# OFFICIAL STATEMENT

**New Issue**

*This Official Statement provides information about the 2008 Series 3 Bonds. Some of the information appears on this cover page for ready reference. To make an informed investment decision, a prospective investor should read the entire Official Statement. Unless otherwise indicated, capitalized terms are defined in APPENDIX C.*

# $92,210,000
# STATE OF WISCONSIN
# CLEAN WATER REVENUE BONDS, 2008 SERIES 3

**Dated: Date of Delivery** **Due: June 1, as shown below**

| | |
|---|---|
| ***Ratings*** | AA+ Fitch Ratings<br>Aa1 Moody's Investors Service, Inc.<br>AA+ Standard & Poor's Ratings Services |
| ***Tax Exemption*** | Interest on the 2008 Series 3 Bonds is, for federal income tax purposes, excluded from gross income and not an item of tax preference. Interest on the 2008 Series 3 Bonds is not excluded from current State of Wisconsin income and franchise taxes—*Pages 11-13*. |
| ***Redemption*** | The 2008 Series 3 Bonds maturing on or after June 1, 2019 are callable at par on or after June 1, 2018—*Page 2.*<br>The 2008 Series 3 Bonds maturing on June 1, 2025 are subject to mandatory sinking fund redemption at par—*Page 2.* |
| ***Security*** | The 2008 Series 3 Bonds are payable solely from (1) Pledged Loan Repayments, (2) amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, and (3) all other Pledged Receipts. The Milwaukee Metropolitan Sewerage District and the State are expected to be the source of approximately 24% and 20%, respectively, of the funds expected to pay debt service on the Outstanding Bonds—*Pages 6-9*. |
| ***Priority*** | The 2008 Series 3 Bonds are issued on a parity with all other Bonds previously or hereafter issued under the General Resolution —*Page 6.* |
| ***Purpose*** | Proceeds of the 2008 Series 3 Bonds are being used to make Pledged Loans to Municipalities primarily for construction or improvement of their wastewater treatment facilities, to make a deposit into the Loan Credit Reserve Fund, and to pay for Costs of Issuance —*Page 3*. |
| ***Interest Payment Dates*** | June 1 and December 1, commencing June 1, 2009 |
| ***Closing/Settlement*** | On or about December 11, 2008 |
| ***Denominations*** | Multiples of $5,000 |
| ***Trustee/Registrar/Paying Agent*** | U.S. Bank National Association |
| ***Bond Counsel*** | Foley & Lardner LLP |
| ***Issuer Contact*** | Wisconsin Capital Finance Office<br>(608) 266-2305; DOACapitalFinanceOffice@wisconsin.gov |
| ***Book-Entry-System*** | The Depository Trust Company—*Pages 3-4.* |
| ***2007 Annual Report*** | This Official Statement incorporates by reference, and updates information and makes changes or additions to, Parts I, II, III, and VI of the State of Wisconsin Continuing Disclosure Annual Report, dated December 21, 2007. |

The prices and yields listed below were determined on November 24, 2008 at negotiated sale. The 2008 Series 3 Bonds were purchased at an aggregate purchase price of $94,383,115.73.

| CUSIP | Year (June 1) | Principal Amount | Interest Rate | Yield at Issuance | Price at Issuance | | First Optional Redemption Date | Call Price |
|---|---|---|---|---|---|---|---|---|
| 977092 RV9 | 2010 | $ 2,985,000 | 4.000% | 2.220% | 102.563% | | Not Callable | - |
| 977092 RW7 | 2011 | 3,135,000 | 5.000 | 2.510 | 105.931 | | Not Callable | - |
| 977092 RX5 | 2012 | 3,300,000 | 5.000 | 2.900 | 106.888 | | Not Callable | - |
| 977092 RY3 | 2013 | 3,465,000 | 3.000 | 3.180 | 99.254 | | Not Callable | - |
| 977092 RZ0 | 2014 | 3,645,000 | 5.000 | 3.420 | 107.823 | | Not Callable | - |
| 977092 SA4 | 2015 | 3,830,000 | 3.500 | 3.620 | 99.312 | | Not Callable | - |
| 977092 SB2 | 2016 | 7,930,000 | 5.000 | 3.830 | 107.539 | | Not Callable | - |
| 977092 SC0 | 2017 | 5,235,000 | 4.000 | 4.080 | 99.430 | | Not Callable | - |
| 977092 SD8 | 2018 | 8,450,000 | 5.000 | 4.280 | 105.557 | | Not Callable | - |
| 977092 SE6 | 2019 | 8,680,000 | 5.000 | 4.520 | 103.664 | (b) | 6/1/2018 | 100% |
| 977092 SF3 | 2020 | 4,920,000 | 5.000 | 4.740 | 101.964 | (b) | 6/1/2018 | 100 |
| 977092 SG1 | 2021 | 5,170,000 | 5.250 | 4.870 | 102.854 | (b) | 6/1/2018 | 100 |
| 977092 SH9 | 2025(a) | 24,825,000 | 5.500 | 5.200 | 102.219 | (b) | 6/1/2018 | 100 |
| 977092 SJ5 | 2026 | 6,640,000 | 5.125 | 5.270 | 98.355 | | 6/1/2018 | 100 |

**Morgan Stanley** **M♦R♦ Beal & Company** **Merrill Lynch & Co.**

November 25, 2008

(a) This maturity is subject to mandatory sinking fund redemption at par. See "2008 SERIES 3 BONDS; Redemption Provisions; *Mandatory Sinking Fund Redemption*" herein.

