | 4,459 | 4,459 | - | 3,121 | 3,121 | - | - |
| Lake Tomahawk Sanitary Dist #1 | 1,317 | 1,313 | - | 1,073 | 1,073 | - | - |

**State of Wisconsin Environmental Improvement Fund
Outstanding Loans
September 30, 2004
(Amounts in Thousands)**

| Municipality ^(a) | FAA Loan Amount ^(b) | Total Loan Disbursed | Leveraged Balance ^(c) | Non-Leveraged Balance | Total Outstanding Balance ^(c) | Loan Remaining to Fund ^(d) | % of Revenue Bond Payment ^(e) |
|--|--------------------------------|----------------------|----------------------------------|-----------------------|--|---------------------------------------|--|
| Village of Lannon | 2,982 | 2,982 | - | 1,909 | 1,909 | - | - |
| Lisbon Sanitary District #1 | 2,849 | 2,706 | - | 1,126 | 1,126 | - | - |
| Little Green Lake Protection & Rehab District | 1,898 | 1,734 | - | 1,528 | 1,528 | - | - |
| Little Suamico Sanitary District #1 | 622 | 603 | - | 456 | 456 | - | - |
| Village of Lomira | 1,932 | 1,784 | - | 1,078 | 1,078 | - | - |
| Village of Lyndon Station | 615 | 583 | - | 470 | 470 | - | - |
| Village of Marathon City | 1,890 | 1,853 | - | 1,494 | 1,494 | - | - |
| City of Marinette | 5,511 | 3,753 | - | 3,604 | 3,604 | 1,758 | - |
| Village of Mazomanie | 4,753 | 4,553 | - | 3,733 | 3,733 | - | - |
| Village of Menomonee Falls | 887 | 869 | - | 661 | 661 | - | - |
| Village of Milltown | 337 | 302 | - | 219 | 219 | - | - |
| City of Milwaukee - Waterworks | 19,358 | 17,559 | - | 13,745 | 13,745 | - | - |
| Morrisonville Sanitary District #1 | 278 | 278 | - | 196 | 196 | - | - |
| Village of Mount Hope | 386 | 205 | - | 205 | 205 | 182 | - |
| Village of Mukwonago | 2,514 | 2,271 | - | 1,910 | 1,910 | - | - |
| Village of Necedah | 2,937 | 2,937 | - | 2,696 | 2,696 | - | - |
| City of Nekoosa | 6,709 | 6,405 | - | 5,571 | 5,571 | 274 | - |
| Village of Nelson | 640 | 640 | - | 384 | 384 | - | - |
| City of Niagara | 181 | 181 | - | 74 | 74 | - | - |
| Village of Oakdale | 45 | 45 | - | 16 | 16 | - | - |
| Village of Oakfield | 2,200 | 2,200 | - | 2,115 | 2,115 | - | - |
| Town of Oconomowoc | 6,819 | 6,169 | - | 5,413 | 5,413 | 650 | - |
| City of Oconto Falls | 528 | 435 | - | 385 | 385 | - | - |
| City of Oconto | 3,844 | 3,725 | - | 2,242 | 2,242 | - | - |
| Ogema Sanitary District #1 | 190 | 181 | - | 92 | 92 | - | - |
| Village of Oliver | 588 | 588 | - | 409 | 409 | - | - |
| Omro Sanitary District #1 | 992 | 992 | - | 584 | 584 | - | - |
| Oneida Tribe of Indians | 1,210 | 1,210 | - | 446 | 446 | - | - |
| Village of Oregon | 7,217 | 7,073 | - | 4,216 | 4,216 | - | - |
| Orhula Sanitary District | 2,522 | 2,485 | - | 1,257 | 1,257 | - | - |
| City of Osseo | 1,575 | 1,575 | - | 1,398 | 1,398 | - | - |
| Packwaukee Sanitary Dist No. 1 | 242 | 242 | - | 183 | 183 | - | - |
| City of Park Falls | 1,469 | 1,469 | - | 1,223 | 1,223 | - | - |
| Pell Lake Sanitary District #1 | 5,917 | 5,917 | - | 4,404 | 4,404 | - | - |
| Pensaukee Sanitary District #1 | 1,279 | 1,279 | - | 808 | 808 | - | - |
| City of Pewaukee | 8,049 | 7,831 | - | 5,957 | 5,957 | - | - |
| City of Phillips | 2,233 | 2,189 | - | 1,936 | 1,936 | 45 | - |
| Pleasant Springs Sanitary District #1 | 1,029 | 934 | - | 601 | 601 | - | - |
| City of Port Washington | 3,404 | 3,404 | - | 3,043 | 3,043 | - | - |
| City of Portage | 4,341 | 4,272 | - | 3,355 | 3,355 | - | - |
| Portland Sanitary District #1 | 295 | 280 | - | 280 | 280 | 15 | - |
| Poy Sippi Sanitary District | 223 | 223 | - | 197 | 197 | - | - |
| Richmond Sanitary District #1 | 5 | 5 | - | 1 | 1 | - | - |
| Rockland Sanitary District #1 | 222 | 222 | - | 78 | 78 | - | - |
| Roxbury Sanitary District #1 | 940 | 914 | - | 728 | 728 | - | - |
| Village of Sharon | 635 | 633 | - | 562 | 562 | - | - |
| Village of Sheldon | 292 | 250 | - | 250 | 250 | 42 | - |
| Village of Sherwood | 2,711 | 2,688 | - | 2,179 | 2,179 | - | - |
| Village of South Wayne | 1,388 | 1,266 | - | 834 | 834 | - | - |
| Village of Stetsonville | 1,141 | 1,141 | - | 964 | 964 | - | - |
| Town of Summit | 7,832 | 7,695 | - | 7,101 | 7,101 | 136 | - |
| Village of Union Center | 299 | 299 | - | 252 | 252 | - | - |
| Valley Ridge Clean Water Commission | 749 | 749 | - | 296 | 296 | - | - |
| Village of Vesper | 1,724 | 612 | - | 612 | 612 | 1,112 | - |
| Wauworth County Metropolitan Sewerage District | 19,994 | 19,088 | - | 11,435 | 11,435 | - | - |
| Village of Warrens | 584 | 474 | - | 474 | 474 | 110 | - |
| City of Waukesha | 42,072 | 40,531 | - | 19,378 | 19,378 | - | - |
| Village of Wausaukee | 1,662 | 1,662 | - | 834 | 834 | - | - |
| Village of Wauzeka | 128 | 107 | - | 72 | 72 | - | - |
| Westboro Sanitary District #1 | 51 | 51 | - | 32 | 32 | - | - |
| Village of Whitelaw | 1,494 | 1,489 | - | 1,319 | 1,319 | 5 | - |
| Village of Williams Bay | 885 | 836 | - | 635 | 635 | - | - |
| Winneconne Sanitary District #3 | 2,079 | 1,985 | - | 952 | 952 | - | - |
| Village of Winneconne | 1,644 | 1,494 | - | 1,176 | 1,176 | - | - |
| City of Wisconsin Rapids | 11,670 | 11,348 | - | 5,271 | 5,271 | - | - |
| Village of Withee | 120 | 120 | - | 120 | 120 | - | - |
| Totals | \$2,042,155 | \$1,867,557 | \$584,164 | \$764,086 | \$1,348,250 | \$117,870 | 73.5% |

(a) Municipalities that have received Financial Assistance Agreements that are funded with both Leveraged Loans and Direct or Proprietary Loans are included in their entirety within the group of Leveraged Loans.

(b) The amount of financial assistance depicts only loans. Grants awarded in the aggregate amount of \$100 million are not included.

- (c) The principal balance may be less than the total amount disbursed due to repayment of loans.
- (d) “Loan Remaining to Fund” is the “FAA Loan Amount” less “Total Loan Disbursed”, except for Loans that have been closed-out or paid-off, in which case the “Loan Remaining to Fund” is zero.
- (e) Total loan repayments of outstanding Leveraged Loans (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) are shown as a percentage of total 1991 Series 1 Bonds, 1993 Series 1 and 2 Bonds, 1995 Series 1 Bonds, 1997 Series 1 Bonds, 1998 Series 1 Bonds, 1998 Series 2 Bonds, 1999 Series 1 Bonds, 2001 Series 1 Bonds, 2002 Series 1 Bonds, 2002 Series 2 Bonds, and 2004 Series 1 Bonds, less those Bonds that are defeased. Loans with amortization periods of shorter duration than the Bonds will reflect a lower comparative percentage of the Bonds’ debt service. Other revenues expected to be available for payment of the Bonds consist of Subsidy Fund transfers and repayments on Loans to be originated in the future from the remaining undisbursed 2004 Series 1 Bond proceeds.

Security and Source of Payment for Bonds; Subsidy Fund (Pages 192-193). Update with the following:

As of September 30, 2004, the Environmental Improvement Fund had purchased \$157 million of State general obligation bonds that were deposited into the Subsidy Fund, and the amortized balance was \$117 million. The State may transfer funds from the Loan Fund to the Revenue Fund to pay a portion of Debt Service on the Bonds, provided that following such transfer the Subsidy Fund Requirement is met.

Security and Source of Payment for Bonds; Loan Credit Reserve Fund (Pages 193-194). Update with the following:

On October 14, 2004, the Environmental Improvement Fund replaced certain investments in the Loan Credit Reserve Fund with a Debt Service Reserve Insurance Policy (**Surety Bond**) issued by XL Capital Assurance Inc. (**XL Capital**) in the amount of \$17 million. The Surety Bond is an asset of the Loan Credit Reserve Fund.

As of the date of this Official Statement, the amount held in the Loan Credit Reserve Fund consisted of \$59 million in cash and investments and \$17 million in the Surety Bond. This total of \$76 million exceeded the amount required on such date, which was approximately \$71 million. The cash and investments in the Loan Credit Reserve Fund consisted of the following:

- \$21 million were invested in an investment agreement with AIG Matched Funding Corp. (**AIGMFC**) with the payment obligations of AIGMFC guaranteed by American International Group, Inc., which policy does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State.
- \$6 million were invested in an investment agreement with MBIA Investment Management Corp. (**IMC**) with the payment obligations of IMC guaranteed by the MBIA Insurance Corporation, which policy does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State.
- \$8 million were invested in a collateralized investment repurchase agreement with Bayerische Landesbank Girozentrale (**Bayerische**), with the collateral held by Wells Fargo Bank, as custodian and as successor to Norwest Bank Minnesota, National Association.
- \$21 million were invested in direct obligations of the United States under three forward delivery agreements with Wachovia Bank, National Association, as successor to First Union National Bank of North Carolina (**Wachovia**).

- \$2 million were invested in a forward delivery agreement with Westduetche Landesbank Girozentrale (**West LB**).
- \$1 million were invested in a pool managed by the State of Wisconsin Investment Board.

Surety Bond

The termination date of Surety Bond is the earlier of June 1, 2024 or when all the Bonds are no longer Outstanding. The Surety Bond provides that XL Capital will unconditionally and irrevocably deposit funds with the Trustee, subject to the terms of the Surety Bond, that portion of the principal of and interest on the Bonds that is due for payment but is unpaid, but in no event exceeding the amount of Surety Bond. The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

Security and Source of Payment for Bonds; Additional Information (Page 196). Update with the following:

As of September 30, 2004, MMSD was the source of approximately 20 percent of the gross cash flow servicing the Bonds. The MMSD Comprehensive Annual Financial Report for the year ended December 31, 2003 (**MMSD CAFR**) is included by reference as part of this APPENDIX A to the Official Statement. The MMSD CAFR has been filed with each nationally recognized municipal securities information repository (**NRMSIR**) and should be consulted only with respect to MMSD. No representation is made as to the accuracy or completeness of the information included in the MMSD CAFR, or that there has been no material change since its date.

Copies of the MMSD CAFR can be obtained from:

Mark T. Kaminski, Acting Controller/Treasurer
 Milwaukee Metropolitan Sewerage District
 260 West Seeboth Street
 Milwaukee, Wisconsin 53204-1446
 (414) 225-2050
 bgraffin@mmsd.com

Information about MMSD and other Municipalities, other than the amounts of their loans and annual repayments, and the MMSD CAFR, is not made part of this Appendix A to the Official Statement, however, financial statements are required to be provided to the Clean Water Fund Program by any Municipality which has received a Direct Loan, Proprietary Loan or Leveraged Loan.

Appendix A; Audited Financial Statements (Page 228). Update with the following:

The following are the independent auditor's report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2004 and 2003, along with supplemental information as of June 30, 2004, and independent auditor's report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2004.

Financial statements present the financial position, results of operations and cash flows of the Environmental Improvement Fund for the fiscal years ended June 30, 2004 and 2003. These financial statements are not intended to predict future cash flows that will be available for the benefit of bondholders pursuant to the bond resolutions.

STATE OF WISCONSIN

ENVIRONMENTAL IMPROVEMENT FUND

**Financial Statements for the Year Ended June 30, 2004
and 2003, Supplemental Information for the Year Ended
June 30, 2004 and Independent Auditors' Report**

AND

LEVERAGED LOAN PORTFOLIO

**Financial Statements for the Year Ended
June 1, 2004 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 sheets of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin) as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2004 and 2003, and the changes in its equity and 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, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The State of Wisconsin Environmental Improvement Fund has not presented a management's discussion and analysis that, in our opinion, is required by accounting principles generally accepted in the United States of America to supplement, although not required to be part of, the financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental financial statements by program as of and for the year ended June 30, 2004 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 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

Milwaukee, Wisconsin
September 20, 2004

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**BALANCE SHEETS
JUNE 30, 2004 AND 2003**

| ASSETS | 2004 | 2003 |
|---|-------------------------------|-------------------------------|
| Current assets: | | |
| Unrestricted cash and cash equivalents | \$ 271,142,238 | \$ 197,831,763 |
| United States Treasury Notes, purchased in connection with forward delivery agreements, at cost | 23,386,431 | 23,387,581 |
| Investments - State of Wisconsin general obligation clean water bonds, at fair value | - | 7,272,995 |
| Receivables: | | |
| Loans to local governments - current portion | 84,556,978 | 76,609,436 |
| Due from other funds | 274,990 | 304,105 |
| Due from other governmental entities | 8,262,625 | 6,343,159 |
| Accrued investment income | 329,806 | 329,812 |
| Other assets | <u>3,981</u> | <u>3,943</u> |
| Total current assets | <u>387,957,049</u> | <u>312,082,794</u> |
| Noncurrent assets: | | |
| Restricted assets - cash equivalents | 68,576,666 | 64,134,609 |
| Investment, State of Wisconsin general obligation clean water bonds, at fair value | 135,016,318 | 116,321,003 |
| Loans to local governments | 1,214,028,995 | 1,119,899,653 |
| Deferred debt expense | <u>2,650,182</u> | <u>2,730,777</u> |
| Total noncurrent assets | <u>1,420,272,161</u> | <u>1,303,086,042</u> |
| TOTAL ASSETS | <u>\$1,808,229,210</u> | <u>\$1,615,168,836</u> |
| LIABILITIES AND FUND EQUITY | | |
| Current liabilities: | | |
| Accrued expenses | \$ 239,627 | \$ 143,497 |
| Accrued interest on bonds | 2,958,106 | 2,748,809 |
| Due to other funds | 1,355,109 | 1,638,002 |
| Due to other governmental entities | 187,166 | - |
| Revenue obligation bonds - current maturities | <u>39,340,000</u> | <u>37,545,000</u> |
| Total current liabilities | 44,080,008 | 42,075,308 |
| Noncurrent liabilities: | | |
| Revenue obligation bonds, net (including deferred charge) | 652,771,447 | 585,873,485 |
| Due to other governmental entities | 1,470,083 | 3,140,609 |
| Accrued expenses | <u>31,787</u> | <u>27,657</u> |
| Total noncurrent liabilities | <u>654,273,317</u> | <u>589,041,751</u> |
| Total liabilities | <u>698,353,325</u> | <u>631,117,059</u> |
| Fund equity: | | |
| Unrestricted | 30,022,385 | 30,395,446 |
| Restricted | <u>1,079,853,500</u> | <u>953,656,331</u> |
| Total fund equity | <u>1,109,875,885</u> | <u>984,051,777</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$1,808,229,210</u> | <u>\$1,615,168,836</u> |

See notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
YEARS ENDED JUNE 30, 2004 AND 2003**

| | 2004 | 2003 |
|--|------------------------|----------------------|
| OPERATING REVENUES: | | |
| Loan interest | \$ 20,686,388 | \$ 18,198,111 |
| Interest income used as security for revenue bonds | 17,143,708 | 16,586,106 |
| Other | <u>41,083</u> | <u>34,057</u> |
| Total operating revenues | <u>37,871,179</u> | <u>34,818,274</u> |
| OPERATING EXPENSES: | | |
| Interest | 34,527,086 | 34,646,398 |
| Salaries and benefits | 5,016,264 | 4,533,108 |
| Contractual services and other | <u>1,636,767</u> | <u>1,960,322</u> |
| Total operating expenses | <u>41,180,117</u> | <u>41,139,828</u> |
| OPERATING LOSS | <u>(3,308,938)</u> | <u>(6,321,554)</u> |
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment income | 1,661,164 | 1,967,835 |
| Investment income used as security for revenue bonds | 3,723,382 | 23,366,386 |
| Operating grants | 92,588,682 | 78,000,825 |
| Hardship grants awarded | <u>(1,065,392)</u> | <u>(1,424,756)</u> |
| Total nonoperating revenues, net | <u>96,907,836</u> | <u>101,910,290</u> |
| INCOME BEFORE OPERATING TRANSFERS | 93,598,898 | 95,588,736 |
| Operating Transfers in | <u>32,225,210</u> | <u>26,731,460</u> |
| INCREASE IN FUND EQUITY | 125,824,108 | 122,320,196 |
| TOTAL FUND EQUITY - BEGINNING OF YEAR | <u>984,051,777</u> | <u>861,731,581</u> |
| TOTAL FUND EQUITY - END OF YEAR | <u>\$1,109,875,885</u> | <u>\$984,051,777</u> |

See notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003**

| | 2004 | 2003 |
|---|-----------------------|-----------------------|
| OPERATING ACTIVITIES: | | |
| Payments to employees for services | \$ (4,151,899) | \$ (5,434,664) |
| Payments to suppliers and other | <u>(2,740,580)</u> | <u>(1,167,196)</u> |
| Net cash used in operations | <u>(6,892,479)</u> | <u>(6,601,860)</u> |
| NONCAPITAL FINANCING ACTIVITIES: | | |
| Operating grants received | 91,195,049 | 77,644,098 |
| Grants paid | (1,065,392) | (1,424,756) |
| Operating transfers in | 32,225,210 | 26,731,460 |
| Proceeds from issuance of long-term debt | 123,164,771 | 92,265,549 |
| Refunding bond proceeds deposited in irrevocable trust | - | (92,043,814) |
| Retirement of long-term debt | (54,340,000) | (36,405,000) |
| Interest payments | <u>(34,317,789)</u> | <u>(34,443,104)</u> |
| Net cash provided by noncapital financing activities | <u>156,861,849</u> | <u>32,324,433</u> |
| INVESTING ACTIVITIES: | | |
| Origination of loans | (181,386,392) | (185,553,315) |
| Collection of loans | 79,309,508 | 72,367,388 |
| Interest received on loans | 37,366,550 | 34,623,159 |
| Purchase of investments | (66,773,252) | (58,774,595) |
| Liquidation of investments | 50,020,893 | 54,421,598 |
| Increase in restricted cash equivalents | (4,442,057) | (5,231,315) |
| Investment income receipts | <u>9,245,855</u> | <u>15,567,854</u> |
| Net cash used in investing activities | <u>(76,658,895)</u> | <u>(72,579,226)</u> |
| Net increase (decrease) in unrestricted cash and cash equivalents | 73,310,475 | (46,856,653) |
| UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>197,831,763</u> | <u>244,688,416</u> |
| UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 271,142,238</u> | <u>\$ 197,831,763</u> |

(Continued)

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003**

| | 2004 | 2003 |
|--|-----------------------|-----------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATION: | | |
| Operating loss | <u>\$ (3,308,938)</u> | <u>\$ (6,321,554)</u> |
| ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATIONS: | | |
| Amortization | 136,715 | 579,631 |
| Interest income classified as investing activity | (37,830,095) | (34,784,217) |
| Interest expense classified as noncapital financing activity | 34,181,075 | 34,300,441 |
| Changes in assets and liabilities: | | |
| Increase in other assets | (38) | (408) |
| Increase in deferred charges | (113,503) | (127,710) |
| Increase (decrease) in due from other funds | 29,115 | (51,089) |
| Increase (decrease) in accrued expenses | 100,260 | (1,220) |
| Increase (decrease) in accrued interest on bonds | 209,297 | (233,675) |
| Increase (decrease) in due to other governmental entities | (13,474) | 44,444 |
| Decrease in due to other funds | <u>(282,893)</u> | <u>(6,503)</u> |
| Total adjustments | <u>(3,583,541)</u> | <u>(280,306)</u> |
| NET CASH USED IN OPERATIONS | <u>\$ (6,892,479)</u> | <u>\$ (6,601,860)</u> |

(Concluded)

See notes to financial statements.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2004 AND 2003

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Fund was established with the adoption of the 1997-1999 State of Wisconsin budget. The Fund replaced the Clean Water Fund Program and expanded loan activity to include drinking water system loans and brownfield loans. The Fund provides for three separate environmental financing programs: the Clean Water Fund Program, the Safe Drinking Water Loan Program, and the Land Recycling Loan Program.

The Clean Water Fund Program was established in 1990 and provides financial assistance to municipalities at subsidized interest rates for the purpose of constructing or improving municipal wastewater facilities. The Safe Drinking Water Loan Program was established in 1997 and provides municipal loans for the construction or repair of municipal drinking water facilities. The following four loan portfolios comprise the Environmental Improvement Fund:

- **Leveraged Loan Portfolio**—This portfolio is funded by proceeds of revenue obligation bonds and operating transfers from the State. Assets in this portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements of the Clean Water Fund Program.
- **Direct Loan Portfolio**—This portfolio is funded by the U.S. Environmental Protection Agency (the “EPA”) grants and operating transfers from the State (i.e., a minimum 20% match of EPA capitalization grant). Repayments from loans in this portfolio are also used to fund new loans. Loans in this portfolio are made for wastewater projects that comply with EPA eligibility and reporting requirements of the Clean Water Fund Program.
- **Proprietary Loan/Grant Portfolio**—This portfolio is funded by operating transfers from the State. Assets of this portfolio are used to fund both loans and hardship grants for qualifying wastewater projects. Repayments from loans in this portfolio may be used to fund new loans or hardship grants under the Clean Water Fund Program.
- **Drinking Water Loan Portfolio**—This portfolio is funded by the EPA grants and operating transfers from the State (the State is required to match a minimum of 20% of EPA grants). Repayments from loans in this portfolio may be used to fund new loans. Loans in this portfolio are made for drinking water projects that comply with EPA eligibility and reporting requirements under the Safe Drinking Water Loan Program.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. There have been seven loans granted under this program for a total of \$11,666,140. As of

June 30, 2004 the total amount drawn on these loans was \$9,530,021. The Land Recycling Program loans are included in the Clean Water Fund Program - Direct Loan Portfolio for reporting purposes.

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 Losses—The Fund incurred net operating losses of \$3.3 million and \$6.3 million in 2004 and 2003, 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 \$92.6 million and \$78.0 million in 2004 and 2003, respectively, and are classified as operating grants. Operating transfers from the State of Wisconsin were approximately \$32.2 million and \$26.7 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, 2004 and 2003 and records the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4). The securities mature on November 30, 2004.

GASB Statement No. 31 (GASB 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The three forward delivery agreements with Wachovia Bank, NA (“Wachovia”) and one forward delivery agreement with Westdeutsche Landesbank Girozentral (“WestLB”) described in Note 4 would be considered participating investment contracts under GASB 31. At June 30, 2004, 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, 2004 and 2003, the fair value of the Fund’s interest in these three agreements exceeded the cost of the treasury securities owned by approximately \$1.0 million and \$3.4 million, respectively.

Investments—Investments that are stated at fair value include the State of Wisconsin Investment Board Local Government Investment Pool (see Note 3) and the State of Wisconsin General Obligation Clean Water Bonds (see Note 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 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 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 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.

Fund Equity—Fund equity is classified as either restricted or unrestricted based on the presence or absence of restrictions.

Revenue Recognition—Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expenditure occurs and include \$92.6 million and \$78.0 million of EPA contributions in 2004 and 2003, respectively.

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

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

Future Accounting Pronouncement—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. GASB Statement No. 40 is effective for fiscal periods beginning after June 15, 2004 and establishes and modifies disclosure requirements related to investment and deposit risks (including credit risk, interest rate risk and foreign currency risk). The adoption of this statement in fiscal 2005 is not expected to have a material impact on the Fund’s financial statements.

Reclassifications—Certain reclassifications were made to the 2003 amounts in order to conform with the 2004 presentation.

2. LOANS TO LOCAL GOVERNMENTS

Loans to local governments at June 30, 2004 and 2003, 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 operating transfers. Interest rates on loans receivable ranged from 0% to 5.8% in both 2004 and 2003. The weighted average interest rate was 2.94% and 2.98% at June 30, 2004 and 2003, 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, 2004, all loans were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2004 and 2003, \$350,509,979 and \$312,177,019 (27% and 26%), 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 have made additional financial assistance commitments of \$133,321,034 as of June 30, 2004. From July 1, 2004 to September 20, 2004, the Fund made loan disbursements of \$26,603,885 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, 2004 and 2003, cash and cash equivalents consisted of the following:

| | 2004 | 2003 |
|---|-----------------------|-----------------------|
| State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP"), at fair value | \$ 304,028,621 | \$ 226,276,089 |
| 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 | <u>21,842,081</u> | <u>21,842,081</u> |
| | 339,718,904 | 261,966,372 |
| Less - Amounts classified as restricted assets (see Note 5) | <u>(68,576,666)</u> | <u>(64,134,609)</u> |
| Total unrestricted cash and cash equivalents | <u>\$ 271,142,238</u> | <u>\$ 197,831,763</u> |

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to

provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a Securities and Exchange Commission (“SEC”) registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2004, the current yield on the LGIP was 0.98%. The LGIP investment is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 30, 2004, the investment had a market value of \$6,890,086 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, 2004, the agreement had a market value of \$26,738,444 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, 2004, the repurchase agreement had a market value of \$8,653,157. 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 Wachovia and one is with WestLB 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, and 1999 Series 1 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wachovia and WestLB are required to deliver United States Treasury securities (“Treasury securities”) to the Fund for purchase. The Treasury securities are held as investments by the Fund. The price paid by the Fund for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The Wachovia agreements may be terminated at the option of the Fund and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination. Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Fund to Wachovia. If the agreements were terminated at a time when a payment would be due to Wachovia, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

The agreement with WestLB was amended effective December 10, 2002 to modify the termination provision. Other than a default by any of the parties to the agreement, the agreement may only be terminated on the last scheduled bond payment date for the 1993 Series 1 bonds which is June 1, 2013.

By GASB 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, 2004, are as follows:

| | Par Value of Treasuries | Coupon Rate of Treasuries | Cost of Treasuries | Agreement Interest Rate | Agreement Maturity Date | Agreement Market Value |
|-------------------------|----------------------------|---------------------------------|-----------------------|-------------------------------|----------------------------|---------------------------|
| Series 1997-1 Agreement | \$ 7,116,000 | 2.00 % | \$ 6,992,011 | 5.58 % | June 1, 2017 | \$ 7,284,311 |
| Series 1998-1 Agreement | 7,401,000 | 2.00 | 7,292,215 | 5.01 | June 1, 2018 | 7,190,650 |
| Series 1993-1 Agreement | 2,219,000 | 2.00 | 2,184,182 | 5.22 | June 1, 2013 | 2,253,813 |
| Series 1999-1 Agreement | 7,066,000 | 2.00 | 6,918,023 | 6.32 | June 1, 2020 | 7,737,553 |

5. REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

Revenue obligation serial and term bonds as of June 30, 2004 and 2003, consisted of the following:

| | 2004 | 2003 |
|--|-------------------|-------------------|
| 1991 Series 1: | | |
| Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011 | \$ 57,445,000 | \$ 57,445,000 |
| Unamortized discount on bonds | <u>(156,575)</u> | <u>(177,330)</u> |
| | <u>57,288,425</u> | <u>57,267,670</u> |
| 1993 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004 | - | 4,480,000 |
| Unamortized discount on bonds | <u>-</u> | <u>(5,949)</u> |
| | <u>-</u> | <u>4,474,051</u> |
| 1993 Series 2: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004 | 45,035,000 | 75,440,000 |
| Unamortized premium on bonds | <u>662,675</u> | <u>799,103</u> |
| | <u>45,697,675</u> | <u>76,239,103</u> |
| 1995 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2006 | 4,365,000 | 8,475,000 |
| Unamortized premium on bonds | <u>44,158</u> | <u>135,303</u> |
| | <u>4,409,158</u> | <u>8,610,303</u> |
| 1997 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008 | 10,915,000 | 14,205,000 |
| Unamortized premium on bonds | <u>177,246</u> | <u>252,998</u> |
| | <u>11,092,246</u> | <u>14,457,998</u> |

| | 2004 | 2003 |
|---|-----------------------|-----------------------|
| 1998 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008 | \$ 65,780,000 | \$ 69,335,000 |
| Unamortized (discount) premium on bonds | <u>(28,543)</u> | <u>75,075</u> |
| | <u>65,751,457</u> | <u>69,410,075</u> |
| 1998 Series 2: | | |
| Serial Bonds, no optional redemption | 90,400,000 | 90,400,000 |
| Unamortized premium on bonds | <u>4,668,245</u> | <u>5,146,615</u> |
| | <u>95,068,245</u> | <u>95,546,615</u> |
| 1999 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009 | 50,740,000 | 53,570,000 |
| Unamortized discount on bonds | <u>(101,555)</u> | <u>(79,870)</u> |
| | <u>50,638,445</u> | <u>53,490,130</u> |
| 2001 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011 | 62,825,000 | 65,300,000 |
| Unamortized premium on bonds | <u>554,754</u> | <u>678,935</u> |
| | <u>63,379,754</u> | <u>65,978,935</u> |
| 2002 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012 | 94,295,000 | 97,250,000 |
| Unamortized premium on bonds | <u>1,580,395</u> | <u>1,951,877</u> |
| | <u>95,875,395</u> | <u>99,201,877</u> |
| 2002 Series 2: | | |
| Serial Bonds, no optional redemption | 84,340,000 | 84,580,000 |
| Unamortized premium on bonds | <u>5,293,402</u> | <u>6,372,258</u> |
| | <u>89,633,402</u> | <u>90,952,258</u> |
| 2004 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% par, June 1, 2014 | 116,795,000 | - |
| Unamortized premium on bonds | <u>6,406,937</u> | <u>-</u> |
| | <u>123,201,937</u> | <u>-</u> |
| Total of all series | 702,036,139 | 635,629,015 |
| Unamortized deferred charge related to debt defeasance (Note 6) | <u>(9,924,692)</u> | <u>(12,210,530)</u> |
| Revenue obligation bonds, net of deferred charge | <u>\$ 692,111,447</u> | <u>\$ 623,418,485</u> |

The original issue discount or premium at issuance and the weighted average yield (excluding issuance costs) at June 30, 2004, on the following bond series were:

| Series | Original Issue Discount/(Premium) | Weighted Average Yield |
|---------------|--------------------------------------|------------------------------|
| 1991 Series 1 | \$ 1,366,407 | 6.88 % |
| 1993 Series 2 | (2,349,253) | 5.50 |
| 1995 Series 1 | (1,253,936) | 6.25 |
| 1997 Series 1 | (288,312) | 5.76 |
| 1998 Series 1 | (811,362) | 4.82 |
| 1998 Series 2 | (7,739,808) | 5.44 |
| 1999 Series 1 | (58,061) | 5.36 |
| 2001 Series 1 | (1,022,362) | 4.90 |
| 2002 Series 1 | (2,426,001) | 5.07 |
| 2002 Series 2 | (7,344,300) | 5.03 |
| 2004 Series 1 | (6,632,300) | 4.45 |

Principal maturities of the bonds, net of advance refundings, as of June 30, 2004, are as follows:

| Year Ending June 30, | 1991 Series 1 | 1993 Series 2 | 1995 Series 1 | 1997 Series 1 | 1998 Series 1 |
|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 2005 | | \$14,255,000 | \$ 4,365,000 | \$ 3,445,000 | \$ 3,705,000 |
| 2006 | | 14,935,000 | | 3,625,000 | 3,865,000 |
| 2007 | | 15,845,000 | | 3,845,000 | 4,035,000 |
| 2008 | | | | | 4,210,000 |
| 2009 | \$17,890,000 | | | | 4,400,000 |
| 2010-2024 | <u>39,555,000</u> | | | | <u>45,565,000</u> |
| | <u>\$57,445,000</u> | <u>\$45,035,000</u> | <u>\$ 4,365,000</u> | <u>\$10,915,000</u> | <u>\$65,780,000</u> |

| Years Ending June 30, | 1998 Series 2 | 1999 Series 1 | 2001 Series 1 | 2002 Series 1 | 2002 Series 2 | 2004 Series 1 |
|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| 2005 | | \$ 2,955,000 | \$ 2,570,000 | \$ 3,105,000 | \$ 4,940,000 | \$ 0 |
| 2006 | | 3,085,000 | 2,665,000 | 3,255,000 | 9,825,000 | 3,520,000 |
| 2007 | | 3,225,000 | 2,770,000 | 3,420,000 | 10,315,000 | 3,630,000 |
| 2008 | | 3,375,000 | 2,885,000 | 3,585,000 | 14,915,000 | 20,570,000 |
| 2009 | \$10,950,000 | 3,535,000 | 3,005,000 | 3,765,000 | 4,600,000 | 3,925,000 |
| 2010-2024 | <u>79,450,000</u> | <u>34,565,000</u> | <u>48,930,000</u> | <u>77,165,000</u> | <u>39,745,000</u> | <u>85,150,000</u> |
| | <u>\$90,400,000</u> | <u>\$50,740,000</u> | <u>\$62,825,000</u> | <u>\$94,295,000</u> | <u>\$84,340,000</u> | <u>\$ 116,795,000</u> |

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2004 and 2003, the total assets of the Leveraged Loan Portfolio were \$868,903,622 and \$797,205,965, 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 sheets

consist of substantially all of the MBIA, AIG, Bayerische Landesbank investments (Note 3) and \$15 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

6. ADVANCE REFUNDING

In 1993, the Fund defeased a portion of its 1991 Series 1 bonds through the issuance of 1993 Series 2 Refunding Bonds. The proceeds from the 1993 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2004, and June 30, 2003, there was \$45,035,000 and \$75,440,000 respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of \$104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2004, and 2003, there was \$90,400,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2002, the Fund defeased a portion of its 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 bonds through the issuance of \$85,575,000 of 2002 Series 2 Refunding Bonds. The proceeds from the 2002 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2004 and 2003, there was \$84,340,000 and \$86,095,000, respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

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 2004 operating transfers in consist of \$38,320,000 of contributions offset by \$6,000,000 returned to the State of Wisconsin. Fiscal 2003 operating transfers in consist of \$32,800,000 of contributions offset by \$6,000,000 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 2005.

Using cash contributed by the State, the Fund owned \$100,087,179 (par value) of State of Wisconsin General Obligation Bonds at June 30, 2003 (\$34,921,660 of Clean Water Fund Series 1 Bonds of 1991, \$3,159,384 of Clean Water Fund Series 1 Bonds of 1993, \$14,854,047 of Clean Water Fund Series 1 Bonds of 1994, \$3,585,234 of Clean Water Fund Series 1 Bonds of 1995, \$4,003,116 of Clean Water Fund Series 1 Bonds of 1996, \$7,561,763 of Clean Water Fund Series 1 Bonds of 1997, \$4,221,538 of Clean Water Fund Series 1 Bonds of 1998, \$4,155,000 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, \$3,375,000 of Clean Water Fund Series B Bonds of 2001, \$10,750,437 of Clean Water Fund Series A Bonds of 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. 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:

| | <u>Fair Value</u> | <u>Weighted Average Interest Rate</u> |
|---------------|----------------------|---|
| | 2003 | 2003 |
| 1991 Series 1 | \$ 45,008,253 | 9.5 % |
| 1993 Series 1 | 3,933,158 | 8.3 |
| 1994 Series 1 | 17,663,579 | 6.9 |
| 1995 Series 1 | 4,418,428 | 7.5 |
| 1996 Series 1 | 4,794,382 | 7.5 |
| 1997 Series 1 | 9,436,190 | 7.6 |
| 1998 Series 1 | 4,969,263 | 6.4 |
| 1999 Series A | 5,326,381 | 7.7 |
| 2000 Series A | 6,300,730 | 7.7 |
| 2001 Series A | 6,300,731 | 7.7 |
| 2001 Series B | 3,856,015 | 6.1 |
| 2002 Series A | <u>11,586,888</u> | 4.4 |
| Total | <u>\$123,593,998</u> | |

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for \$116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program ("Global Certificate"). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2004 is \$135,016,318 and 6.1%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee. By GASB Statement No. 3 definition these securities are classified as category one (insured or registered securities held by the Fund's agent in the Fund's name).