(b) These bonds are priced to the June 1, 2018 first optional redemption date.

This document is the State's official statement about the offering of the 2008 Series 3 Bonds; that is, it is the only document the State has authorized for providing information about the 2008 Series 3 Bonds. This document is not an offer or solicitation for the 2008 Series 3 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 2008 Series 3 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 2008 Series 3 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 2008 Series 3 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 2008 Series 3 Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of such 2008 Series 3 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 2008 SERIES 3 BONDS

## BUILDING COMMISSION MEMBERS

| **Voting Members** | **Term of Office Expires** |
|---|---|
| Governor Jim Doyle, Chairperson | January 2, 2011 |
| Senator Fred A. Risser, Vice-Chairperson | January 4, 2009 |
| Senator Ted Kanavas | January 4, 2009 |
| Senator Jeffrey Plale | January 2, 2011 |
| Representative Dean Kaufert | January 4, 2009 |
| Representative Phil Montgomery | January 4, 2009 |
| Representative Jennifer Shilling | January 4, 2009 |
| Mr. Terry McGuire, Citizen Member | At the pleasure of the Governor |
| **Nonvoting, Advisory Members** | |
| Mr. Adel Tabrizi, State Chief Engineer<br>Department of Administration | —— |
| Mr. Dave Haley, State Chief Architect<br>Department of Administration | —— |
| **Building Commission Secretary** | |
| Mr. David W. Helbach, Administrator<br>Division of State Facilities<br>Department of Administration | At the pleasure of the Building Commission and the Secretary of Administration |

## OTHER PARTICIPANTS

| | |
|---|---|
| Mr. J.B. Van Hollen<br>State Attorney General | January 2, 2011 |
| Mr. Michael L. Morgan, Secretary<br>Department of Administration | At the pleasure of the Governor |
| Mr. Matthew J. Frank, Secretary<br>Department of Natural Resources | At the pleasure of the Governor |

## DEBT MANAGEMENT AND DISCLOSURE

Department of Administration
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# SUMMARY DESCRIPTION OF THE 2008 SERIES 3 BONDS

*Selected information is presented on this page for the convenience of the user. To make an informed investment decision regarding the 2008 Series 3 Bonds, a prospective investor should read the entire Official Statement*

| | |
|---|---|
| Description: | Clean Water Revenue Bonds, 2008 Series 3 |
| Principal Amount: | $92,210,000 |
| Denominations: | Multiples of $5,000 |
| Dated Date: | Date of delivery (on or about December 11, 2008) |
| Interest Payment: | June 1 and December 1, commencing June 1, 2009 |
| Maturities: | June 1, 2010-2021, 2025, and 2026 |
| Record Dates: | May 15 and November 15 |
| Redemption: | *Optional*—The 2008 Series 3 Bonds maturing on or after June 1, 2019 are callable at par on or after June 1, 2018—See "2008 SERIES 3 BONDS; Redemption Provisions"<br>*Mandatory Sinking Fund*—The 2008 Series 3 Bonds maturing on June 1, 2025 are subject to mandatory sinking fund redemption at par—See "2008 SERIES 3 BONDS; Redemption Provisions" |
| Form: | Book-entry-only system. |
| Trustee/Paying Agent: | All payments of principal and interest on the 2008 Series 3 Bonds will be made by U.S. Bank National Association, as Paying Agent. All payments will be made to The Depository Trust Company, which will distribute payments to DTC Participants as described herein. |
| Security for Bonds: | The 2008 Series 3 Bonds, and all other parity Bonds previously issued or to be issued in the future, are payable solely from:<br>• Pledged Loan Repayments,<br>• Amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, and<br>• Any other Pledged Receipts.<br>Based on cash-flow calculations as of November 1, 2008, the Milwaukee Metropolitan Sewerage District and the State are expected to be the source of approximately 24% and 20%, respectively, of the funds expected to pay debt service on the Outstanding Bonds—See "SECURITY" |
| Outstanding Parity Bonds: | $773,825,000 as of November 1, 2008. |
| Authority for Issuance: | The 2008 Series 3 Bonds are authorized under the Act and Chapter 18, Wisconsin Statutes. |
| Purpose: | Proceeds of the 2008 Series 3 Bonds are being used to make Pledged Loans to Municipalities primarily for construction or improvement of their wastewater treatment facilities, to make a deposit into the Loan Credit Reserve Fund, and to pay for Costs of Issuance. |
| Additional Bonds: | Additional Bonds may be issued without limitation as to the amount, subject to any applicable statutory limitation, payable on parity with the 2008 Series 3 Bonds and all other Bonds previously issued, provided that the Loan Credit Reserve Fund Requirement and the Subsidy Fund Requirement are satisfied—See "SECURITY" |
| Tax Exemption: | Interest on the 2008 Series 3 Bonds is, for federal income tax purposes, excluded from gross income and not an item of tax preference—See "OTHER MATTERS; Tax Exemption"<br>Interest on the 2008 Series 3 Bonds is not excluded from current State of Wisconsin income and franchise taxes—See "OTHER MATTERS; Tax Exemption" |
| Legal Opinion: | Validity and tax opinion to be provided by Foley & Lardner LLP—See APPENDIX E |