Principal maturities of the Global Certificate as of June 30, 2004 are as follows:

| Years Ending June 30, | 2004 Series 1 |
|--------------------------------------|--------------------------|
| 2005 | \$ - |
| 2006 | - |
| 2007 | - |
| 2008 | - |
| 2009 | 15,244,072 |
| 2010 - 2020 | <u>101,596,617</u> |
| | <u>\$116,840,689</u> |

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, 2004 and 2003:

| | 2004 | 2003 |
|--|---------------------|---------------------|
| Interest: | | |
| State of Wisconsin Investment Board Local Government Investment Pool | \$ 2,385,215 | \$ 3,873,085 |
| MBIA Guaranteed Investment Agreement | 387,518 | 387,518 |
| Repurchase Agreement with Bayerische Landesbank | 493,864 | 493,864 |
| AIG Guaranteed Investment Agreement | 1,769,209 | 1,769,209 |
| United States Treasury Notes | 1,307,172 | 1,307,148 |
| State of Wisconsin General Obligation Bonds | <u>7,939,971</u> | <u>8,025,730</u> |
| Total interest | 14,282,949 | 15,856,554 |
| Changes in Unrealized Gains (Losses): | | |
| State of Wisconsin Investment Board Local Government Investment Pool | 49,091 | (186,482) |
| State of Wisconsin General Obligation Bonds | <u>(9,394,793)</u> | <u>10,190,659</u> |
| Total changes in unrealized gains (losses) | <u>(9,345,702)</u> | <u>10,004,177</u> |
| Total interest and changes in unrealized gains (losses) | 4,937,247 | 25,860,731 |
| Change in Estimated Rebtable Arbitrage Liability | <u>447,299</u> | <u>(526,510)</u> |
| TOTAL INVESTMENT INCOME | <u>\$ 5,384,546</u> | <u>\$25,334,221</u> |

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, 2004 and 2003, were \$5,841,297 and \$5,122,350, respectively. The Fund allocates DNR and DOA expenses to the Direct Loan Portfolio, the Proprietary Loan/Grant Portfolio, the Drinking Water Loan Portfolio and the Leveraged Loan Portfolio.

The following details total salaries and benefits by agency for the fiscal years ended June 30, 2004 and 2003:

| | 2004 | 2003 |
|-----|--------------------|--------------------|
| DNR | \$4,451,092 | \$3,984,701 |
| DOA | <u>565,172</u> | <u>548,407</u> |
| | <u>\$5,016,264</u> | <u>\$4,533,108</u> |

10. OPERATING GRANTS AND HARDSHIP GRANTS

EPA Operating Grants for Wastewater Projects—The Federal Water Quality Act of 1987 (the “Water Quality Act”) established a joint Federal and state program with the EPA to assist in providing financial assistance to municipalities within the states for governmentally owned wastewater treatment projects. Under the terms of the EPA grant, the State was required (1) to establish the Clean Water Fund Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmental owned wastewater treatment projects in a number of ways, provided that such assistance is not in the form of a grant. Reauthorization of the Water Quality Act of 1987 is not expected to be acted upon by the present Congress of the United States, although the allocation of capitalization grants to states is expected to result in a grant to Wisconsin of approximately \$35.8 million for federal fiscal year 2004. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2004 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 2004 and a grant to Wisconsin of approximately \$16.4 million is expected for federal fiscal year 2004. 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 2004 and 2003, the Fund expended hardship grants of \$1,065,392 and \$1,424,756, respectively. At June 30, 2003, the Fund had committed to award \$369,441 of additional hardship grants. At June 30, 2004, the Fund was not committed to award any additional hardship grants.

* * * * *

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**BALANCE SHEET BY PROGRAM
JUNE 30, 2004**

| ASSETS | Clean Water Fund Program | | | Safe Drinking Water Loan Program | Eliminations | Total |
|---|--------------------------|-----------------------|--------------------------|----------------------------------|-----------------------|-------------------------|
| | Direct Loan Portfolio | Proprietary Portfolio | Leveraged Loan Portfolio | | | |
| Current assets: | | | | | | |
| Unrestricted cash and cash equivalents | \$ 126,608,936 | \$ 18,859,409 | \$ 77,115,423 | \$ 48,558,470 | | \$ 271,142,238 |
| United States Treasury Notes, purchased in connection with forward delivery agreements, at cost | | | 23,386,431 | | | 23,386,431 |
| Investments - State of Wisconsin general obligation clean water bonds, at fair value | | | - | | | - |
| Receivables: | | | | | | |
| Loans to local government - current portion | 38,480,916 | 1,496,258 | 39,649,398 | 4,930,406 | | 84,556,978 |
| Due from other funds | - | 2,303,410 | - | - | \$ (2,028,420) | 274,990 |
| Due from other governmental entities | 4,440,573 | 71,366 | 2,716,512 | 1,034,174 | | 8,262,625 |
| Accrued investment income | - | - | 329,806 | - | | 329,806 |
| Other assets | - | 3,981 | - | - | | 3,981 |
| Total current assets | 169,530,425 | 22,734,424 | 143,197,570 | 54,523,050 | (2,028,420) | 387,957,049 |
| Noncurrent assets: | | | | | | |
| Restricted assets - cash equivalents | | | 68,576,666 | | | 68,576,666 |
| Investment, State of Wisconsin general obligation clean water bonds, at fair value | | | 135,016,318 | | | 135,016,318 |
| Loans to local governments | 587,222,170 | 18,203,852 | 519,462,885 | 89,140,088 | | 1,214,028,995 |
| Deferred debt expense | - | - | 2,650,182 | - | | 2,650,182 |
| Total noncurrent assets | 587,222,170 | 18,203,852 | 725,706,051 | 89,140,088 | - | 1,420,272,161 |
| TOTAL ASSETS | <u>\$ 756,752,595</u> | <u>\$ 40,938,276</u> | <u>\$ 868,903,621</u> | <u>\$ 143,663,138</u> | <u>\$ (2,028,420)</u> | <u>\$ 1,808,229,210</u> |

(Continued)

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**BALANCE SHEET BY PROGRAM
JUNE 30, 2004**

| LIABILITIES AND NET ASSETS | Clean Water Fund Program | | | Safe Drinking Water Loan Program | Eliminations | Total |
|---|--------------------------|-----------------------|--------------------------|----------------------------------|-----------------------|-------------------------|
| | Direct Loan Portfolio | Proprietary Portfolio | Leveraged Loan Portfolio | | | |
| Current liabilities: | | | | | | |
| Accrued expenses | \$ 16,959 | \$ 75,634 | \$ - | \$ 147,034 | \$ - | \$ 239,627 |
| Accrued interest on bonds | - | - | 2,958,106 | - | - | 2,958,106 |
| Due to other funds | 492,917 | 781,021 | 2,028,420 | 81,171 | (2,028,420) | 1,355,109 |
| Due to other governmental entities | - | - | 187,166 | - | - | 187,166 |
| Revenue obligation bonds - current maturities | - | - | 39,340,000 | - | - | 39,340,000 |
| Total current liabilities | 509,876 | 856,655 | 44,513,692 | 228,205 | (2,028,420) | 44,080,008 |
| Noncurrent liabilities: | | | | | | |
| Revenue obligation bonds, net (including deferred charge) | - | - | 652,771,447 | - | - | 652,771,447 |
| Due to other governmental entities | - | - | 1,438,763 | 31,320 | - | 1,470,083 |
| Accrued expenses | - | 31,787 | - | - | - | 31,787 |
| Total noncurrent liabilities | - | 31,787 | 654,210,210 | 31,320 | - | 654,273,317 |
| Total liabilities | 509,876 | 888,442 | 698,723,902 | 259,525 | (2,028,420) | 698,353,325 |
| Fund equity: | | | | | | |
| Unrestricted | - | 30,022,385 | - | - | - | 30,022,385 |
| Restricted | 756,242,719 | 10,027,449 | 170,179,719 | 143,403,613 | - | 1,079,853,500 |
| Total fund equity | 756,242,719 | 40,049,834 | 170,179,719 | 143,403,613 | - | 1,109,875,885 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 756,752,595 | \$ 40,938,276 | \$ 868,903,621 | \$ 143,663,138 | \$ (2,028,420) | \$ 1,808,229,210 |

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY BY PROGRAM
YEAR ENDED JUNE 30, 2004**

| | <u>Clean Water Fund Program</u> | | | <u>Safe Drinking Water Loan Program</u> | <u>Eliminations</u> | <u>Total</u> |
|--|----------------------------------|----------------------------------|---|---|---------------------|------------------------|
| | <u>Direct Loan Portfolio</u> | <u>Proprietary Portfolio</u> | <u>Leveraged Loan Portfolio</u> | | | |
| OPERATING REVENUES: | | | | | | |
| Loan interest | \$ 18,114,199 | \$ 468,219 | | \$ 2,103,970 | \$ | \$ 20,686,388 |
| Interest income used as security for revenue bonds | | | \$ 17,143,708 | | | 17,143,708 |
| Others | | <u>41,082</u> | <u>1</u> | | | <u>41,083</u> |
| Total operating revenues | <u>18,114,199</u> | <u>509,301</u> | <u>17,143,709</u> | <u>2,103,970</u> | | <u>37,871,179</u> |
| OPERATING EXPENSES: | | | | | | |
| Interest | | | 34,527,086 | | | 34,527,086 |
| Salaries and benefits | 1,662,336 | 386,509 | 1,546,038 | 1,421,381 | | 5,016,264 |
| Contractual services and other | <u>55,617</u> | <u>120,596</u> | <u>541,744</u> | <u>918,810</u> | | <u>1,636,767</u> |
| Total operating expenses | <u>1,717,953</u> | <u>507,105</u> | <u>36,614,868</u> | <u>2,340,191</u> | | <u>41,180,117</u> |
| OPERATING INCOME (LOSS) | <u>16,396,246</u> | <u>2,196</u> | <u>(19,471,159)</u> | <u>(236,221)</u> | | <u>(3,308,938)</u> |
| NONOPERATING REVENUES (EXPENSES): | | | | | | |
| Investment income | 70,429 | 661,204 | 1,954 | 927,577 | | 1,661,164 |
| Investment income used as security for revenue bonds | | | 3,723,382 | | | 3,723,382 |
| Operating grants | 77,641,254 | | | 14,947,428 | | 92,588,682 |
| Hardship grants awarded | <u>(123,720)</u> | <u>(941,672)</u> | | | | <u>(1,065,392)</u> |
| Total nonoperating revenues, net | <u>77,587,963</u> | <u>(280,468)</u> | <u>3,725,336</u> | <u>15,875,005</u> | | <u>96,907,836</u> |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS | 93,984,209 | (278,272) | (15,745,823) | 15,638,784 | | 93,598,898 |
| Operating transfers in (out) | <u>9,218,740</u> | <u>(313,530)</u> | <u>20,000,000</u> | <u>3,320,000</u> | | <u>32,225,210</u> |
| INCREASE (DECREASE) IN NET FUND EQUITY | 103,202,949 | (591,802) | 4,254,177 | 18,958,784 | | 125,824,108 |
| FUND EQUITY, BEGINNING OF YEAR | <u>652,248,615</u> | <u>40,972,965</u> | <u>165,925,542</u> | <u>124,904,655</u> | | <u>984,051,777</u> |
| FUND EQUITY, END OF YEAR | <u>\$755,451,564</u> | <u>\$40,381,163</u> | <u>\$170,179,719</u> | <u>\$143,863,439</u> | <u>\$</u> | <u>\$1,109,875,885</u> |

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**STATEMENT OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2004**

| | <u>Clean Water Fund Program</u> | | | <u>Safe Drinking Water Loan Program</u> | <u>Eliminations</u> | <u>Total</u> |
|---|----------------------------------|----------------------------------|---|---|---------------------|-----------------------|
| | <u>Direct Loan Portfolio</u> | <u>Proprietary Portfolio</u> | <u>Leveraged Loan Portfolio</u> | | | |
| OPERATING ACTIVITIES: | | | | | | |
| Payments to employees for services | \$ (1,156,522) | \$ (1,105,758) | \$ (520,762) | \$ (1,368,857) | \$ | \$ (4,151,899) |
| Payments to suppliers and other | <u>(55,617)</u> | <u>(122,992)</u> | <u>(1,669,415)</u> | <u>(892,556)</u> | | <u>(2,740,580)</u> |
| Net cash used in operations | (1,212,139) | (1,228,750) | (2,190,177) | (2,261,413) | | (6,892,479) |
| NONCAPITAL FINANCING ACTIVITIES: | | | | | | |
| Operating grants received | 76,208,114 | | | 14,924,646 | | 91,132,760 |
| Grants paid | (123,720) | (941,672) | | | | (1,065,392) |
| Operating transfers in | 9,218,740 | (313,530) | 20,000,000 | 3,320,000 | | 32,225,210 |
| Proceeds from issuance of long-term debt | | | 123,164,771 | | | 123,164,771 |
| Retirement of long-term debt | | | (54,340,000) | | | (54,340,000) |
| Interest payments | | | <u>(34,255,500)</u> | | | <u>(34,255,500)</u> |
| Net cash provided by (used in) noncapital financing activities | 85,303,134 | (1,255,202) | 54,569,271 | 18,244,646 | | 156,861,849 |
| INVESTING ACTIVITIES: | | | | | | |
| Origination of loans | (101,992,687) | (1,084,362) | (54,786,628) | (23,522,715) | | (181,386,392) |
| Collection of loans | 35,989,195 | 1,553,613 | 37,704,337 | 4,062,364 | | 79,309,509 |
| Interest received on loans | 17,750,489 | 472,015 | 17,122,017 | 2,022,029 | | 37,366,550 |
| Purchase of investments | | | (66,773,252) | | | (66,773,252) |
| Liquidation of investments | | | 50,020,893 | | | 50,020,893 |
| Increase in restricted cash equivalents | | | (4,442,058) | | | (4,442,058) |
| Investment income receipts | <u>861,584</u> | <u>329,875</u> | <u>7,586,645</u> | <u>467,751</u> | | <u>9,245,855</u> |
| Net cash provided by (used in) investing activities | <u>(47,391,419)</u> | <u>1,271,141</u> | <u>(13,568,046)</u> | <u>(16,970,571)</u> | | <u>(76,658,895)</u> |
| Net increase (decrease) in unrestricted cash and cash equivalents | 36,699,576 | (1,212,811) | 38,811,048 | (987,338) | | 73,310,475 |
| UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>89,909,360</u> | <u>20,072,220</u> | <u>38,304,375</u> | <u>49,545,808</u> | | <u>197,831,763</u> |
| UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 126,608,936</u> | <u>\$ 18,859,409</u> | <u>\$ 77,115,423</u> | <u>\$ 48,558,470</u> | <u>\$</u> | <u>\$ 271,142,238</u> |

(Continued)

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

**STATEMENT OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2004**

| | <u>Clean Water Fund Program</u> | | | Safe Drinking Water Loan 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) | \$ 16,396,246 | \$ 2,196 | \$ (19,471,159) | \$ (236,221) | \$ _____ | \$ (3,308,938) |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATIONS: | | | | | | |
| Amortization | | | 136,715 | | | 136,715 |
| Interest income classified as investing activity | (18,114,199) | (468,217) | (17,143,709) | (2,103,970) | | (37,830,095) |
| Interest expense classified as noncapital financing activity | | | 34,181,075 | | | 34,181,075 |
| Changes in assets and liabilities: | | | | | | |
| Increase in other assets | | (38) | | | | (38) |
| (Increase) in deferred charges | | | (113,503) | | | (113,503) |
| (Increase) in due from other funds | | 18,008 | | | 11,107 | 29,115 |
| Increase in accrued expenses | 13,365 | (10,337) | | 97,232 | | 100,260 |
| Increase in accrued interest on bonds | | | 209,297 | | | 209,297 |
| Increase in due to other government entities | | | | (13,474) | | (13,474) |
| Increase (decrease) in due to other funds | 492,449 | (770,362) | 11,107 | (4,980) | (11,107) | (282,893) |
| Total adjustments | (17,608,385) | (1,230,946) | 17,280,982 | (2,025,192) | _____ | (3,583,541) |
| NET CASH USED IN OPERATIONS | <u>\$ (1,212,139)</u> | <u>\$ (1,228,750)</u> | <u>\$ (2,190,177)</u> | <u>\$ (2,261,413)</u> | <u>\$ 0</u> | <u>\$ (6,892,479)</u> |

(Concluded)

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)

In management's opinion, the Governmental Accounting Standards Board (GASB) does not require an MD&A for individual fund reports under GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Therefore, the State has not prepared an MD&A for the State of Wisconsin Environmental Improvement Fund. An MD&A is included in the Comprehensive Annual Financial Report for the State of Wisconsin, which includes all funds and component units.

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

**Financial Statements for the Year Ended
June 1, 2004 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, 2004, 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, 2004, 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, 2004, 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.

The Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund has not presented a management's discussion and analysis that, in our opinion, is required by accounting principles generally accepted in the United States of America to supplement, although not required to be part of, the financial statements.

Deloitte & Touche LLP

Milwaukee, Wisconsin
September 20, 2004

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

BALANCE SHEET JUNE 1, 2004

ASSETS

| | |
|---|-----------------------|
| Current assets: | |
| Unrestricted cash and cash equivalents | \$ 78,758,778 |
| United States Treasury Notes, purchased in connection with forward delivery agreements, at cost | 23,386,431 |
| Receivables: | |
| Loans to local governments - current portion | 39,584,208 |
| Due from other governmental entities | <u>1,381,278</u> |
| Total current assets | 143,110,695 |
| Noncurrent assets: | |
| Restricted assets - cash equivalents | 68,445,086 |
| Investments - State of Wisconsin general obligation clean water bonds, at fair value | 133,523,628 |
| Loans to local governments | 517,914,957 |
| Deferred debt expense | <u>2,689,450</u> |
| Total noncurrent assets | <u>722,573,121</u> |
| TOTAL ASSETS | <u>\$ 865,683,816</u> |

LIABILITIES AND NET ASSETS

| | |
|---|-----------------------|
| Current liabilities: | |
| Due to other funds | \$ 1,859,385 |
| Due to other governmental entities | 181,922 |
| Revenue obligation bonds - current maturities | <u>39,340,000</u> |
| Total current liabilities | 41,381,307 |
| Noncurrent liabilities: | |
| Due to other governmental entities | 1,400,602 |
| Revenue obligation bonds, net (including deferred charge) | <u>652,864,215</u> |
| Total noncurrent liabilities | <u>654,264,817</u> |
| Total liabilities | <u>695,646,124</u> |
| Net assets - | |
| Restricted | <u>170,037,692</u> |
| Total net assets | <u>170,037,692</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 865,683,816</u> |

See notes to financial statements.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 1, 2004

| | |
|--|-----------------------|
| OPERATING REVENUES - | |
| Interest used as security for revenue bonds | \$ 17,133,046 |
| OPERATING EXPENSES: | |
| Interest | 34,399,934 |
| Salaries and benefits | 1,541,914 |
| Contractual services and other | <u>544,942</u> |
| Total operating expenses | <u>36,486,790</u> |
| Operating loss | (19,353,744) |
| NONOPERATING REVENUES: | |
| Investment income | 1,955 |
| Investment income used as security for revenue bonds | <u>1,957,974</u> |
| LOSS BEFORE OPERATING TRANSFERS | (17,393,815) |
| Operating transfers in | <u>20,000,000</u> |
| INCREASE IN NET ASSETS | 2,606,185 |
| TOTAL NET ASSETS - BEGINNING OF YEAR | <u>167,431,507</u> |
| TOTAL NET ASSETS - END OF YEAR | <u>\$ 170,037,692</u> |

See notes to financial statements.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 1, 2004

OPERATING ACTIVITIES:

| | |
|------------------------------------|------------------|
| Payments to employees for services | \$ (1,496,551) |
| Payments to suppliers and other | <u>(693,381)</u> |

| | |
|-----------------------------|--------------------|
| Net cash used in operations | <u>(2,189,932)</u> |
|-----------------------------|--------------------|

NONCAPITAL FINANCING ACTIVITIES:

| | |
|--|---------------------|
| Operating transfers in | 20,000,000 |
| Proceeds from issuance of long-term debt | 123,164,771 |
| Interest payments | (51,623,965) |
| Retirement of long-term debt | <u>(90,745,000)</u> |

| | |
|--|----------------|
| Net cash provided by noncapital financing activities | <u>795,806</u> |
|--|----------------|

INVESTING ACTIVITIES:

| | |
|---|------------------|
| Origination of loans | (55,190,328) |
| Collection of loans | 37,703,290 |
| Interest received on loans | 17,122,017 |
| Purchase of investments | (90,160,833) |
| Liquidation of investments | 73,407,906 |
| Increase in restricted cash equivalents | (4,475,794) |
| Investment income receipts | <u>8,260,618</u> |

| | |
|---------------------------------------|---------------------|
| Net cash used in investing activities | <u>(13,333,124)</u> |
|---------------------------------------|---------------------|

| | |
|--|--------------|
| Net decrease in unrestricted cash and cash equivalents | (14,727,250) |
|--|--------------|

| | |
|---|-------------------|
| UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>93,486,028</u> |
|---|-------------------|

| | |
|---|----------------------|
| UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 78,758,778</u> |
|---|----------------------|

(Continued)

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 1, 2004

RECONCILIATION OF OPERATING LOSS TO NET

CASH USED IN OPERATIONS:

Operating loss \$(19,353,744)

ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATIONS:

Amortization 396,930
Interest income classified as investing activity (17,133,046)
Interest expense classified as noncapital financing activity 51,371,470
Changes in assets and liabilities:
 Increase in deferred charges (113,257)
 Decrease in accrued interest on bonds (17,368,466)
 Increase in due to other funds 10,181

Total adjustments 17,163,812
\$ (2,189,932)

NET CASH USED IN OPERATIONS

(Concluded)

See notes to financial statements.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 1, 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Net Operating Loss—The Portfolio incurred an operating loss of \$19.4 million in 2004. 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 \$20.0 million in 2004. 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, 2004 and records the notes at cost. The Portfolio purchased these securities in accordance with the Forward Delivery Agreements (see Note 4). The securities mature on November 30, 2004.

GASB Statement No. 31 (GASB 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The three forward delivery agreements with Wachovia Bank, NA (“Wachovia”) and one forward delivery agreement with Westdeutsche Landesbank Girozentral (“WestLB”) described in Note 4 would be considered participating investment contracts under GASB 31. At June 1, 2004, 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, 2004, the fair value of the Fund's interest in these three agreements exceeded the cost of the treasury securities owned by approximately \$3.9 million.

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 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 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.

Fund Equity—Fund equity is classified as either restricted or unrestricted based on the presence or absence of restrictions.

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

Future Accounting Pronouncement—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. GASB Statement No. 40 is effective for fiscal periods beginning after June 15, 2004 and establishes and modifies disclosure requirements, related to investment and deposit risks (including credit risk, interest rate risk and foreign currency risk). The adoption of this statement in fiscal 2005 is not expected to have a material impact on the Fund's financial statements.

2. LOANS TO LOCAL GOVERNMENTS

Leveraged loans to local governments at June 1, 2004, 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 2003. The weighted average interest rate was 3.04% at June 1, 2004. 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, 2004, \$347,900,696 (27%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Portfolio has made additional financial assistance commitments of \$45,528,715 as of June 1, 2004. From June 1, 2004 to September 20, 2004, the Portfolio made loan disbursements of \$11,564,851 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, 2004, cash and cash equivalents consisted of the following:

| | |
|--|----------------------|
| Local Government Investment Pool ("LGIP"), at fair value | \$ 111,512,384 |
| Cash held by trustee | 1,197 |
| Investments reported at cost: | |
| MBIA Guaranteed Investment Agreement | 6,250,292 |
| Repurchase Agreement with Bayerische Landesbank | 7,597,910 |
| American International Group Matched Funding Corp. (AIG) Guaranteed Investment Agreement | <u>21,842,081</u> |
| | 147,203,864 |
| Less - Amounts classified as restricted assets (see Note 5) | <u>(68,445,086)</u> |
| Total unrestricted cash and cash equivalents | <u>\$ 78,758,778</u> |

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a SEC registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 1, 2004, the current yield on the LGIP was .98%. The LGIP investment is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 1, 2004, the investment had a

market value of \$6,851,460 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, 2004, the agreement had a market value of \$26,689,260 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, 2004, the repurchase agreement had a market value of \$8,596,665. 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 Wachovia and one is with WestLB 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, and 1999 Series 1 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wachovia and WestLB are required to deliver United States Treasury securities ("Treasury securities") to the Portfolio for purchase. The Treasury securities are held as investments by the Portfolio. The price paid by the Portfolio for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The Wachovia agreements may be terminated at the option of the Portfolio and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination. Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Portfolio to Wachovia. If the agreements were terminated at a time when a payment would be due to Wachovia, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

The forward delivery agreement with WestLB was amended effective December 10, 2002 to modify the agreement termination provision. Other than a default by any of the parties to the agreement, the agreement may only be terminated on the last scheduled bond payment date for the 1993 Series 1 bonds which is June 1, 2013.

By 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, 2004, are as follows:

| | Par Value of Treasuries | Coupon Rate of Treasuries | Cost of Treasuries | Agreement Interest Rate | Agreement Maturity Date | Agreement Market Value |
|-------------------------|------------------------------------|--|-------------------------------|--|--|-----------------------------------|
| Series 1997-1 Agreement | \$ 7,116,000 | 2.0 % | \$ 6,992,011 | 5.58 % | June 1, 2017 | \$ 7,225,721 |
| Series 1998-1 Agreement | 7,401,000 | 2.0 | 7,292,215 | 5.01 | June 1, 2018 | 7,126,847 |
| Series 1993-1 Agreement | 2,219,000 | 2.0 | 2,184,182 | 5.22 | June 1, 2013 | 2,239,790 |
| Series 1999-1 Agreement | 7,066,000 | 2.0 | 6,918,023 | 6.32 | June 1, 2020 | 7,669,229 |

5. REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

Revenue obligation serial and term bonds as of June 1, 2004 consisted of the following:

1991 Series 1:

| | |
|--|-------------------|
| Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011 | \$ 57,445,000 |
| Unamortized discount on bonds | <u>(158,385)</u> |
| | <u>57,286,615</u> |

1993 Series 2:

| | |
|---|-------------------|
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004 | 45,035,000 |
| Unamortized premium on bonds | <u>683,756</u> |
| | <u>45,718,756</u> |

1995 Series 1:

| | |
|---|------------------|
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2006 | 4,365,000 |
| Unamortized premium on bonds | <u>48,117</u> |
| | <u>4,413,117</u> |

1997 Series 1:

| | |
|---|-------------------|
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008 | 10,915,000 |
| Unamortized premium on bonds | <u>183,774</u> |
| | <u>11,098,774</u> |

| | |
|---|----------------------|
| 1998 Series 1: | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008 | \$ 65,780,000 |
| Unamortized discount on bonds | <u>(19,994)</u> |
| | <u>65,760,006</u> |
| 1998 Series 2: | |
| Serial Bonds, no optional redemption | 90,400,000 |
| Unamortized premium on bonds | <u>4,709,335</u> |
| | <u>95,109,335</u> |
| 1999 Series 1: | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009 | 50,740,000 |
| Unamortized discount on bonds | <u>(100,586)</u> |
| | <u>50,639,414</u> |
| 2001 Series 1: | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011 | 62,825,000 |
| Unamortized premium on bonds | <u>563,808</u> |
| | <u>63,388,808</u> |
| 2002 Series 1: | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012 | 94,295,000 |
| Unamortized premium on bonds | <u>1,606,969</u> |
| | <u>95,901,969</u> |
| 2002 Series 2: | |
| Serial Bonds, no optional redemption | 84,340,000 |
| Unamortized premium on bonds | <u>5,385,022</u> |
| | <u>89,725,022</u> |
| 2004 Series 1 | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014 | 116,795,000 |
| Unamortized premium on bonds | <u>6,482,653</u> |
| | <u>123,277,653</u> |
| Total of all series | 702,319,469 |
| Unamortized deferred charge related to debt defeasance (Note 6) | <u>(10,115,254)</u> |
| Revenue obligation bonds, net of deferred charge | <u>\$692,204,215</u> |

The original issue discount or premium at issuance and the weighted average yield (excluding issuance costs) at June 1, 2004, on the following bond series were:

| Series | Original Issue Discount/(Premium) | Weighted Average Yield |
|---------------|--------------------------------------|------------------------------|
| 1991 Series 1 | \$ 1,366,407 | 6.88 % |
| 1993 Series 2 | (2,349,253) | 5.50 |
| 1995 Series 1 | (1,253,936) | 6.25 |
| 1997 Series 1 | (288,312) | 5.76 |
| 1998 Series 1 | (811,362) | 4.82 |
| 1998 Series 2 | (7,739,808) | 5.44 |
| 1999 Series 1 | (58,061) | 5.36 |
| 2001 Series 1 | (1,022,362) | 4.90 |
| 2002 Series 1 | (2,426,001) | 5.07 |
| 2002 Series 2 | (7,344,300) | 5.03 |
| 2004 Series 1 | (6,632,300) | 4.45 |

Principal maturities of the bonds, net of advance refundings, as of June 1, 2004, are as follows:

| Year Ending June 1, | 1991 Series 1 | 1993 Series 2 | 1995 Series 1 | 1997 Series 1 | 1998 Series 1 |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 2005 | | \$14,255,000 | \$ 4,365,000 | \$ 3,445,000 | \$ 3,705,000 |
| 2006 | | 14,935,000 | | 3,625,000 | 3,865,000 |
| 2007 | | 15,845,000 | | 3,845,000 | 4,035,000 |
| 2008 | | | | | 4,210,000 |
| 2009 | \$17,890,000 | | | | 4,400,000 |
| 2010-2024 | <u>39,555,000</u> | | | | <u>45,565,000</u> |
| | <u>\$57,445,000</u> | <u>\$45,035,000</u> | <u>\$ 4,365,000</u> | <u>\$10,915,000</u> | <u>\$65,780,000</u> |

| Years Ending June 1, | 1998 Series 2 | 1999 Series 1 | 2001 Series 1 | 2002 Series 1 | 2002 Series 2 | 2004 Series 1 |
|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| 2005 | | \$ 2,955,000 | \$ 2,570,000 | \$ 3,105,000 | \$ 4,940,000 | \$ 0 |
| 2006 | | 3,085,000 | 2,665,000 | 3,255,000 | 9,825,000 | 3,520,000 |
| 2007 | | 3,225,000 | 2,770,000 | 3,420,000 | 10,315,000 | 3,630,000 |
| 2008 | | 3,375,000 | 2,885,000 | 3,585,000 | 14,915,000 | 20,570,000 |
| 2009 | \$10,950,000 | 3,535,000 | 3,005,000 | 3,765,000 | 4,600,000 | 3,925,000 |
| 2010-2024 | <u>79,450,000</u> | <u>34,565,000</u> | <u>48,930,000</u> | <u>77,165,000</u> | <u>39,745,000</u> | <u>85,150,000</u> |
| | <u>\$90,400,000</u> | <u>\$50,740,000</u> | <u>\$62,825,000</u> | <u>\$94,295,000</u> | <u>\$84,340,000</u> | <u>\$ 116,795,000</u> |

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 \$14.2

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.

6. ADVANCE REFUNDING

In 1993, the Fund defeased a portion of its 1991 Series 1 bonds through the issuance of 1993 Series 2 Refunding Bonds. The proceeds from the 1993 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2004, there was \$45,035,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of \$104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2004, there was \$90,400,000 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, 2004, there was \$84,340,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

7. OPERATING TRANSFERS IN

Operating transfers in consist of contributions from the State of Wisconsin. The full faith, credit and taxing power of the State are irrevocably pledged for payment of the principal of and interest on the Global Certificate.

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, 2004 is \$133,523,628 and 6.1%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee. By GASB Statement No. 3 definition these securities are classified as category one (insured or registered securities held by the Fund's agent in the Fund's name).

The Bond is registered in the name of the Portfolio and held by an independent trustee. By GASB Statement No. 3 definition, this security is classified as category one (insured or registered securities held by the Portfolio's agent in the Portfolio's name).

Principal maturities of the Global Certificate as of June 1, 2004 are as follows:

| Years Ending June 1, | 2004 Series 1 |
|-------------------------|----------------------|
| 2005 | \$ - |
| 2006 | - |
| 2007 | - |
| 2008 | - |
| 2009 | 15,244,072 |
| 2010 - 2020 | <u>101,596,617</u> |
| | <u>\$116,840,689</u> |

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, 2004:

| | |
|--|---------------------|
| Interest: | |
| State of Wisconsin Investment Board Local Government Investment Pool | \$ 791,619 |
| MBIA Guaranteed Investment Agreement | 387,518 |
| Repurchase Agreement with Bayerische Landesbank | 493,864 |
| AIG Guaranteed Investment Agreement | 1,769,209 |
| United States Treasury Notes | 1,960,334 |
| State of Wisconsin General Obligation Bonds | <u>3,876,368</u> |
| Total interest | <u>9,278,912</u> |
| Changes in Unrealized Gains (Losses): | |
| State of Wisconsin Investment Board Local Government Investment Pool | (15,220) |
| United States Treasury Notes | (653,589) |
| State of Wisconsin General Obligation Bonds | <u>(7,104,565)</u> |
| Total changes in unrealized gains (losses) | <u>(7,773,374)</u> |
| Total interest and changes in unrealized gains (losses) | 1,505,538 |
| Change in Estimated Rebtable Arbitrage Liability | <u>454,391</u> |
| TOTAL INVESTMENT INCOME | <u>\$ 1,959,929</u> |

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, 2004, were \$1,589,385.

The following details total salaries and benefits by agency for the fiscal year ended June 1, 2004:

| | |
|-----|--------------------|
| DNR | \$ 1,090,894 |
| DOA | <u>451,020</u> |
| | <u>\$1,541,914</u> |

* * * * *

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)

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.

APPENDIX B

INFORMATION ABOUT THE STATE

This appendix includes information concerning the State of Wisconsin (**State**). [Part II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 23, 2003 \(2003 Annual Report\)](#) is included by reference as part of this APPENDIX B. This appendix also includes changes or additions to the information presented in Part II of the 2003 Annual Report.

The additional information includes the following:

- Results for the 2003-04 fiscal year, as included in the Annual Fiscal Report (budgetary basis),
- Projected General Fund tax revenues, as released by the Department of Revenue (**DOR**) on November 20, 2004,
- Projected General Fund net balance (including the statutory required reserve) for the end of the 2004-05 fiscal year, and
- Projected General Fund cash flows for the 2004-05 fiscal year.

[Part II to the 2003 Annual Report](#) contains general information about the State. More specifically, that part presents information on the following matters:

- State's operations and financial procedures
- State's accounting and financial reporting
- Organization of, and services provided by, the State
- Results of fiscal year 2002-03
- State budget
- Obligations of the State
- State Investment Board
- Statistical information about the State's population, income, and employment

Included as [APPENDIX A to Part II of the 2003 Annual Report](#) are the audited general purpose external financial statements for the fiscal year ending June 30, 2003, prepared in conformity with generally accepted accounting principles (**GAAP**) for governments as prescribed by the Government Accounting Standards Board, and the State Auditors' report.

The 2003 Annual Report has been filed with each nationally recognized municipal securities information repository (**NRMSIR**). As of the date of this Official Statement, [Part II](#) of the 2003 Annual Report is available from the part of the Capital Finance Office web site called "Official Disclosure for Bonds, Notes, and Other Securities Issued by the State of Wisconsin". The Capital Finance Office web site is located at the following address:

www.doa.state.wi.us/capitalfinance

Copies of the 2003 Annual Report may also be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us

Listed below, by reference to particular sections of the 2003 Annual Report, are changes or additions to the discussion contained in those particular sections. Many of the following changes or additions have not been filed with the NRMSIRs. However, the State has filed, and expects to continue to file, certain informational notices with the NRMSIRs, some of which may be notices that do not describe listed material events under the State's Master Agreement on Continuing Disclosure.