# OFFICIAL STATEMENT

# $92,210,000

# STATE OF WISCONSIN

## CLEAN WATER REVENUE BONDS, 2008 SERIES 3

## INTRODUCTION

This Official Statement provides information about the $92,210,000 Clean Water Revenue Bonds, 2008 Series 3 **(2008 Series 3 Bonds)** that are being issued by the State of Wisconsin **(State)**. This Official Statement incorporates by reference, and includes updated information and makes changes or additions to, Parts I, II, III, and VI of the State of Wisconsin Continuing Disclosure Annual Report, dated December 21, 2007 **(2007 Annual Report)**.

The 2008 Series 3 Bonds are authorized under the Wisconsin Statutes, as well as a Clean Water Revenue Bond General Resolution adopted by the State of Wisconsin Building Commission **(Commission)** on March 7, 1991, as amended by resolutions adopted by the Commission on July 30, 2003 and June 28, 2006 **(General Resolution)**. The 2008 Series 3 Bonds are being issued under a series resolution adopted by the Commission on November 12, 2008 **(Series Resolution)**. 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, including copies of the Resolution, Financial Assistance Agreements, or Municipal Obligations, may be directed to:

| | |
|---|---|
| *Contact:* | Capital Finance Office<br>Attn: Capital Finance Director |
| *Phone:* | (608) 266-2305 |
| *Mail:* | 101 East Wilson Street, FLR 10<br>P.O. Box 7864<br>Madison, WI 53707-7864 |
| *E-mail:* | DOACapitalFinanceOffice@wisconsin.gov |
| *Website:* | www.doa.wi.gov/capitalfinance |

Unless otherwise indicated, capitalized terms used in this Official Statement are defined in APPENDIX C.

## 2008 SERIES 3 BONDS

### General

The front cover of this Official Statement sets forth the maturity dates, principal amounts, and interest rates for the 2008 Series 3 Bonds.

The 2008 Series 3 Bonds will be dated the date of their delivery (expected to be December 11, 2008) and will bear interest from that date payable on June 1 and December 1 of each year, beginning on June 1, 2009.

Interest on the 2008 Series 3 Bonds will be computed on the basis of a 360-day year of twelve 30-day months. The 2008 Series 3 Bonds are being issued in a book-entry-only system. The Commission has appointed, as the securities depository for the 2008 Series 3 Bonds, The Depository Trust Company, New York, New York **(DTC)**. See "2008 SERIES 3 BONDS; Book-

Entry-Only System" While the 2008 Series 3 Bonds are in the book-entry-only system, principal and interest will be paid to the securities depository.

The 2008 Series 3 Bonds are issued as fully registered bonds without coupons in principal denominations of $5,000, or any multiple of $5,000.

U.S. Bank National Association is the trustee for the Bonds (**Trustee**). In addition, the Trustee is the registrar (**Registrar**) and paying agent (**Paying Agent**) for the 2008 Series 3 Bonds.

**Redemption Provisions**

*Optional Redemption*

The 2008 Series 3 Bonds maturing on or after June 1, 2019 may be redeemed on June 1, 2018 or any date thereafter, in whole or in part in multiples of $5,000, at a redemption price equal to par (100% of the principal amount to be redeemed), plus accrued interest to the redemption date. The Commission may decide whether to redeem the 2008 Series 3 Bonds, and the Commission may direct the amounts and maturities of the 2008 Series 3 Bonds to be redeemed.

*Mandatory Sinking Fund Redemption*

The 2008 Series 3 Bonds maturing on June 1, 2025 (**2025 Term Bonds**) are subject to redemption from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem on June 1 of each year the respective amount of the 2025 Term Bonds specified below:

| Redemption Date (June 1) | Principal Amount |
|---|---|
| 2022 | $ 5,705,000 |
| 2023 | 6,025,000 |
| 2024 | 6,365,000 |
| 2025[a] | 6,730,000 |

[a] Stated maturity

The redemption price is equal to par (100% of the principal amount to be redeemed), plus accrued interest to the redemption date. Amounts accumulated in the Principal Account of the Debt Service Fund may be applied to the optional redemption (or the purchase in lieu of redemption) of the 2025 Term Bonds for which mandatory sinking fund installments have been established, and the principal amounts of the 2025 Term Bonds so redeemed or purchased may be applied to reduce the mandatory sinking fund installments established for the 2025 Term Bonds, all as the Capital Finance Director may direct.

*Selection of 2008 Series 3 Bonds*

So long as the 2008 Series 3 Bonds are in the book-entry-only system, selection of the beneficial owners affected by the redemption will be made by the securities depository and its participants in accordance with their rules.

*Notice of Redemption*

So long as the 2008 Series 3 Bonds are in the book-entry-only system, any redemption notice (which may be conditioned on certain factors such as the availability of funds) 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.

All redemption notices will also be sent to each Rating Agency and the Information Services. Failure to give any required notice of redemption as to any particular 2008 Series 3 Bonds will not affect the validity of the call for redemption of any 2008 Series 3 Bonds in respect of which no such failure has occurred. Any notice mailed as described above shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice.

Interest on any 2008 Series 3 Bond called for redemption will cease to accrue on the redemption date so long as the 2008 Series 3 Bond is paid or money is provided for its payment.

**Payment and Registration of 2008 Series 3 Bonds**

So long as the 2008 Series 3 Bonds are in the book-entry-only system, payments of principal and interest will be made by wire transfer to the securities depository or its nominee.

The Trustee is not required to transfer or exchange any 2008 Series 3 Bond during the 15 days next preceding any interest payment date for the 2008 Series 3 Bonds, or in the case of the proposed redemption of 2008 Series 3 Bonds, next preceding the date of the selection of the 2008 Series 3 Bonds to be redeemed. In the event that less than the entire principal amount of a maturity is redeemed, the Trustee shall issue a new 2008 Series 3 Bond certificate or certificates in the principal amount outstanding after redemption on the redemption date.

**Ratings**

At the State's request, ratings have been assigned to the 2008 Series 3 Bonds by several Rating Agencies:

| Rating | Rating Agency |
|---|---|
| AA+ | Fitch Ratings |
| Aa1 | Moody's Investors Service, Inc. |
| AA+ | Standard & Poor's Ratings Services |

Any explanation of what a rating means may only be obtained from the Rating Agency giving the rating. No one can offer any assurance that a rating given to the 2008 Series 3 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 downgrade or withdrawal of a rating may adversely affect the market price of the 2008 Series 3 Bonds.

**Sources and Uses of Funds**

The State anticipates that the proceeds of the 2008 Series 3 Bonds will be applied as follows.

| | |
|---|---|
| **Sources** | |
| Principal Amount of 2008 Series 3 Bonds | $92,210,000.00 |
| Net Original Issue Premium | 2,764,119.70 |
| Total Sources | $94,974,119.70 |
| **Uses** | |
| Deposit to Loan Fund | $84,721,115.73 |
| Deposit to Loan Credit Reserve Fund | 9,497,000.00 |
| Underwriters' Discount | 591,003.97 |
| Costs of Issuance | 165,000.00 |
| Total Uses | $94,974,119.70 |

**Book-Entry-Only System**

The 2008 Series 3 Bonds will initially be issued in the book-entry-only system. Purchasers of the 2008 Series 3 Bonds will not receive bond certificates but instead will have their ownership in the 2008 Series 3 Bonds recorded in the book-entry system.

Certificates evidencing the 2008 Series 3 Bonds are to be issued and registered in the name of a nominee of DTC, which acts as securities depository for the 2008 Series 3 Bonds. Ownership of the 2008 Series 3 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 2008 Series 3 Bonds must be made, directly or indirectly, through DTC Participants.

*Payment*

The Paying Agent will make all payments of principal of and interest on the 2008 Series 3 Bonds to DTC. Owners of the 2008 Series 3 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 2008 Series 3 Bonds to DTC. Owners of the 2008 Series 3 Bonds will receive any notices or communications through the DTC Participants. In any situation involving voting rights, DTC will not vote but rather will give a proxy through the DTC Participants.

*Redemption*

If less than all of the 2008 Series 3 Bonds of a given maturity are being redeemed, DTC's practice is to determine by lottery the amount of the 2008 Series 3 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, 2008 Series 3 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 2008 Series 3 Bonds or to follow the procedures established by DTC for its book-entry system.

**Possible Discontinuance of Book-Entry-Only System**

In the event the 2008 Series 3 Bonds were not in the book-entry-only system, how the 2008 Series 3 Bonds are redeemed and paid would differ.

*Redemption*

2008 Series 3 Bonds would be selected for redemption by the Trustee by lot or such other manner as the Trustee shall select. Any notice of the redemption of any 2008 Series 3 Bonds (which may be conditioned on certain factors such as the availability of funds) will be sent by the Trustee (by registered or first class mail, postage prepaid) to the owners of the 2008 Series 3 Bonds being redeemed between 30 and 60 days before the redemption date. Failure to give any required notice will not affect the validity of the call for redemption in respect of which no such failure has occurred. Interest on any Bond called for redemption would cease to accrue on the redemption date so long as the 2008 Series 3 Bond was paid or moneys were on deposit with the Trustee for its payment.

*Payment*

Payment of principal would be made by check or draft upon the presentation and surrender of the 2008 Series 3 Bonds at the office of the Paying Agent—which is U.S. Bank National Association—and interest would be paid when due by check or draft mailed to the owners of record at the address appearing on the registration books on the **Record Date**—which is the 15th day (whether or not a business day) of the calendar month next preceding the interest payment date. A registered owner of $1 million or more in principal amount of 2008 Series 3 Bonds outstanding will be paid by wire transfer to such account as the owner may designate.

# ENVIRONMENTAL IMPROVEMENT FUND

The State's Environmental Improvement Fund provides for two separate environmental financing programs:

- **Clean Water Fund Program**. Established in 1990, the Clean Water Fund Program is a municipal financial assistance program for water pollution control projects and includes the State's implementation of a Federal State Revolving Fund Program under the Federal Water Quality Act of 1987. This program also funds the Land Recycling Loan Program, which is a municipal loan program for remediation of contaminated lands.
- **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.