State Budget; Budget for 2003-05 (Page 28). Update with or add the following:

Results of 2003-04 Fiscal Year

On September 3, 2004, DOR released preliminary information pertaining to actual General Fund tax collections for the 2003-04 fiscal year. These collections, on a budgetary basis, were \$69 million above the projections previously provided in January and February, 2004 by the Legislative Fiscal Bureau (LFB), and were nearly \$540 million, or 5.3%, above collections in the 2002-03 fiscal year. With regard to the major reporting categories, the DOR information shows that individual income tax collections exceeded projections by \$57 million, general sales and use tax collections fell short of projections by less than \$1 million, and corporate franchise and public utility tax collections both exceeded projections by less than \$1 million.

The Annual Fiscal Report (budgetary basis) for the 2003-04 fiscal year was published on October 15, 2004. It reported the State ended the 2003-04 fiscal year on a statutory and unaudited basis with an undesignated balance of \$105 million, which was \$28 million less than the balance projected after enactment of the 2003-05 biennial budget bill, but \$30 million more than the balance projected in February 2004 by LFB.

The State issued and retired \$400 million of operating notes during the 2003-04 fiscal year.

A complete copy of the Annual Fiscal Report (budgetary basis) can be obtained at the [address on page B-2](#).

Revenue Estimates for 2004-05 Fiscal Year

On November 20, 2004, DOR released estimates of General Fund tax revenues for the 2004-05 fiscal year. The total estimate of General Fund tax revenues for the 2004-05 fiscal year is \$11.336 billion, which is approximately \$147 million more than the amount previously estimated in February 2004 by LFB. The new estimates from DOR show the following differences from the previous LFB estimates:

- General Fund tax revenues are estimated to be \$147 million greater at \$11.336 billion.
- Individual Income tax revenues are estimated to be \$63 million greater at \$5.620 billion.
- General Sales and Use tax revenues are estimated to be \$1 million less at \$4.094 billion.
- Corporate Income/Franchise tax revenues are estimated to be \$56 million greater at \$683 million.

A complete copy of the DOR report can be obtained at the [address on page B-2](#).

Projected Net General Fund Budgetary Balance-June 30, 2005

On November 20, 2004, the Department of Administration (DOA) released a report that contained a projected net General Fund budgetary balance (including the statutory required reserve) for the end of the 2004-05 fiscal year. This projected balance is \$176 million, and takes into account the undesignated balance available at the end of the 2003-04 fiscal year and the estimates of General Fund tax revenues released by DOR on November 20, 2004. This projected net General Fund budgetary balance is approximately \$249 million more than the net General Fund budgetary balance projected in February 2004 by LFB.

A complete copy of the DOA report can be obtained at the [address on page B-2](#).

Medical Assistance Benefits

DOA's projected net General Fund budgetary balance for the end of the 2004-05 fiscal year does not take into account a projected \$230 million shortfall in Medical Assistance-related programs (Medical Assistance, BadgerCare, and Senior Care). This expected shortfall is associated with insufficient federal Medicaid enhancement revenues, higher than expected caseload, and medical cost inflation. The Legislature has not made appropriations to address this shortfall, and therefore the projected shortfall is not incorporated in the projected net General Fund budgetary balance.

A January 15, 2004 letter from LFB estimated that, if the State were unable to secure additional federal Medicaid revenues, then \$311 million in State funds would be needed to support projected medical assistance benefits in the 2003-05 biennium. In addition, estimated State funding for caseload and other costs within the State's medical assistance program may be insufficient by approximately \$90 million in the 2003-05 biennium. This \$401 million potential shortfall in current funding for projected medical assistance benefits has been addressed, in part, by the following legislation that has already been signed into law.

- 2003 Wisconsin Act 129 provided for the transfer of approximately \$124 million from the General Fund to the Medical Assistance Trust Fund. This act provided for the refunding, for payment in later years, of approximately \$175 million of certain general obligation bonds and variable-rate notes maturing during the fiscal year.
- 2003 Wisconsin Act 318 will allow the State to receive approximately \$53 million of federal medical assistance funds. This act makes corrections to a prior State intergovernmental transfer proposal that federal authorities would not approve.

Wisconsin Supreme Court Decision Concerning Amendments to Gaming Compacts

DOA's projected net General Fund budgetary balance for the end of the 2004-05 fiscal year assumes that full payment will be made from all tribal governments pursuant to existing amendments to gaming compact amendments. On May 13, 2004, the Wisconsin Supreme Court released its opinion in the case of *Panzer v. Doyle*, deciding that the Governor's execution on the State's behalf of certain amendments to a gaming compact with a tribal government, namely, the Forest County Potawatomi, was unconstitutional. The Wisconsin Supreme Court concluded that the Governor exceeded his authority by entering into a compact of indefinite duration, that the compact authorized some types of games that were prohibited under the Wisconsin Constitution, and that, without legislative approval, the Governor lacked power to waive the State's sovereign immunity in the compact.

Although the lawsuit concerned only certain amendments to a gaming compact with one tribal government, the reasoning of the opinion would apply to similar amendments to other gaming compacts that the Governor executed on the State's behalf on or after January 1, 2003 with other tribal governments.

The decision does not concern the original gaming compacts or amendments to them that were executed in calendar years 1998 and 1999. For some of the amendments executed on or after January 1, 2003, a possible result of the decision is that the original compacts, as amended in calendar years 1998 and 1999, remain in effect.

The State's 2003-05 biennial budget assumed the following payments from all gaming compacts, including payments from the Forest County Potawatomi.

| | Fiscal Year Ending <u>June 30, 2004</u> | Fiscal Year Ending <u>June 30, 2005</u> |
|----------------|--|--|
| Total Payments | \$101,965,600 | \$104,516,300 |

In light of the court's decision, it was uncertain whether or to what extent the tribal governments would make the payments due under the amended gaming compacts. Subsequent to the court's decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments; the amount that was not received is \$30 million. It remains uncertain whether or to what extent the tribal governments will make the payments prior to June 30, 2005, and discussions continue with tribal governments regarding the outstanding payment and the payments due on or after June 30, 2005.

LFB Projected General Fund Tax Collections and General Fund Balance

On January 15, 2004 and February 10, 2004, LFB previously released projections of General Fund tax collections and a re-estimate of departmental revenues and expenditures for the 2003-05 biennium. A complete copy of the LFB releases can be obtained at the [address on page B-2](#).

General Fund Information; General Fund Cash Flow (Pages 38-46).

The following provide updates to various tables containing General Fund information that is presented on either a cash basis or agency recorded basis. Unless noted, the following information is through October 31, 2004 and reflects the revenue estimates provided by LFB on January 15, 2004 and February 10, 2004, but does not reflect the revenue estimates released by DOR on November 20, 2004. The following information also does not reflect the Wisconsin Supreme Court's decision concerning amendments to gaming compacts. In light of the decision, it was uncertain whether or to what extent the tribal governments would make the payments due under the amended gaming compacts. Subsequent to the decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments; the amount that was not received is \$30 million. It remains uncertain whether or to what extent the tribal governments will make the payments prior to June 30, 2005, and discussions continue with tribal governments regarding the outstanding payment and the payments due on or after June 30, 2005.

The following also does not assume the issuance of any operating notes for the 2004-05 fiscal year. While the Commission has authorized operating notes in an amount not to exceed \$800 million, DOA has determined that operating notes will not be issued in the 2004-05 fiscal year.

The following tables may show negative balances on a cash basis. Wisconsin Statutes provide certain administrative remedies, such as interfund borrowing, to deal with periods when the balance, on a cash basis, is negative. If the amount of interfund borrowing available to the General Fund is not sufficient, then the Secretary of Administration is authorized to prorate and defer certain payments.

The State is not prohibited from having a negative cash balance at the end of a fiscal year. This is different than budgetary requirements, in which the Wisconsin Constitution requires the Legislature to enact a balanced biennial budget.

Neither the Environmental Improvement Fund's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

Table II-7; State Budget-General Fund (Part II–Page 41). Replace the table with the following:

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2003 TO JUNE 30, 2004

(In Thousands of Dollars)

| | July 2003 | August 2003 | September 2003 | October 2003 | November 2003 | December 2003 | January 2004 | February 2004 | March 2004 | April 2004 | May 2004 | June 2004 |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| BALANCES^(a) | | | | | | | | | | | | |
| Beginning Balance | (\$301,120) | (\$622,418) | (\$400,502) | \$418,507 | \$907,811 | \$863,882 | \$1,013,762 | \$1,191,403 | \$1,038,826 | (\$14,243) | \$552,517 | \$758,574 |
| Ending Balance ^(b) | (\$622,418) | (\$400,502) | \$418,507 | \$907,811 | \$863,882 | \$1,013,762 | \$1,191,403 | \$1,038,826 | (\$14,243) | \$552,517 | \$758,574 | (\$21,216) |
| Lowest Daily Balance ^(b) | (\$762,702) | (\$757,258) | (\$654,756) | \$289,720 | \$648,269 | (\$200,315) | \$1,013,762 | \$1,013,762 | (\$78,170) | (\$14,243) | \$412,085 | (\$322,282) |
| RECEIPTS | | | | | | | | | | | | |
| TAX RECEIPTS | | | | | | | | | | | | |
| Individual Income ^(c) | \$535,668 | \$361,664 | \$632,800 | \$495,028 | \$390,357 | \$431,441 | \$815,263 | \$457,296 | \$530,620 | \$851,947 | \$385,478 | \$633,196 |
| Sales & Use | 368,518 | 363,614 | 375,775 | 374,113 | 350,192 | 321,577 | 394,456 | 295,514 | 293,589 | 339,858 | 343,335 | 364,588 |
| Corporate Income | 15,220 | 19,228 | 126,009 | 28,093 | 26,301 | 160,444 | 20,170 | 21,229 | 176,514 | 28,379 | 17,663 | 136,053 |
| Public Utility | 296 | 0 | 325 | 4,994 | 129,422 | 337 | 69 | 20 | 158 | 5,071 | 136,052 | 201 |
| Excise | 38,152 | 34,660 | 28,651 | 32,261 | 28,631 | 28,784 | 32,244 | 26,592 | 22,978 | 32,116 | 29,565 | 32,506 |
| Insurance | 828 | 1,375 | 25,541 | 293 | 1,334 | 28,444 | 2,696 | 17,785 | 25,650 | 27,842 | 767 | 28,153 |
| Inheritance | 5,660 | 11,035 | 7,017 | 6,607 | 6,089 | 9,493 | 4,990 | 5,314 | 4,948 | 8,163 | 8,739 | 10,219 |
| Subtotal Tax Receipts | \$964,342 | \$791,576 | \$1,196,118 | \$941,389 | \$932,326 | \$980,520 | \$1,269,888 | \$823,750 | \$1,054,457 | \$1,293,376 | \$921,599 | \$1,204,916 |
| NON-TAX RECEIPTS | | | | | | | | | | | | |
| Federal | \$420,678 | \$479,004 | \$507,840 | \$618,086 | \$454,026 | \$534,209 | \$543,037 | \$491,036 | \$567,534 | \$534,657 | \$487,096 | \$617,201 |
| Other & Transfers ^(c) | 291,431 | 190,445 | 519,577 | 270,496 | 197,625 | 912,951 | 329,290 | 353,425 | 307,728 | 277,273 | 216,301 | 464,782 |
| Note Proceeds ^(d) | 0 | 0 | 400,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal Non-Tax Receipts | \$712,109 | \$669,449 | \$1,427,417 | \$888,582 | \$651,651 | \$1,447,160 | \$872,327 | \$844,461 | \$875,262 | \$811,930 | \$703,397 | \$1,081,983 |
| TOTAL RECEIPTS | \$1,676,451 | \$1,461,025 | \$2,623,535 | \$1,829,971 | \$1,583,977 | \$2,427,680 | \$2,142,215 | \$1,668,211 | \$1,929,719 | \$2,105,306 | \$1,624,996 | \$2,286,899 |
| DISBURSEMENTS | | | | | | | | | | | | |
| Local Aids | \$890,876 | \$172,578 | \$741,814 | \$109,530 | \$781,331 | \$1,178,138 | \$211,010 | \$237,278 | \$1,204,072 | \$153,766 | \$235,068 | \$1,846,208 |
| Income Maintenance ⁽¹⁾ | 439,565 | 373,987 | 352,115 | 385,040 | 293,337 | 363,184 | 189,065 | 503,149 | 397,567 | 148,118 | 329,091 | 366,219 |
| Payroll and Related | 317,741 | 312,301 | 225,424 | 462,397 | 252,453 | 305,623 | 439,081 | 247,685 | 304,277 | 491,789 | 251,034 | 307,410 |
| Tax Refunds | 68,585 | 50,293 | 54,656 | 50,624 | 58,967 | 122,179 | 69,625 | 415,005 | 407,083 | 335,879 | 138,614 | 104,930 |
| Debt Service | 0 | 984 | 118,305 | 441 | 441 | 0 | 0 | 934 | 105,066 | 0 | 10,985 | 0 |
| Miscellaneous ^(c) | 280,982 | 328,966 | 312,212 | 332,635 | 241,377 | 308,676 | 1,055,793 | 318,657 | 463,264 | 307,447 | 352,527 | 441,922 |
| Note Repayment ^(d) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 98,080 | 101,459 | 101,547 | 101,620 | 0 |
| TOTAL DISBURSEMENTS | \$1,997,749 | \$1,239,109 | \$1,804,526 | \$1,340,667 | \$1,627,906 | \$2,277,800 | \$1,964,574 | \$1,820,788 | \$2,982,788 | \$1,538,546 | \$1,418,939 | \$3,066,689 |

(a) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The designated funds were expected to range from \$150 to \$300 million during the 2003-04 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds were expected to average approximately \$50 million during the 2003-04 fiscal year.

(b) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was approximately \$542 million for the 2003-04 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately \$325 million for the 2003-04 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(c) The July Individual Income Tax Receipts and the July Non-Tax Receipts for Other & Transfers were restated in September, 2003 due to a reporting reclassification by the Department of Revenue.

(d) Includes \$400 million in operating note proceeds received in September, 2003 and impoundment payments due on February 27, March 31, April 30, and May 28, 2004. The February 27, 2004 impoundment payment excludes the premium deposited on September 18, 2003 into the operating note redemption fund.

(e) Includes \$750 million of bond receipts that were received into the General Fund in December and disbursed on January 30, 2004.

(f) Includes \$124 million of transfers from the General Fund (disbursements) to the Medical Assistance Trust Fund in March 2004, pursuant to 2003 Wisconsin Act 129.

Table II-7; State Budget-General Fund (Part II–Page 41). Add the following table:

**ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2004 TO OCTOBER 31, 2004
PROJECTED GENERAL FUND CASH FLOW; NOVEMBER 1, 2004 TO JUNE 30, 2005^(a)**

| | (In Thousands of Dollars) | | | | | | | | | | | |
|-------------------------------------|---------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | July 2004 | August 2004 | September 2004 | October 2004 | November 2004 | December 2004 | January 2005 | February 2005 | March 2005 | April 2005 | May 2005 | June 2005 |
| BALANCES^(b) | | | | | | | | | | | | |
| Beginning Balance | (\$21,216) | (\$431,440) | \$209,127 | \$536,311 | \$875,711 | \$519,095 | (\$95,854) | \$936,512 | \$1,147,904 | \$179,661 | \$534,722 | \$769,614 |
| Ending Balance ^(c) | (\$431,440) | \$209,127 | \$536,311 | \$875,711 | \$519,095 | (\$95,854) | \$936,512 | \$1,147,904 | \$179,661 | \$534,722 | \$769,614 | (\$7,875) |
| Lowest Daily Balance ^(c) | (\$431,440) | (\$436,769) | \$53,578 | \$403,787 | \$278,594 | (\$701,159) | (\$95,853) | \$593,410 | \$94,619 | (\$98,257) | \$273,022 | (\$261,687) |
| RECEIPTS | | | | | | | | | | | | |
| TAX RECEIPTS | | | | | | | | | | | | |
| Individual Income | \$533,817 | \$540,819 | \$571,670 | \$464,819 | \$291,700 | \$621,300 | \$902,700 | \$471,600 | \$412,800 | \$932,000 | \$404,600 | \$619,000 |
| Sales & Use | 380,702 | 389,894 | 384,632 | 378,842 | 381,200 | 318,800 | 427,300 | 333,700 | 301,300 | 339,700 | 361,100 | 370,700 |
| Corporate Income | 30,839 | 16,739 | 144,521 | 34,036 | 15,800 | 159,800 | 26,900 | 14,000 | 186,600 | 29,200 | 19,100 | 133,300 |
| Public Utility | 0 | 38 | 179 | 3,948 | 140,000 | 4,300 | 0 | 3,800 | 200 | 5,200 | 119,300 | 1,700 |
| Excise | 29,945 | 32,206 | 32,708 | 31,917 | 36,200 | 28,900 | 28,100 | 29,800 | 25,000 | 27,500 | 30,700 | 30,400 |
| Insurance | 295 | 2,305 | 27,417 | 229 | 1,400 | 25,200 | 2,000 | 13,700 | 21,800 | 27,600 | 4,400 | 26,500 |
| Inheritance | 8,654 | 7,954 | 14,003 | 10,329 | 6,500 | 5,100 | 8,700 | 5,900 | 6,600 | 10,900 | 6,700 | 6,000 |
| Subtotal Tax Receipts | \$984,252 | \$989,955 | \$1,175,130 | \$924,120 | \$872,800 | \$1,163,400 | \$1,395,700 | \$872,500 | \$954,300 | \$1,372,100 | \$945,900 | \$1,187,600 |
| NON-TAX RECEIPTS | | | | | | | | | | | | |
| Federal | \$344,173 | \$535,363 | \$537,338 | \$462,100 | \$446,600 | \$470,800 | \$618,900 | \$540,700 | \$491,600 | \$548,200 | \$534,900 | \$566,400 |
| Other & Transfers ^(d) | 196,901 | 339,783 | 411,016 | 330,993 | 231,250 | 212,950 | 386,250 | 388,050 | 318,750 | 320,750 | 300,150 | 473,850 |
| Note Proceeds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal Non-Tax Receipts | \$541,074 | \$875,146 | \$948,354 | \$793,093 | \$677,850 | \$683,750 | \$1,005,150 | \$928,750 | \$810,350 | \$868,950 | \$835,050 | \$1,040,250 |
| TOTAL RECEIPTS | \$1,525,326 | \$1,865,101 | \$2,123,484 | \$1,717,213 | \$1,550,650 | \$1,847,150 | \$2,400,850 | \$1,801,250 | \$1,764,650 | \$2,241,050 | \$1,780,950 | \$2,227,850 |
| DISBURSEMENTS | | | | | | | | | | | | |
| Local Aids ^{(e)(f)} | \$835,926 | \$170,248 | \$670,948 | \$115,497 | \$786,447 | \$1,171,442 | \$227,374 | \$232,359 | \$1,193,196 | \$122,127 | \$248,992 | \$1,817,211 |
| Income Maintenance | 383,180 | 416,654 | 427,137 | 405,086 | 431,609 | 555,913 | 344,776 | 414,316 | 471,345 | 434,538 | 408,025 | 388,860 |
| Payroll and Related | 390,998 | 244,728 | 314,918 | 378,189 | 327,523 | 327,706 | 359,826 | 325,251 | 369,525 | 470,929 | 255,539 | 313,235 |
| Tax Refunds | 49,162 | 55,304 | 51,246 | 50,655 | 76,501 | 76,405 | 61,510 | 347,302 | 349,093 | 311,909 | 233,409 | 207,201 |
| Debt Service | 0 | 687 | 0 | 118,493 | 3,621 | 0 | 0 | 3,621 | 0 | 266,649 | 39,575 | 0 |
| Miscellaneous | 276,284 | 336,913 | 332,051 | 309,893 | 281,565 | 330,633 | 374,998 | 267,009 | 349,734 | 279,837 | 360,518 | 278,832 |
| Note Repayment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISBURSEMENTS | \$1,935,550 | \$1,224,534 | \$1,796,300 | \$1,377,813 | \$1,907,266 | \$2,462,099 | \$1,368,484 | \$1,589,858 | \$2,732,893 | \$1,885,989 | \$1,546,058 | \$3,005,339 |

(a) Projections reflect the re-estimates of departmental revenues and expenditures provided by LFB on January 15, 2004 and the general fund tax collection estimates provided by LFB on February 10, 2004. Projections do not reflect the revised General Fund revenue estimates provided by DOR on November 20, 2004. The following information also does not reflect the Wisconsin Supreme Court's decision concerning amendments to gaming compacts. In light of the decision, it was uncertain whether or to what extent the tribal governments would make the payments due under the amended gaming compacts. Subsequent to the decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments; the amount that was not received is \$30 million. It remains uncertain whether or to what extent the tribal governments will make the payments prior to June 30, 2005, and discussions continue with tribal governments regarding the outstanding payment and the payments due on or after June 30, 2005. While the projections are based on budgetary assumptions, they are presented on a cash basis and not a budgetary basis. Projections do not include interfund borrowings.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. These designated funds are expected to range from \$150 to \$300 million during the 2004-05 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately \$50 million during the 2004-05 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately \$589 million for the 2004-05 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately \$354 million for the 2004-05 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(d) Includes \$75 million to be transferred from the Transportation Fund to the General Fund in June 2005.