The State intends to use proceeds of the 2008 Series 3 Bonds, as it has with proceeds of previously issued Bonds (other than refunding Bonds), to make loans under the Clean Water Fund Program. These loans have terms not exceeding 20 years, and most loans have interest rates at or below market interest rates at the times the loans are made. If changes were made to the Wisconsin Statutes, Bond proceeds could be used to make loans under the Safe Drinking Water Loan Program; however, no legislation is pending that would make such changes.

# CLEAN WATER FUND PROGRAM

The Clean Water Fund Program consists of three loan portfolios:

- **Leveraged Portfolio**, consisting of **Pledged Loans** funded with Bond proceeds along with repayments of principal and interest on those loans.
- **Direct Portfolio or Clean Water Portfolio**, consisting of **Direct Loans** funded with federal capitalization grants and the required State match along with repayments of principal and interest on those loans.
- **Proprietary Portfolio**, consisting of **Proprietary Loans** funded with State general obligation bond proceeds along with repayments of principal and interest on those loans.

Pledged Loans, 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.

Only Pledged Loans are funded with Bond proceeds, and only Pledged Loan Repayments are pledged to the repayment of the Bonds. In other words, Bond proceeds do not fund Direct Loans or Proprietary Loans, and repayments of Direct Loans or Proprietary Loans are not pledged to the repayment of the Bonds. This Official Statement and the 2007 Annual Report use the term

"Pledged Loans" to refer to the same loans that are called "Leveraged Loans" and "Loans" in the General Resolution.

Information concerning the Clean Water Fund Program is included as APPENDIX A, which incorporates by reference, and includes updated information and makes changes or additions to, Part VI of the 2007 Annual Report. APPENDIX A includes, but is not limited to, information about Pledged Loans, as of November 1, 2008, and the independent auditors' report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2008 and 2007, along with supplemental information as of June 30, 2008, and the independent auditors' report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2008.

## SECURITY

The 2008 Series 3 Bonds are issued on a parity with all other bonds previously issued or to be issued under the General Resolution. The 2008 Series 3 Bonds and all other bonds issued or to be issued under the General Resolution are collectively referred to as the **Bonds**.

The Legislature has authorized the issuance of $1.984 billion of revenue bonds (not including refunding bonds) for the Clean Water Fund Program. The State has previously issued $1.189 billion of Bonds and an additional $423 million of refunding Bonds. As of November 1, 2008, approximately $774 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 2008 Series 3 Bonds and all other parity Bonds is secured by a pledge of:

- Pledged Loan Repayments made by Municipalities.
- Amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, each of which were established pursuant to the General Resolution.
- Any other Pledged Receipts.

*The State is not obligated to pay the principal of and interest on the 2008 Series 3 Bonds or any other Bonds from any revenues or 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 and interest on the 2008 Series 3 Bonds or any other Bonds.*

Prior to the issuance of the 2008 Series 3 Bonds or 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 concerning the security and source of payment for the Bonds is included as APPENDIX A, which incorporates by reference, and updates information and makes changes or additions to, Part VI of the 2007 Annual Report. This part of the 2007 Annual Report addresses the following matters:

- Pledge of revenues
- Pledged Loans
- Subsidy Fund
- Loan Credit Reserve Fund
- Statutory powers
- State financial participation
- Additional Bonds

- General Resolution

**Loans**

The Wisconsin Statutes set forth certain 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 limits for counties, commitments, and financial assistance agreements is described in Part VI of the 2007 Annual Report. See APPENDIX A.

**Subsidy Fund**

Since most Pledged Loans are made at interest rates below the Clean Water Fund Program's cost of borrowing, the General Resolution establishes a Subsidy Fund and requires that the amount on deposit meet the Subsidy Fund Requirement and that the Subsidy Fund Transfer Amount be transferred to the Debt Service Fund before each Interest Payment Date. Prior to any disbursement from the Loan Fund, the State is required by the General Resolution to meet the Subsidy Fund Requirement by depositing amounts in the Subsidy Fund. As of November 1, 2008, $153 million principal amount of State general obligation bonds were on deposit in the Subsidy Fund.

**Loan Credit Reserve Fund**

The General Resolution establishes the amount and timing of funds and securities required to be deposited in the Loan Credit Reserve Fund, based on Loan Credit Reserve Fund Schedules reviewed by each Rating Agency. 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 November 1, 2008, a portion of the amounts available in the Loan Credit Reserve Fund consisted of $98 million in cash and investments, which were invested as follows:

- $22 million in an investment agreement with AIG Matched Funding Corp. (**AIGMFC**) with the payment obligations of AIGMFC guaranteed by American International Group, Inc.
- $8 million in an investment repurchase agreement with Bayerische Landesbank Girozentrale with the investment securities held by Wells Fargo Bank, National Association, as custodian.
- Four forward delivery agreements with Wachovia Bank, National Association for the delivery of direct obligations of the United States in the aggregate nominal amount of $31 million.
- Forward delivery agreement with Westdeutsche Landesbank Girozentrale for the delivery of direct obligations of the United States in the nominal amount of $2 million.
- Two reserve fund forward delivery agreements with JPMorgan Chase Bank, NA for the delivery of direct obligations of the United States in the aggregate nominal amount of $14 million.
- General Obligation Bonds of the State of Wisconsin with an extendible maturity date in the par amount of $10 million.
- $12 million in an investment pool managed by the State of Wisconsin Investment Board.

The above investments each provide for liquidation of the investments if and when required by the terms of the General Resolution.

No information is provided in this Official Statement about any rating assigned to an obligor or guarantor of any investment agreement or forward delivery agreement held on deposit in the Loan Credit Reserve Fund. Certain events related to the investments or agreements could occur that may impact the Loan Credit Reserve Fund and the amount available in the Loan Credit Reserve Fund to meet the Loan Credit Reserve Fund Requirement. If needed, the State has alternatives available to it in order to increase the amount available in the Loan Credit Reserve Fund.

On September 15, 2008, the State modified the Loan Credit Reserve Fund Schedules filed with Fitch Ratings and Standard & Poor's Ratings Services with respect to the Bonds. The change made to each schedule was the removal of the sentence, "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." This change was made in anticipation of a rating downgrade of American International Group, Inc., which guarantees the payment obligations of AIGMFC. As to the Loan Credit Reserve Fund Schedules filed with Moody's, no modifications were necessary.

As of November 1, 2008, the total amount available in the Loan Credit Reserve Fund of $98 million exceeded the amount required on such date, which was approximately $95 million. See APPENDIX A and APPENDIX D.

*Recent Events*

There have been recent events relating to investment activity in, and rating requirements for, the Loan Credit Reserve Fund. On January 24, 2008, the State removed from consideration for the Loan Credit Reserve Fund Requirement a Debt Service Reserve Insurance Policy issued in the amount of $17 million by XL Capital Assurance Inc. At that time, the State contributed additional investments to the Loan Credit Reserve Fund in order to compensate for the withdrawal of the policy from XL Capital Assurance Inc. as a qualifying investment in the Loan Credit Reserve Fund. The Debt Service Reserve Insurance Policy was surrendered on November 20, 2008 and is no longer outstanding.

On July 3, 2008, the State, the Trustee, and the MBIA Investment Management Corporation **(MIMCO)** entered into a Termination of Flexible Draw Investment Agreement (MIMCO Termination Agreement) for the purpose of terminating a Flexible Draw Investment Agreement originally entered into on September 15, 1993 and previously deposited in the Loan Credit Reserve Fund. The par amount of this 1993 agreement was $6 million. In addition to the return of that amount to the State, there was also paid to the State accrued interest and $0.2 million, representing a termination fee. The funds derived from the MIMCO Termination Agreement were deposited into the Loan Credit Reserve Fund.

### The State

Based on the general obligations of the State deposited in the Subsidy Fund and cash-flow calculations as of November 1, 2008, the State was expected to be the source of 20% of the funds expected to pay debt service on the Outstanding Bonds. This percentage will change when changes occur in either the repayment schedules for the Pledged Loans or the debt service payments remaining on the Outstanding Bonds.

Information concerning the State, its financial condition, and its general obligations is included as APPENDIX B, which incorporates by reference, and includes updated information and makes changes or additions to, Parts II and III of the 2007 Annual Report.

### Milwaukee Metropolitan Sewerage District

Based on cash-flow calculations as of November 1, 2008, the Milwaukee Metropolitan Sewerage District **(MMSD)** was expected to be the source of 24% of the funds expected to pay debt service on the Outstanding Bonds. This percentage will change when changes occur in either the repayment schedules for the Pledged Loans or the debt service payments remaining on the Outstanding Bonds. MMSD has issued Municipal Obligations to evidence its obligation to repay its Pledged Loans. The Municipal Obligations issued by MMSD are general obligations; MMSD has made an irrevocable levy of ad valorem property taxes sufficient to pay debt service on its Pledged Loans when due.

Information concerning MMSD is included in Part VI of the 2007 Annual Report, which incorporated by reference the MMSD Comprehensive Annual Financial Report for the period ending December 31, 2006. See APPENDIX A. In addition, the MMSD Comprehensive Annual Financial Report for the period ended December 31, 2007 is incorporated by reference into this Official Statement. Copies of the MMSD Comprehensive Annual Financial Reports can be obtained from:

Milwaukee Metropolitan Sewerage District
Attention: Mark T. Kaminski, Acting Controller/Treasurer
260 West Seeboth Street
Milwaukee, Wisconsin 53204-1446
Telephone: (414) 225-2050
E-Mail: bgraffin@mmsd.com
Website: http://v2.mmsd.com/financialreportsl.aspx

# OTHER MATTERS

**Borrowing Plans for 2008**

This is the third series of Bonds to be issued in this calendar year. The State has previously issued $100 million of Bonds to make Pledged Loans in the Clean Water Fund Program and $28 million of Bonds to refund previously issued Outstanding Bonds. No other Bonds are expected to be sold in calendar year 2008. The amount and timing of additional Bonds in future years to make Pledged Loans in the Clean Water Fund Program depend on loan activity in the Clean Water Fund Program and the amount and timing of any additional Bonds to refund previously issued Outstanding Bonds depend on market conditions.