(e) \$190 million of the November 2004 shared revenue payments are to be made from Segregated Funds and are not included in these Local Aid disbursement totals.

(f) \$60 million of the September 2004 equalization payments were made from the Transportation Fund and are not included in these Local Aid disbursement totals.

Table II-8; General Fund Cash Receipts and Disbursements Year To Date; Compared to Estimates and Previous Fiscal Year. (Page 42). Update the table with the following:

**2004-05 FISCAL YEAR
GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE
COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR^(a)**

**(Cash Basis)
As of October 31, 2004
(Amounts in Thousands)**

| | <u>FY04 through October 2003</u> | <u>FY05 through October 2004</u> | | | | Difference FY04 Actual to FY05 Actual |
|-----------------------------------|----------------------------------|----------------------------------|-------------------------------|--------------------|--|--|
| | <u>Actual</u> | <u>Actual</u> | <u>Estimate^(b)</u> | <u>Variance</u> | <u>Adjusted Variance^(c)</u> | |
| RECEIPTS | | | | | | |
| Tax Receipts | | | | | | |
| Individual Income | \$ 2,025,160 | \$ 2,111,125 | \$ 2,153,900 | \$ (42,775) | \$ (42,775) | \$ 85,965 |
| Sales | 1,482,020 | 1,534,070 | 1,543,000 | (8,930) | (8,930) | 52,050 |
| Corporate Income | 188,550 | 226,135 | 209,100 | 17,035 | 17,035 | 37,585 |
| Public Utility | 5,615 | 4,165 | 4,300 | (135) | (135) | (1,450) |
| Excise | 133,724 | 126,776 | 122,900 | 3,876 | 3,876 | (6,948) |
| Insurance | 28,037 | 30,246 | 29,800 | 446 | 446 | 2,209 |
| Inheritance | 30,319 | 40,940 | 35,700 | 5,240 | 5,240 | 10,621 |
| Total Tax Receipts | \$ 3,893,425 | \$ 4,073,457 | \$ 4,098,700 | \$ (25,243) | \$ (25,243) | \$ 180,032 |
| Non-Tax Receipts | | | | | | |
| Federal | \$ 2,025,608 | \$ 1,878,974 | \$ 2,013,600 | (134,626) | (134,626) | \$ (146,634) |
| Other and Transfers | 1,271,949 | 1,278,693 | 1,135,000 | 143,693 | 143,693 | 6,744 |
| Note Proceeds | 400,000 | - | - | - | - | (400,000) ^(d) |
| Total Non-Tax Receipts | \$ 3,697,557 | \$ 3,157,667 | \$ 3,148,600 | \$ 9,067 | \$ 9,067 | \$ (539,890) |
| TOTAL RECEIPTS | \$ 7,590,982 | \$ 7,231,124 | \$ 7,247,300 | \$ (16,176) | \$ (16,176) | \$ (359,858) |
| DISBURSEMENTS | | | | | | |
| Local Aids | \$ 1,914,798 | \$ 1,792,619 | \$ 1,807,515 | \$ 14,896 | \$ 14,896 | \$ (122,179) |
| Income Maintenance | 1,550,707 | 1,642,902 | 1,714,448 | 71,546 | 71,546 | 92,195 |
| Payroll & Related | 1,317,863 | 1,328,833 | 1,356,258 | 27,425 | 27,425 | 10,970 |
| Tax Refunds | 224,158 | 206,367 | 227,088 | 20,721 | 20,721 | (17,791) |
| Debt Service | 119,730 | 119,180 | 143,257 | 24,077 | 24,077 | (550) |
| Miscellaneous | 1,254,795 | 1,244,296 | 1,163,648 | (80,648) | (80,648) | (10,499) |
| Note Repayment | - | - | - | - | - | - |
| TOTAL DISBURSEMENTS | \$ 6,382,051 | \$ 6,334,197 | \$ 6,412,214 | \$ 78,017 | \$ 78,017 | \$ (47,854) |
| VARIANCE FY05 YEAR-TO-DATE | | | | \$ 61,841 | \$ 61,841 | |

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly General Fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.
- (b) Estimates include the re-estimates of departmental revenues and expenditures provided by LFB on January 15, 2004 and the General Fund tax collection projections provided by LFB on February 10, 2004. Projections do not reflect the revised General Fund revenue estimates provided by DOR on November 20, 2004. While the information from the LFB is presented on a budgetary basis, the estimates are presented on a cash basis and not a budgetary basis. Estimates do not reflect the recent Wisconsin Supreme Court decision concerning amendments to gaming compacts. Subsequent to the decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments. Discussions continue with the tribal governments regarding the outstanding payment and all payments due on or after June 30, 2005.
- (c) Changes are sometimes made after the beginning of the fiscal year to the projected revenues and disbursements. Depending on when these changes occur, there are situations in which prior estimates can not be changed and the result are some large variances. This column includes adjustments to the variances to more accurately reflect the variance between the estimated and actual amounts.

Table II-9; General Fund Monthly Position (Page 43). Update the table with the following:

GENERAL FUND MONTHLY CASH POSITION^(a)
July 1, 2002 through October 31, 2004 — Actual
November 1, 2004 through June 30, 2005 — Estimated^(b)
 (Amounts in Thousands)

| | <u>Starting Date</u> | <u>Starting Balance</u> | <u>Receipts^(c)</u> | <u>Disbursements^(c)</u> | |
|----------------|----------------------|-----------------------------|-------------------------------|------------------------------------|-----------|
| 2002 | July..... | \$ (421,915) ^(d) | \$ 1,700,476 | \$ 1,895,272 | |
| | August..... | (616,711) ^(d) | 1,637,001 | 1,171,887 | |
| | September..... | (151,597) ^(d) | 2,025,879 | 1,562,196 | |
| | October..... | 312,086 | 1,606,014 | 1,280,382 | |
| | November..... | 637,718 | 1,482,326 | 1,488,485 | |
| | December..... | 631,559 ^(d) | 1,706,488 | 2,178,341 | |
| | 2003 | January..... | 159,706 | 2,105,857 | 1,431,836 |
| | | February..... | 833,727 | 1,721,792 | 1,615,352 |
| | | March..... | 940,167 | 1,652,274 | 2,383,386 |
| | | April..... | 209,055 ^(d) | 2,101,401 | 1,712,702 |
| | | May..... | 597,754 | 1,485,340 | 1,566,243 |
| | | June..... | 516,851 ^(d) | 2,030,380 | 2,848,351 |
| July..... | | (301,120) ^(d) | 1,676,451 | 1,997,749 | |
| August..... | | (622,418) ^(d) | 1,461,025 | 1,239,109 | |
| September..... | | (400,502) ^(d) | 2,623,535 | 1,804,526 | |
| October..... | | 418,507 | 1,829,971 | 1,340,667 | |
| November..... | | 907,811 | 1,583,977 | 1,627,906 | |
| December..... | | 863,882 ^(d) | 2,427,680 | 2,277,800 | |
| 2004 | January..... | 1,013,762 | 2,142,215 | 1,964,574 | |
| | February..... | 1,191,403 | 1,668,211 | 1,820,788 | |
| | March..... | 1,038,826 ^(d) | 1,929,719 | 2,982,788 | |
| | April..... | (14,243) ^(d) | 2,105,306 | 1,538,546 | |
| | May..... | 552,517 | 1,624,996 | 1,418,939 | |
| | June..... | 758,574 ^(d) | 2,286,899 | 3,066,689 | |
| | July..... | (21,216) ^(d) | 1,525,326 | 1,935,550 | |
| | August..... | (431,440) ^(d) | 1,865,101 | 1,224,534 | |
| | September..... | 209,127 | 2,123,484 | 1,796,300 | |
| | October..... | 536,311 | 1,717,213 | 1,377,813 | |
| | November..... | 875,711 | 1,550,650 | 1,907,266 | |
| | December..... | 519,095 ^(d) | 1,847,150 | 2,462,099 | |
| 2005 | January..... | (95,854) ^(d) | 2,400,850 | 1,368,484 | |
| | February..... | 936,512 | 1,801,250 | 1,589,858 | |
| | March..... | 1,147,904 | 1,764,650 | 2,732,893 | |
| | April..... | 179,661 ^(d) | 2,241,050 | 1,885,989 | |
| | May..... | 534,722 | 1,780,950 | 1,546,058 | |
| | June..... | 769,614 ^(d) | 2,227,850 | 3,005,339 | |

^(a) The General Fund balances presented in this table are not based on Generally Accepted Accounting Principles (GAAP).

^(b) The monthly receipt and disbursement projections for November 1, 2004 through June 30, 2005 are based on the re-estimates of departmental revenues and expenditures provided by LFB on January 15, 2004 and the General Fund tax collection projections provided by LFB on February 10, 2004. Projections do not reflect the revised General Fund revenue estimates provided by DOR on November 20, 2004. Projections do not reflect the recent Wisconsin Supreme Court decision concerning amendments to gaming compacts. Subsequent to the decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments. Discussions continue with the tribal governments regarding the outstanding payment and all payments due on or after June 30, 2005.

^(c) The amounts shown in September 2003 include receipts from the issuance of operating notes, and amounts shown in February through May 2004 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued for the 2002-03 fiscal year, and no operating notes will be issued in the 2004-05 fiscal year.

^(d) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately \$589 million for the 2004-05 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately \$354 million for the 2004-05 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

Source: Wisconsin Department of Administration.

Table II-10; Balances in Funds Available for Interfund Borrowing (Page 44). Update the table with the following:

BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING^(a)
July 31, 2002 to October 31, 2004 — Actual
November 30, 2004 to June 30, 2005— Estimated^(b)
(Amounts in Millions)

The following two tables show, on a monthly basis, the cash balances available for interfund borrowing. The first table does not include balances in the Local Government Investment Pool (LGIP). While the LGIP is available for interfund borrowing, funds in the LGIP are deposited and withdrawn by local units of government, and thus are outside the control of the State.

(Does Not Include Balances in the Local Government Investment Pool)

| <u>Month (Last Day)</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|-------------------------|-------------|-------------|--------------------|-------------|
| January | | \$ 1,100 | \$ 1,027 | \$ 1,018 |
| February | | 1,138 | 1,126 | 1,105 |
| March | | 1,203 | 1,179 | 1,107 |
| April | | 1,133 | 1,157 | 997 |
| May | | 1,187 | 1,163 | 1,061 |
| June | | 1,279 | 1,054 | 1,117 |
| July | \$ 1,033 | 1,140 | 908 | |
| August | 1,049 | 1,242 | 1,003 | |
| September | 1,055 | 1,226 | 997 | |
| October | 1,032 | 1,187 | 954 | |
| November | 1,105 | 1,078 | 940 ^(b) | |
| December | 1,131 | 1,130 | 1,042 | |

The second table includes the balances in the LGIP. The average monthly daily balances in the LGIP for the past five years have ranged from a low of \$2.216 billion during November 2002 to a high of \$4.521 billion during March 2002.

(Includes Balances in the Local Government Investment Pool)

| <u>Month (Last Day)</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|-------------------------|-------------|-------------|----------------------|-------------|
| January | | \$ 5,025 | \$ 4,673 | \$ 5,360 |
| February | | 5,235 | 4,852 | 5,463 |
| March | | 5,438 | 5,197 | 5,628 |
| April | | 5,113 | 4,707 | 5,135 |
| May | | 4,674 | 4,417 | 4,158 |
| June | | 4,835 | 4,274 | 4,329 |
| July | \$ 5,401 | 5,135 | 4,268 | |
| August | 4,785 | 4,580 | 3,904 | |
| September | 4,898 | 4,378 | 3,726 | |
| October | 4,328 | 3,922 | 3,233 | |
| November | 4,242 | 3,797 | 4,242 ^(b) | |
| December | 4,737 | 4,090 | 4,737 | |

^(a) The following funds are available for interfund borrowing. The amounts shown reflect a reduction in the aggregate cash balances available to the extent any fund listed below has a negative balance and is subject to interfund borrowing.

| | | |
|---|--|-------------------------------|
| Transportation | Common School | Conservation (Partial) |
| Local Government Investment Pool | Wisconsin Election Campaign | Farms for the Future |
| Investment & Local Impact | Agrichemical Management | Elderly Property Tax Deferral |
| Historical Society Trust | Lottery | School Income Fund |
| Children's Trust | Benevolent | Racing |
| Environmental Improvement Fund | Uninsured Employers | Environmental |
| Local Government Property Insurance | University Trust Principal | Patients Compensation |
| Veterans Mortgage Loan Repayment | Mediation | State Building Trust |
| Medical Assistance | Agricultural College | |
| Normal School | Wisconsin Health Education Loan Repayment | |
| University | Waste Management | |
| Groundwater | Work Injury Supplemental Benefit | |
| Health Insurance Risk Sharing Plan | Recycling | |
| Petroleum Storage Environmental Cleanup | Unemployment Compensation Interest Repayment | |

^(b) The balances for November 30, 2004 and subsequent months are estimates.

Table II-11; General Fund Recorded Revenues (Page 45). Update the table with the following:

**General Fund Recorded Revenues
(Agency Recorded Basis)
July 1, 2004 to October 31, 2004 compared with previous year ^(a)**

| | Annual Fiscal Report Revenues <u>2003-04 FY^(b)</u> | Projected Revenues <u>2004-05 FY^(c)</u> | Recorded Revenues July 1, 2003 to <u>October 31, 2003^(d)</u> | Recorded Revenues July 1, 2004 to <u>October 31, 2004^(e)</u> |
|--|---|--|---|---|
| Individual Income Tax | \$ 5,277,119,000 | \$ 5,560,000,000 | \$ 1,494,772,662 | \$ 1,529,800,739 |
| General Sales and Use Tax | 3,899,264,000 | 4,095,000,000 | 1,021,285,684 | 1,044,707,813 |
| Corporate Franchise and Income Tax | 650,526,000 | 630,000,000 | 157,178,653 | 203,328,411 |
| Public Utility Taxes | 269,801,000 | 271,000,000 | -170,836 | 323,090 |
| Excise Taxes | 355,495,000 | 351,800,000 | 94,512,754 | 96,136,148 |
| Inheritance Taxes | 86,357,000 | 90,000,000 | 29,697,887 | 40,638,830 |
| Insurance Company Taxes | 123,621,000 | 120,000,000 | 27,190,229 | 29,266,839 |
| Miscellaneous Taxes | 97,331,000 | 78,000,000 | 31,411,115 | 26,703,200 |
| SUBTOTAL..... | <u>\$ 10,759,514,000</u> | <u>\$ 11,195,800,000</u> | <u>2,855,878,148</u> | <u>2,970,905,070</u> |
| Federal and Other Inter- Governmental Revenues ^(f) | \$ 6,617,596,000 | \$ 5,435,423,200 | 2,034,835,976 | 1,919,967,708 |
| Dedicated and Other Revenues ^(g) | <u>4,663,830,000</u> | <u>3,937,774,100</u> | <u>1,236,106,663</u> | <u>1,357,222,374</u> |
| TOTAL..... | <u><u>\$ 22,040,940,000</u></u> | <u><u>\$ 20,568,997,300</u></u> | <u><u>\$ 6,126,820,786</u></u> | <u><u>\$ 6,248,095,152</u></u> |

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.
- (b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2003-04 fiscal year, dated October 15, 2004.
- (c) The projected revenues also reflect the re-estimates of departmental revenues that LFB released on January 15, 2004 and the General Fund tax collection projections provided by LFB on February 10, 2004. Projections do not reflect the revised General Fund revenue estimates provided by DOR on November 20, 2004. Projections do not reflect the recent Wisconsin Supreme Court decision concerning amendments to gaming compacts. Subsequent to the decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments. Discussions continue with the tribal governments regarding the outstanding payment and all payments due on or after June 30, 2005. Other projected revenues are based on the 2003-05 budget signed into law, with some partial vetoes, on July 24, 2003 by Governor Doyle (2003 Wisconsin Act 33).
- (d) The amounts shown are fiscal year 2003-04 revenues as recorded by state agencies.
- (e) The amounts shown are fiscal year 2004-05 revenues as recorded by state agencies.
- (f) This category includes intergovernmental transfers. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.
- (g) Certain transfers between General Fund appropriations are recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

Source: Wisconsin Department of Administration.