**Underwriting**

The 2008 Series 3 Bonds are being purchased by the **Underwriters**, for which Morgan Stanley & Co. Incorporated is acting as the representative. The Underwriters have agreed, subject to certain conditions, to purchase from the State the 2008 Series 3 Bonds at an aggregate purchase price, not including accrued interest, of $94,383,115.73 (reflecting a net aggregate original issue premium of $2,764,119.70 and underwriters' discount of $591,003.97). The Underwriters have agreed to reoffer the 2008 Series 3 Bonds at the public offering prices or yields set forth on the front cover of this Official Statement. The 2008 Series 3 Bonds may be offered and sold to certain dealers (including dealers depositing the 2008 Series 3 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, and they will be obligated to purchase all the 2008 Series 3 Bonds if any 2008 Series 3 Bonds are purchased.

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

**Reference Information About 2008 Series 3 Bonds**

The table below and the table on the front cover both include information about the 2008 Series 3 Bonds and are provided for reference. The CUSIP number for each maturity has been obtained from sources the State believes are reliable, but the State is not responsible for the correctness of the CUSIP numbers. The Underwriters have provided the initial reoffering yields and prices. For each of the 2008 Series 3 Bonds subject to optional redemption, the dollar price at issuance is computed to the lower of the yield to the first optional redemption date or the yield to the nominal maturity date.

**$ 92,210,000**
**State of Wisconsin**
**Clean Water Revenue Bonds, 2008 Series 3**

**Dated Date: Delivery Date**
**First Interest Date: June 1, 2009**
**Delivery Date: On or About December 11, 2008**

| CUSIP | Year (June 1) | Principal Amount | Interest Rate | Yield at Issuance | Price at Issuance | First Optional Redemption Date | Call Price |
|---|---|---|---|---|---|---|---|
| 977092 RV9 | 2010 | $ 2,985,000 | 4.000% | 2.220% | 102.563% | Not Callable | - |
| 977092 RW7 | 2011 | 3,135,000 | 5.000 | 2.510 | 105.931 | Not Callable | - |
| 977092 RX5 | 2012 | 3,300,000 | 5.000 | 2.900 | 106.888 | Not Callable | - |
| 977092 RY3 | 2013 | 3,465,000 | 3.000 | 3.180 | 99.254 | Not Callable | - |
| 977092 RZ0 | 2014 | 3,645,000 | 5.000 | 3.420 | 107.823 | Not Callable | - |
| 977092 SA4 | 2015 | 3,830,000 | 3.500 | 3.620 | 99.312 | Not Callable | - |
| 977092 SB2 | 2016 | 7,930,000 | 5.000 | 3.830 | 107.539 | Not Callable | - |
| 977092 SC0 | 2017 | 5,235,000 | 4.000 | 4.080 | 99.430 | Not Callable | - |
| 977092 SD8 | 2018 | 8,450,000 | 5.000 | 4.280 | 105.557 | Not Callable | - |
| 977092 SE6 | 2019 | 8,680,000 | 5.000 | 4.520 | 103.664 (b) | 6/1/2018 | 100% |
| 977092 SF3 | 2020 | 4,920,000 | 5.000 | 4.740 | 101.964 (b) | 6/1/2018 | 100 |
| 977092 SG1 | 2021 | 5,170,000 | 5.250 | 4.870 | 102.854 (b) | 6/1/2018 | 100 |
| 977092 SH9 | 2025 (a) | 24,825,000 | 5.500 | 5.200 | 102.219 (b) | 6/1/2018 | 100 |
| 977092 SJ5 | 2026 | 6,640,000 | 5.125 | 5.270 | 98.355 | 6/1/2018 | 100 |

(a) This maturity is subject to mandatory sinking fund redemption at par. See "2008 SERIES 3 BONDS; Redemption Provisions; *Mandatory Sinking Fund Redemption*" herein.

(b) These bonds are priced to the June 1, 2018 first optional redemption date.

## Financial Advisor

DEPFA First Albany Securities, LLC has been employed by the State to perform professional services in the capacity of financial advisor **(Financial Advisor)**. The Financial Advisor has provided advice on the structure of the 2008 Series 3 Bonds and has also reviewed certain legal and disclosure documents, including this Official Statement, for financial matters.

## Legal Investment

State law provides that the 2008 Series 3 Bonds are legal investments for the following:

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

## Certain Legal Matters

Legal matters relating to the authorization, issuance, and sale of the 2008 Series 3 Bonds are subject to the approval of **Bond Counsel**, which is Foley & Lardner LLP. Bond Counsel will deliver an approving opinion when the 2008 Series 3 Bonds are delivered, in substantially the form shown in APPENDIX E. If certificated 2008 Series 3 Bonds are issued, then the opinion will be printed on the reverse side of each 2008 Series 3 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 related Financial Assistance Agreement and Municipal

Obligation constitute legal, valid, and binding obligations of the Municipality enforceable against the Municipality in accordance with their respective terms.