Table II-12; General Fund Recorded Expenditures By Function (Page 46). Update the table with the following:

**General Fund Recorded Expenditures By Function
(Agency Recorded Basis)
July 1, 2004 to October 31, 2004 compared with previous year ^(a)**

| | Annual Fiscal Report Expenditures <u>2003-04 FY^(b)</u> | Appropriations <u>2004-05 FY^(c)</u> | Recorded Expenditures July 1, 2003 to <u>October 31, 2003^(d)</u> | Recorded Expenditures July 1, 2004 to <u>October 31, 2004^(e)</u> |
|-----------------------------------|---|---|--|--|
| Commerce..... | \$ 310,494,000 | \$ 270,736,800 | \$ 100,624,531 | \$ 81,563,237 |
| Education..... | 9,338,633,000 | 9,369,734,400 | 2,213,627,924 | 2,284,970,899 |
| Environmental Resources..... | 182,335,000 | 251,677,800 | 77,629,010 | 72,243,788 |
| Human Relations & Resources | 7,936,185,000 | 8,355,526,200 | 2,712,791,385 | 2,875,138,843 |
| General Executive..... | 2,104,690,000 | 627,647,400 | 192,260,609 | 206,894,711 |
| Judicial..... | 110,882,000 | 110,988,200 | 41,473,255 | 41,618,988 |
| Legislative..... | 59,302,000 | 52,479,800 | 16,224,158 | 15,427,484 |
| General Appropriations..... | <u>1,673,811,000</u> | <u>1,690,239,300</u> | <u>702,559,894</u> | <u>688,753,489</u> |
| TOTAL..... | <u>\$ 21,716,332,000</u> | <u>\$ 20,729,029,900</u> | <u>\$ 6,057,190,766</u> | <u>\$ 6,266,611,439</u> |

- (a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.
- (b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2003-04 fiscal year, dated October 15, 2004.
- (c) Estimated appropriations based on the 2003-05 budget signed into law, with some partial vetoes, on July 24, 2003 by Governor Doyle (2003 Wisconsin Act 33). The estimated appropriations do not reflect the re-estimates of expenditures that LFB released on January 15, 2004.
- (d) The amounts shown are fiscal year 2003-04 expenditures as recorded by state agencies.
- (e) The amounts shown are fiscal year 2004-05 expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

APPENDIX C

GLOSSARY

The following definitions apply to capitalized terms used in this Official Statement.

Accreted Value means, with respect to any Capital Appreciation Bond, the initial principal amount at which such Capital Appreciation Bond is sold to the initial purchaser by the State without reduction to reflect underwriter's discount, compounded from the date of delivery of such Bonds semiannually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation shall be an interest payment date) at the original issue yield to maturity less, with respect to Bonds with interest payable on a current basis, interest paid and payable during such period plus, if such date of calculation shall not be an interest payment date, a portion of the difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semiannual period in equal daily amounts (based on a 360-day year of twelve 30-day months); provided, however, that the calculation of Accreted Value for purposes of determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution shall be based upon the Accreted Value calculated as of the interest payment date immediately preceding such date of calculation (unless such date of calculation shall be an interest payment date, in which case shall be calculated as of the date of calculation).

Act means Sections 281.58 and 281.59 of the Wisconsin Statutes, as amended.

Administrative Fund means the fund of that name established by the General Resolution.

Aggregate Debt Service for any period means, with respect to the Bonds, as of any date of calculation, the sum of the amounts of Debt Service for such period.

Authorized Officer means the Capital Finance Director of the State and any other person designated in writing to the Trustee by the Capital Finance Director or by the Commission as an Authorized Officer.

Bond or **Bonds** means any bond or bonds, as the case may be, authenticated and delivered under the General Resolution pursuant to a Series Resolution.

Bond Depository means, initially, The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York or any other bond depository appointed by the Commission to act as bond depository for the Bonds in connection with a book-entry-only system of distributing Bonds.

Bondowners or **Owner of Bonds** or **Owner** (when used with reference to Bonds) or any term of similar import means the person or party in whose name the Bond is registered.

Business Day means any day other than a Saturday or Sunday or other day on which commercial banks in the city in which the principal office of the Trustee is located are not open for business, except as may be provided in a Series or Supplemental Resolution.

Capital Appreciation Bond means Bonds that provide for the addition of all or any part of accrued and unpaid interest thereon to the principal due thereon upon such terms and for such periods of time as may be determined by the applicable Series Resolution.

Capitalized Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Clean Water Fund Program means the program established pursuant to the Act and operated and administered as part of the Environmental Improvement Fund.

Code means the Internal Revenue Code of 1986, as amended from time to time, and all regulations promulgated thereunder to the extent applicable to any Bonds, Loans or Municipal Obligations, as the case may be.

Commission means the State of Wisconsin Building Commission or any successor body having the power under the Subchapter II of Chapter 18, as amended, of the Statutes to authorize and direct the issuance of Bonds.

Commitment means a notice of financial assistance commitment entered into between DNR, DOA and a Municipality.

Contribution Amount has the meaning set forth in the definition of “Loan Credit Reserve Fund Requirement.”

Costs of Issuance means, except as limited in any Series Resolution, any items of expense directly or indirectly payable by or reimbursable to the State and related to the authorization, sale and issuance of Bonds or Notes and the investment of the proceeds thereof, including, but not limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of Fiduciaries, legal fees and charges, professional consultants’ fees, costs of credit ratings, premiums for insurance of the payment of Bonds or Notes, or any fees and expenses payable in connection with any entity insuring the State, the Trustee or the owners of the Bonds or Notes against loss on Loans or Municipal Obligations, fees and charges for execution, transportation and safekeeping of Bonds or Notes, costs and expenses of refunding of Bonds or Notes, fees and expenses payable in connection with any Credit Facility, remarketing agreements, tender agent agreements or interest rate indexing agreements, and other costs, charges and fees in connection with the original issuance of Bonds or Notes.

Costs of Issuance Account means the account of that name established within the Administrative Fund by the General Resolution.

Counsel’s Opinion means an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the State (who may be counsel to the State); provided, however, that for the purposes of Article II of the General Resolution (addressing authorization and issuance of Bonds) such term means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds selected by the State and provided, further, that for the purposes of Section 8.08 of the General Resolution (addressing conditions for delivery of Municipal Obligations), such term means an opinion signed by an attorney or firm of attorneys selected by the Municipality and approved by the State.

Credit Facility means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy, guaranty or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution or the federal government or an agency thereof which (1) provides for payment of all or a portion of the principal of, Redemption Price of, or interest on any Series of Bonds, (2) provides funds for the purchase of such Bonds or portions thereof, (3) provides deposits for a fund or account under the General Resolution, or (4) provides for or further secures payment of Loans or Municipal Obligations, provided that with respect to (3) above, the issuer of which Credit Facility is rated, or the effect of which Credit Facility would cause bonds insured or secured thereby to be rated, in a rating category by each Rating Agency no lower than the then current rating on the Bonds (without such Credit Facility).

Debt Service for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (1) interest payable during such period on Bonds of such Series, (2) that portion of the Principal Installments for such Series which are payable during such period, and (3) any “Reimbursement Obligation” or “Parity Reimbursement Obligation” as defined in the General Resolution. Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of

calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Debt Service Fund means the fund of that name established by the General Resolution.

Depository means any bank, trust company, or national banking association, which may be the Trustee, selected by the Commission and approved by the Trustee as a depository of moneys and securities held under the provisions of the General Resolution and its successor or successors.

Direct Loan means loans made primarily from the proceeds of federal Capitalization Grants, the State Match, or repayments of Direct Loans, and excludes any Leveraged Loan.

DNR means the State of Wisconsin Department of Natural Resources.

DOA means the State of Wisconsin Department of Administration.

DTC means The Depository Trust Company, New York, New York.

Environmental Improvement Fund means the nonlapsible trust fund of that name created by Section 25.43 of the Statutes.

EPA means the United States Environmental Protection Agency.

Expense Account means the account of that name established within the Administrative Fund established by the General Resolution.

Fees and Charges means all fees and charges, if any, charged by the State to Municipalities pursuant to the terms and provisions of Loans or Municipal Obligations but does not include principal of and interest on such Municipal Obligations.

Fiduciary or Fiduciaries means the Trustee, any Paying Agent, any Depository or any or all of them, as may be appropriate.

Financial Assistance Agreement means any agreement entered into between DNR, DOA, and a Municipality for financial assistance.

Fiscal Year means any 12 consecutive calendar months commencing with the second day of June and ending on the first day of the following June.

General Resolution means the Clean Water Revenue Bond General Resolution adopted by the Building Commission on March 7, 1991, as amended by a resolution adopted by the Commission on July 30, 2003, as the same may be amended and supplemented from time to time.

Information Services means an institution or other service providing information with respect to called bonds, which shall include but not be limited to those identified in the General Resolution and others designated by an Authorized Officer.

Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Investment Obligation means any of the following that at the time are legal investments for moneys of the State:

- (1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as at the time of their purchase such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof

(which may consist of specified portions of the interest thereon) of the character described in this clause (1);

(2) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (1) hereof which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (1) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this clause (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (2), as appropriate, and (d) which at the time of their purchase under the General Resolution bear the highest rating available from each Rating Agency;

(3) bonds, debentures, participation certificates (representing a timely guaranty of principal and interest), notes or similar evidences of indebtedness of any of the following: Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association (excluding "stripped" securities), Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association or Tennessee Valley Authority;

(4) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided, however, that any investment purchased pursuant to this clause shall be rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(5) obligations of any state of the United States of America or of any political subdivision or public agency or instrumentality thereof, including the State, provided that at the time of their purchase under the General Resolution such obligations are rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(6) direct obligations of the State or obligations guaranteed by the State that have the same rating as direct obligations of the State;

(7) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase under the General Resolution the highest rating available from each Rating Agency;

(8) interest-bearing time deposits, certificates of deposit or other similar banking arrangements with banks (which may include any Fiduciary), provided such deposits are

made with banks rated by each Rating Agency at the time the deposit is made no lower than the rating assigned to the Bonds by such Rating Agency;

(9) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which are rated at the time of their purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(10) repurchase agreements for obligations of the type specified in clauses (1) and (3) above, provided either (a) the repurchase agreement is an unconditional obligation of the counterparty and such counterparty is rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or (b) the repurchase agreement is an obligation of a counterparty that is rated at the time of its purchase by each Rating Agency in an investment grade category and is collateralized by obligations which are marked to market daily and have a value equal to not less than the percentage of the amount thereby secured specified by each Rating Agency, taking into account the maturity of such obligations;

(11) any investment obligation or deposit the investment in which will not, at the time such investment is made, adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency;

(12) any investment agreement with a bank, bank holding company, insurance company or other financial institution rated at the time such investment is made by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or guaranteed by an entity rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency; and

(13) the Local Government Pooled–investment Fund of the State established under Chapter 25 of the Wisconsin Statutes.

Loan or Leveraged Loan means a loan heretofore or hereafter made by the State to a Municipality from the Loan Fund pursuant to a Financial Assistance Agreement and the Act and funded from the Loan Fund.

Loan Credit Reserve Fund means the fund of that name established by the General Resolution.

Loan Credit Reserve Fund Requirement means and is calculated as follows:

(1) Upon the issuance of the initial Series of Bonds, an Authorized Officer delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (**Loan Credit Reserve Fund Schedule** or **Schedule**) approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each Loan disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the “**Contribution Amount**”.

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total

Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

Loan Fund means the fund of that name established by the General Resolution.

Loan Repayments or Leveraged Loan Repayments means any payment on a Loan pursuant to a Financial Assistance Agreement, or on the Municipal Obligations evidencing and securing the same, on account of the principal, interest, and premium, if any, due on such Loan, including without limitation scheduled payments of principal and interest on such Loan or Municipal Obligation, any payment made to cure a default, prepayments of principal or interest, and any additional amounts payable upon prepayment of such Loan or Municipal Obligations, and any amounts paid with respect to such Loan or Municipal Obligation on account of (1) acceleration of the due date of such Loan or such Municipal Obligation, (2) the sale or other disposition of such Loan or the Municipal Obligations and other collateral securing such Loan, (3) the receipt of proceeds of any insurance or guaranty of such Loan or Municipal Obligations or any Credit Facility applicable to such Loan or Municipal Obligations, and (4) the exercise of any right or remedy granted to the State and available under law or the applicable Financial Assistance Agreement upon default on such Loan or Municipal Obligations but specifically excluding Fees and Charges.

Municipal Obligations means the bonds, notes, or other evidence of debt issued by any Municipality and authorized by law and which have heretofore been or will hereafter be acquired by the State as evidence of indebtedness of a Loan, Direct Loan, or Proprietary Loan to the Municipality pursuant to the Act. Municipal Obligations may constitute any of a combination of the following: a revenue obligation secured by a covenant to assess user fees and a pledge of the utility's revenues, a revenue obligation secured by special assessments and other utility revenue and a pledge of the utility's revenues, a general obligation secured by a tax levy and a pledge of all available financial resources of the Municipality.

Municipality means a political subdivision of the State constituting a "municipality" within the meaning of the Act, duly organized and existing under the laws of the State and any successor entity or a Federally recognized American Indian tribe or band in the State.

Non-SRF Account means account of that name established within the Loan Credit Reserve Fund.

Notes means any bond anticipation notes issued by the State pursuant to the Act.

NRMSIR means nationally recognized municipal securities information repository.

Outstanding, when used with reference to Bonds, other than Bonds referred to in Section 10.05 of the General Resolution (addressing Bonds owned or held by or for the account of the State), means, as of any date, Bonds theretofore or then being delivered under the provisions of the General Resolution, except: (1) any bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (2) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in Trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the General Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (3) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Resolution, and (4) Bonds deemed to have been paid as provided in Article 12 of the General Resolution (addressing defeasance). In determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution, the principal amount of a Capital Appreciation Bond that shall be deemed Outstanding for such purposes shall be the Accreted Value thereof.

Paying Agent for the Bonds of any Series means the bank, trust company, or national banking association, which may be the Trustee, and its successor or successors, appointed pursuant to the provisions of the General Resolution and a Series Resolution or any other resolution of the Commission adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

Pledged Receipts means:

- (1) all Loan Repayments, including both timely and delinquent payments,
- (2) Fees and Charges held or collected by the State,
- (3) any moneys received by the State under Section 281.59 (11)(b) of the Wisconsin Statutes (that is, State payments intercepted by DOA, and taxes collected by county treasurers) upon a default under a Municipal Obligation,
- (4) any moneys made available to the Clean Water Fund Program pursuant to Section 281.59 (13m) of the Wisconsin Statutes (that is, the State “moral obligation” for individual Loans),
- (5) any moneys collected by recourse to collateral and security devices under the Municipal Obligations, and
- (6) any other moneys held or received by the State or the Trustee relating to the Municipal Obligations.

Principal Account means the account of that name established within the Debt Service Fund by the General Resolution.

Principal Installment means, as of any date of calculation and with respect to any Series of Bonds Outstanding, (1) the principal amount or Accreted Value of Bonds of such Series due on any payment date for which no Sinking Fund Installments have been established, or (2) the Sinking Fund Installment due on a date for Bonds of such Series, or (3) if such dates coincide, the sum of such principal amount or Accreted Value of Bonds and of such Sinking Fund Installment(s) due on such future date; in each case in the amounts and on the dates as provided in the Series Resolution authorizing such Series of Bonds; provided, however, that Principal Installments shall not include the principal of Notes.

Project means any municipal project for the design, acquisition, construction, improvement, repair, reconstruction, renovation, or expansion of any municipal wastewater collection or treatment system or water supply system that is eligible for financing by the State pursuant to the Act.

Proprietary Loan means financial assistance made primarily from the proceeds of State general obligation bonds or repayment of Proprietary Loans, and excludes any Direct Loan or Leveraged Loan.

Rating Agency means a credit rating agency which is nationally recognized for skill and expertise in rating the credit of obligations similar to the Bonds and which has assigned and currently maintains a rating on any Outstanding Bonds at the request of the State (which request may be withdrawn by the State so long as following such withdrawal of request, the Bonds are rated by at least two Rating Agencies), and any successor to any such agency by merger, consolidation or otherwise.

Rebate Fund means the fund of that name established by the General Resolution.

Record Date means, unless otherwise determined by a Series Resolution for a Series of Bonds, the close of business on the 15th day proceeding a payment date or, if such day shall not be a business day, the immediately preceding business day.

Redemption Account means the account of that name established within the Debt Service Fund by the General Resolution.

Redemption Price, when used with respect to a Bond other than a Capital Appreciation Bond, or a portion thereof to be redeemed, means the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof, plus interest to the redemption date, pursuant to the General Resolution and the applicable Series Resolution, but, when used with respect to a Capital Appreciation Bond, “Redemption Price” means the Accreted Value on the date of redemption of such Bond or portion thereof plus the applicable premium, if any.

Refunding Bonds means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance to refund other Bonds.

Revenue Fund means the fund of that name established by the General Resolution.

Series of Bonds or Bonds of a Series or words of similar meaning means the series of Bonds authorized by a Series Resolution.

Series Resolution means a resolution of the Building Commission authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution.

Sinking Fund Installment means, as of any particular date of calculation, (i) the amount required by the General Resolution and a Series Resolution to be deposited by the State for the retirement of Bonds which are stated to mature subsequent to such date or (ii) the amount required by the General Resolution and a Series Resolution to be deposited by the State on a date for the payment of Bonds at maturity on a subsequent date.

SRF Account means the account of that name established within the Loan Credit Reserve Fund by the General Resolution.

State means the State of Wisconsin.

State Equity Fund means the fund of that name established by the General Resolution.

Subsidy Fund means the fund of that name established by the General Resolution.

Subsidy Fund Requirement means that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing immediately following the dated date of the initial Series of Bonds and thereafter an interest payment date and ending on the next interest payment date (**Period**) which is at least equal to the amount by which Aggregate Debt Service payable during the period exceeds the sum of (1) scheduled disbursements from the Capitalized Interest Account and (2) Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (2) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

Subsidy Fund Transfer Amount means that amount equal to the amount by which Aggregate Debt Service payable during the Period (as such term is used in the definition of Subsidy Fund Requirement) exceeds the sum of (1) Loan Repayments scheduled to be received and delinquent

Loan Repayments actually received during the Period, (2) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (3) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (4) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (5) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period.

Supplemental Resolution means a resolution supplemental to or amendatory of the General Resolution, adopted by the Commission in accordance with the General Resolution.

Trustee means U. S. Bank National Association, as successor to Firststar Trust Company, and its successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the General Resolution.

APPENDIX D

LOAN CREDIT RESERVE FUND SCHEDULES

Introduction

The General Resolution establishes the amount and timing of funds and securities required to be deposited or on deposit in the Loan Credit Reserve Fund, based on Schedules reviewed by no less than two Rating Agencies. The State, with the consent of a Rating Agency, may from time to time change the Schedule previously approved by such Rating Agency so long as the change does not adversely affect the then-current rating on the Bonds. To the extent the amount of the deposit or amount on deposit required by the Schedule approved by one Rating Agency differs from the amount required by the Schedule approved by another Rating Agency, the larger amount is required. As of the date of this Official Statement, the amount held in the Loan Credit Reserve Fund consisted of \$59 million in cash and investments and \$17 million in a Debt Service Reserve Insurance Policy (**Surety Bond**) issued by XL Capital Assurance Inc. This total of \$76 million exceeded the amount required on such date, which was approximately \$71 million.

Current Schedules

The Bonds are currently rated AA+ by Fitch Ratings (**Fitch**), Aa2 by Moody's Investors Service, Inc. (**Moody's**) and AA+ by Standard & Poor's Ratings Services (**S&P**). Each of the following Schedules has been approved by the respective Rating Agency indicated.

Fitch Ratings

Based on certain credit characteristics, each Loan will be assigned to one of six credit categories, which are explained below. Any assignment of a Loan to a credit category other than "Not Rated; Interceptable State Aid Factor 2.0 or Greater" or "Not Rated; Interceptable State Aid Factor Less Than 2.0" is subject to review by Fitch. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular Loan and any amounts disbursed under that Loan differs, depending on the borrower. The Municipality with total outstanding General Resolution Leveraged Loans in a credit category below that of the Bonds, such that the Municipality's outstanding Loan amount is larger than that of any other Municipality with outstanding Loans in credit categories below that of the Bonds, is the "Largest Borrower Below Bond Credit Quality". The required deposit attributable to the Largest Borrower Below Bond Credit Quality shall equal the total of all debt service payments attributable to the Loan or Loans to that Borrower over the four-year period in which such debt service payments are the greatest. For any Loans to borrowers other than the Largest Borrower Below Bond Credit Quality, the required deposit shall equal the product of the total of all debt service payments attributable to such Loans over the four-year period in which such debt service payments are the greatest times the factor, described below, assigned to Loans of the applicable credit category.

Loans are currently assigned to credit categories based on one or more of the following characteristics, (1) the Fitch rating given to the Municipal Obligation (or its lack of a Fitch rating), (2) the credit quality estimate for the Municipal Obligation based on information available to Fitch from sources it believes to be reliable, or (3) the anticipated amount of annual State payments that can potentially be intercepted by DOA.

The State recognizes that the credit quality estimate, or "shadow rating", is not necessarily the official or public Fitch ratings for the Municipal Obligation and are used solely for purposes of analyzing the credit quality of the Bonds. The intercept power is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Aid Intercept" in Part VI of the State's Continuing Disclosure Annual Report, dated December 23, 2003 (**2003 Annual Report**). If the Municipal Obligation is not rated by Fitch, the State may request that Fitch assign a credit quality estimate, or "shadow rating", for the Municipal Obligation.

Credit categories to which Loans may be assigned by Fitch currently include the following:

“AAA” Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of the highest credit quality, denoting the lowest expectation of credit risk. Assignments to this category are made only in cases of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

“AA” Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of very high credit quality, denoting a very low expectation of credit risk. Assignments to this category are made in cases of very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

“A” Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of high credit quality, denoting a low expectation of credit risk. Assignments to this category are made in cases of strong capacity for timely payment of financial commitments. Nevertheless, this capacity may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher credit quality categories.

“BBB” Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of good credit quality, denoting a currently low expectation of credit risk. Assignments to this category are made in cases of adequate capacity for timely payment of financial commitments. Adverse changes in circumstances and in economic conditions are more likely to impair this capacity than is the case for higher credit quality categories.

Not Rated; Interceptable State Aid Factor 2.0 or Greater. The anticipated amount of annual State payments that can potentially be intercepted by the State is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality: State shared revenue. A Loan is currently assigned to this category if its related Municipal Obligation is: (1) not rated by Fitch or categorized as being of speculative grade credit quality by Fitch, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the maximum annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Interceptable State Aid Factor Less Than 2.0. A Loan is currently assigned to this category if its related Municipal Obligation is: (1) not rated by Fitch or categorized as being of speculative grade credit quality, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the maximum annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The following chart shows the current factor assigned to each of the six credit categories by Fitch.

| <u>Category</u> | <u>Factor</u> |
|--|---------------|
| ‘AAA’ Credit Quality Category | 0% |
| ‘AA’ Credit Quality Category | 0 |
| ‘A’ Credit Quality Category | 6 |
| ‘BBB’ Credit Quality Category | 12 |
| Not Rated; Interceptable State Aid Factor 2.0 or Greater | 6 |
| Not Rated; Interceptable State Aid Factor Less Than 2.0 | 34 |

The State recognizes that lower factors may be assigned to Loans related to Municipal Obligations that are deemed by Fitch to be general obligations secured by the Municipality’s full faith and credit, based on Fitch’s current rating guidelines for leveraged municipal loan pools. However, the

State does not currently opt to assign such lower factors to such Loans, since the above factors result in a more conservative level of funding for the Loan Credit Reserve Fund.

The State recognizes that Fitch's rating on the Bonds is based only in part upon the level of funding in the Loan Credit Reserve Fund and the credit quality of borrowers from Bond funds. Other factors upon which the Bonds' rating is based currently include, but are not limited to, Fitch's general obligation bond rating for the State of Wisconsin, as well as structural and legal characteristics of the Clean Water Fund Program, Clean Water Fund Program management, Clean Water Fund Program loan underwriting practices, Clean Water Fund Program loan monitoring practices, and permitted Clean Water Fund Program investments. The State recognizes that factors upon which the Bonds' rating is based may change in the future. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the Clean Water Fund Program, and the State recognizes that the rating maintained by Fitch may be based on the maintenance of amounts greater than the amounts required under this particular Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same credit rating category as the Bonds. The State further agrees that, if practicable, it will provide Fitch with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

Moody's Investors Service, Inc.

As part of the Schedule submitted to Moody's, the State has indicated that it will maintain the Loan Credit Reserve Requirement at a level that corresponds to certain Loan portfolio credit characteristics. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund is the product of the average annual debt service of the outstanding, disbursed Loans times a factor of 120%, and is based on an evaluation of the Loans shown in "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Loans" in Part VI of the 2003 Annual Report. A different factor may be applied if Loan portfolio credit characteristics change.

Standard & Poor's Ratings Services

Based on certain credit characteristics, each Loan will be assigned one of five categories, which are explained below. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular disbursement from the Loan Fund is the product of the maximum annual debt service payment on the Loan attributable to the disbursement times the factor assigned to that particular category.

The following chart shows the current factor assigned to each of the five categories by S&P. Following the chart is an explanation of the characteristics of each category.

| <u>Category</u> | <u>Factor</u> |
|--------------------------------|---------------|
| Higher Investment Grade Rating | 0% |
| Medium Investment Grade Rating | 40 |
| Lower Investment Grade Rating | 64 |
| Not Rated; Greater State Aids | 40 |
| Not Rated; Lesser State Aids | 140 |

Loans are categorized based on two characteristics: (1) the rating given to the Municipal Obligation (or its lack of a rating), and (2) the anticipated amount of annual State payments that can potentially be intercepted by DOA.

The intercept power is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Aid Intercept" in Part VI of the 2003 Annual Report. If the Municipal Obligation is not rated by S&P, the State may request permission from S&P to assign the Municipal Obligation to a particular category.

The anticipated amount of annual State payments that can potentially be intercepted by DOA is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality–State shared revenue.

Higher Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in either of the two highest rating categories (AAA;AA).

Medium Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the third highest rating category (A). S&P may also permit a Loan to be assigned to this category, regardless of whether or not the Municipal Obligation is rated, in the event the State designates the Loan as one to which the State “moral obligation” applies. The State “moral obligation” is described in “SECURITY AND SOURCE OF PAYMENT FOR BONDS”.

Lower Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the minimum investment grade rating category (BBB).

Not Rated; Greater State Aids. A Loan is assigned to this category if the Municipal Obligation is: (1) either is not rated or is rated below investment grade, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Lesser State Aids. A Loan is assigned to this category if the Municipal Obligation is: (1) either is not rated or is rated below investment grade, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The State recognizes that the rating maintained by S&P is based in part upon the level of funds available in the Loan Credit Reserve Fund. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the Clean Water Fund Program, and the State recognizes that the rating maintained by S&P may be based on the maintenance of amounts greater than the amounts required under this Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same rating category as the Bonds. The State further agrees that, if practicable, it will provide S&P with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

The State agrees that if the rating on or ratability of an investment in the Loan Credit Reserve Fund is based on either a credit enhancement policy or financial guarantee, the State will notify S&P not less than 30 days prior to the expiration of such policy and indicate what action, if any, is expected to be taken with respect to the credit quality of the investment.

Ratings on Municipal Obligations

Any explanation of the significance of a rating with respect to a Municipal Obligation may only be obtained from the Rating Agency furnishing the rating. There is no assurance that the rating given to a Municipal Obligation will be maintained for any period of time; a rating may be lowered or withdrawn entirely by the Rating Agency if in its judgment circumstances warrant.

APPENDIX E

FORM OF BOND COUNSEL OPINION

Upon delivery of the 2004 Series 2 Bonds, Michael Best & Friedrich LLP expects to deliver to the State a legal opinion in substantially the following form:

(Letterhead of Michael Best & Friedrich LLP)

\$107,025,000

State of Wisconsin

Clean Water Revenue Refunding Bonds, 2004 Series 2

We have acted as bond counsel in connection with the issuance by the State of Wisconsin (**State**) of \$107,025,000 aggregate principal amount of Clean Water Revenue Refunding Bonds, 2004 Series 2 (**2004 Series 2 Bonds**). We have examined: (1) the constitution and laws of the State, including particularly Subchapter II of Chapter 18 and Sections 281.58 and 281.59 of the Wisconsin Statutes (**Act**); (2) a certified copy of the proceedings of record of the State preliminary to and in connection with the issuance of the 2004 Series 2 Bonds, including particularly 1991 State of Wisconsin Building Commission Resolution 5 dated March 7, 1991 entitled "Clean Water Revenue Bond General Resolution", as amended by a resolution adopted by the State of Wisconsin Building Commission on July 30, 2003 (**General Resolution**), and the 2004 State of Wisconsin Building Commission Resolution No. 3 dated February 18, 2004 entitled "Resolution Authorizing Not to Exceed \$125,000,000 Clean Water Revenue Refunding Bonds", (collectively, **Resolutions**); (3) the Internal Revenue Code of 1986, as amended (**Code**), including particularly Sections 103, 141 and 148 thereof; and (4) such other documents and records as we have deemed necessary to render this opinion. We have also examined one of the 2004 Series 2 Bonds and have found it to be in proper form.

The 2004 Series 2 Bonds are dated January 25, 2005; are payable as to interest on June 1 and December 1 in each year until maturity, commencing June 1, 2005; are issuable in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof; are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the 2004 Series 2 Bonds and in the Resolutions; and mature on the dates and in the principal amounts and will bear interest at the rates set forth below:

| <u>Year</u> <u>(June 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Year</u> <u>(June 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> |
|--------------------------------|-----------------------------------|--------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| 2009 | \$ 4,350,000 | 3.25% | 2015 | \$ 14,465,000 | 5.25% |
| 2010 | 8,085,000 | 5.00 | 2016 | 9,265,000 | 5.25 |
| 2011 | 3,775,000 | 5.25 | 2017 | 10,675,000 | 5.00 |
| 2012 | 12,195,000 | 5.25 | 2018 | 5,520,000 | 5.00 |
| 2013 | 13,085,000 | 5.25 | 2019 | 5,790,000 | 5.00 |
| 2014 | 13,765,000 | 5.25 | 2020 | 6,055,000 | 5.00 |

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of officers of the State and other public officials furnished to us, without undertaking to verify the same by independent investigation, and we have assumed compliance with and enforcement of the provisions of: (1) the Tax Regulatory Agreement, dated the date hereof, and (2) the Financial Assistance Agreement entered or to be entered into between the State and each municipal borrower. The rights of the owners of the 2004 Series 2 Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in accordance with general principles of equity.

Based on the foregoing, we are of the opinion that, as of the date hereof:

1. The State has the valid right and lawful authority to issue the 2004 Series 2 Bonds, to provide financial assistance to local governmental units for the improvement of publicly owned wastewater treatment facilities, to adopt the Resolutions and to perform its obligations under the terms and conditions of the Resolutions.
2. The Resolutions have been duly and lawfully adopted by the Building Commission, are in full force and effect, and constitute valid and binding obligations of the State enforceable in accordance with their terms.
3. The General Resolution creates the valid pledge that it purports to create of the “Pledged Receipts,” as defined in the General Resolution, and other revenues, receipts, funds or moneys pledged under the General Resolution.
4. The 2004 Series 2 Bonds are valid and binding revenue obligations of the State secured by a pledge in the manner and to the extent set forth in the General Resolution, and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution on a parity with all other obligations that have been heretofore or may be hereafter issued under the General Resolution.
5. The 2004 Series 2 Bonds are not general obligations of the State, its agencies, instrumentalities or political subdivisions, and the 2004 Series 2 Bonds do not constitute “public debt” of the State as that term is used in the constitution and laws of the State. The State is not obligated to pay the principal or redemption price of or interest on the 2004 Series 2 Bonds from any funds of the State other than those pledged pursuant to the Resolutions, and neither the faith nor credit nor taxing power of the State or any agency, instrumentality or political subdivision thereof is pledged to the payment of the principal or redemption price of or interest on the 2004 Series 2 Bonds.
6. The provisions of the Act relating to the State’s moral obligation do not violate the constitution of the State or any law of the State, but such provisions do not constitute a legally enforceable obligation or create debt on behalf of the State.
7. Interest on the 2004 Series 2 Bonds is excluded for federal income tax purposes from the gross income of the owners of the 2004 Series 2 Bonds under existing law.
8. Interest on the 2004 Series 2 Bonds will not be included as an item of tax preference for purposes of calculating the alternative minimum tax imposed on individuals and corporations. Ownership of 2004 Series 2 Bonds may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry 2004 Series 2 Bonds. In addition, certain foreign corporations doing business in the United States may be subject to a “branch profits tax” on their effectively connected earnings and profits, including interest on the 2004 Series 2 Bonds.

MICHAEL BEST & FRIEDRICH LLP

Appendix F
OUTSTANDING BONDS
REFUNDED BY 2004 SERIES 2 BONDS

| Series | Dated Date | Principal Amount | Interest Rate | Maturity | CUSIP | Redemption Date | Redemption Price |
|---------------|-------------------|-------------------------|----------------------|-----------------|--------------|------------------------|-------------------------|
| 1998 Series 1 | 1/15/1998 | \$ 4,400,000 | 5.00% | 6/1/2009 | 977092 EE1 | 6/1/2008 | 100% |
| | | 4,600,000 | 5.00 | 6/1/2010 | 977092 EF8 | 6/1/2008 | 100 |
| | | 5,040,000 | 4.60 | 6/1/2012 | 977092 EH4 | 6/1/2008 | 100 |
| | | 5,285,000 | 4.60 | 6/1/2013 | 977092 EJ0 | 6/1/2008 | 100 |
| | | 5,545,000 | 4.65 | 6/1/2014 | 977092 EK7 | 6/1/2008 | 100 |
| | | 5,820,000 | 4.70 | 6/1/2015 | 977092 EL5 | 6/1/2008 | 100 |
| 1999 Series 1 | 8/15/1999 | 3,710,000 | 5.25 | 6/1/2010 | 977092 FQ3 | 6/1/2009 | 100 |
| | | 3,890,000 | 5.25 | 6/1/2011 | 977092 FR1 | 6/1/2009 | 100 |
| | | 4,090,000 | 5.25 | 6/1/2012 | 977092 FS9 | 6/1/2009 | 100 |
| | | 5,280,000 | 5.50 | 6/1/2017 | 977092 FX8 | 6/1/2009 | 100 |
| | | 5,560,000 | 5.50 | 6/1/2018 | 977092 FY6 | 6/1/2009 | 100 |
| | | 12,035,000 | 5.75 | 6/1/2020 | 977092 FZ3 | 6/1/2009 | 100 |
| 2001 Series 1 | 4/1/2001 | 3,410,000 | 5.00 | 6/1/2012 | 977092 HB4 | 6/1/2011 | 100 |
| | | 3,565,000 | 5.25 | 6/1/2013 | 977092 HC2 | 6/1/2011 | 100 |
| | | 3,735,000 | 5.25 | 6/1/2014 | 977092 HD0 | 6/1/2011 | 100 |
| | | 3,910,000 | 5.25 | 6/1/2015 | 977092 HE8 | 6/1/2011 | 100 |
| | | 4,100,000 | 5.25 | 6/1/2016 | 977092 HF5 | 6/1/2011 | 100 |
| 2002 Series 1 | 5/1/2002 | 4,565,000 | 5.25 | 6/1/2013 | 977092 KU8 | 6/1/2012 | 100 |
| | | 4,795,000 | 5.25 | 6/1/2014 | 977092 KV6 | 6/1/2012 | 100 |
| | | 5,030,000 | 5.25 | 6/1/2015 | 977092 KW4 | 6/1/2012 | 100 |
| | | 5,280,000 | 5.25 | 6/1/2016 | 977092 KX2 | 6/1/2012 | 100 |
| | | 5,540,000 | 5.25 | 6/1/2017 | 977092 KY0 | 6/1/2012 | 100 |
| | | <u>\$ 109,185,000</u> | | | | | |

Appendix G
FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President
Attest: _____
Assistant Secretary

SPECIMEN