**Absence of Litigation**

As required by law, the office of the Attorney General will examine a certified copy of all proceedings preliminary to issuance of the 2008 Series 3 Bonds. Upon delivery of the 2008 Series 3 Bonds, the State will furnish an opinion of the Attorney General of the State, dated the date of delivery of the 2008 Series 3 Bonds, to the effect that there is no action, suit, or proceeding, either pending or threatened in writing, known to the Attorney General, restraining or enjoining the issuance, sale, execution, or delivery of the 2008 Series 3 Bonds, or in any way contesting or affecting (1) the titles to their respective offices of any of the State officers involved in the issuance of the 2008 Series 3 Bonds, (2) the validity of the 2008 Series 3 Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or (3) the pledge or application of any moneys or security to the payment of the 2008 Series 3 Bonds. In addition, the opinion will state that there is no controversy or litigation of any nature then pending or threatened by or against the State in which an adverse judgment or ruling could have a material adverse impact on the power of the State to collect and enforce the collection of the Pledged Receipts or other revenues, receipts, funds, or moneys pledged for the payment of the 2008 Series 3 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 related Financial Assistance Agreement or Municipal Obligation or the use of the proceeds of the Municipal Obligation. In addition, the certificate must state that there is no controversy or litigation of any nature then pending or, to the Municipality's knowledge, threatened by or against the Municipality in which 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 (if the Municipal Obligation is a general obligation) or the imposition of rates or charges (if the Municipal Obligation is a revenue obligation) or the collection of any of the foregoing for the payment of its Municipal Obligation.

**Tax Exemption**

*Federal Income Tax*

In the opinion of Bond Counsel, under existing law, interest on the 2008 Series 3 Bonds is excluded from gross income for federal income tax purposes. Such interest also is not an item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers. For the purpose of computing the alternative minimum tax imposed on certain corporations, however, interest on the 2008 Series 3 Bonds is taken into account in determining adjusted current earnings. As to questions of fact material to Bond Counsel's opinion, Bond Counsel has relied upon certified proceedings and certifications of public officials without independently undertaking to verify them. Moreover, the State must comply with all requirements of the Internal Revenue Code of 1986, as amended (**Code**), that must be satisfied after the 2008 Series 3 Bonds are issued for interest on the 2008 Series 3 Bonds to be, or to continue to be, excluded from gross income for federal income tax purposes. The State has promised to comply with those requirements to the extent it may lawfully do so. Its failure to do so may cause interest on the 2008 Series 3 Bonds to be included in gross income for federal income tax purposes, perhaps even starting from the date the 2008 Series 3 Bonds were issued. The proceedings authorizing the 2008 Series 3 Bonds do not provide for an increase in interest rates or a redemption of the 2008 Series 3 Bonds in the event interest on the 2008 Series 3 Bonds ceases to be excluded from gross income.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed, and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel does not express any opinion as to any 2008 Series 3 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Foley & Lardner LLP.

Future legislation or clarifications or amendments to the Code, if enacted into law, may cause the interest on the 2008 Series 3 Bonds to be subject, directly or indirectly, to federal taxation, or otherwise prevent the owners of the 2008 Series 3 Bonds from realizing the full current benefit of the tax status of the interest on the 2008 Series 3 Bonds. Prospective purchasers of the 2008 Series 3 Bonds are encouraged to consult their own tax advisors regarding any pending federal legislation.

The opinion of Bond Counsel is based on legal authorities that are current as of its date, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment regarding the proper treatment of the 2008 Series 3 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service **(IRS)** or the courts, and it is not a guarantee of result.

The IRS has an active tax-exempt bond enforcement program. Bond Counsel is not obligated to defend the State regarding the tax-exempt status of the 2008 Series 3 Bonds in the event of an examination by the IRS. Under current IRS procedures, the owners of the 2008 Series 3 Bonds and other parties other than the State would have little, if any, right to participate in an IRS examination of the 2008 Series 3 Bonds. Moreover, because obtaining judicial review in connection with an IRS examination of tax-exempt bonds is difficult, obtaining independent review of IRS positions with which the State may legitimately disagree may not be practicable. Any action of the IRS, including but not limited to selection of the 2008 Series 3 Bonds for examination, or the course or result of such an examination, or an examination of obligations presenting similar tax issues may affect the market price, or the marketability of the 2008 Series 3 Bonds, and may cause the State or the owners of the 2008 Series 3 Bonds to incur significant expense.

Bond Counsel expresses no opinion about other federal tax consequences arising regarding the 2008 Series 3 Bonds. There may be other federal tax law provisions that could adversely affect the value of an investment in the 2008 Series 3 Bonds for particular owners of 2008 Series 3 Bonds. Prospective investors should consult their own tax advisors about the tax consequences of owning a Bond.

*State of Wisconsin Income and Franchise Taxes*

Interest on the 2008 Series 3 Bonds is not excluded from current State of Wisconsin income and franchise taxes. Prospective investors should consult their own tax advisors about the state and local tax consequences of owning a 2008 Series 3 Bond.

*Discount Bonds*

In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of each 2008 Series 3 Bond maturing in the years 2013, 2015, 2017, and 2026 (**Discount Bond**), to the extent properly allocable to the owner of a Discount Bond, is excluded from gross income for federal income tax purposes to the same extent that any interest payable on such Discount Bond is or would be excluded from gross income for federal income tax purposes. The original issue discount is the excess of the stated redemption price at maturity of a Discount Bond over the initial offering price to the public, excluding underwriters or other intermediaries, at which price a substantial amount of such Discount Bonds were sold (**Issue Price**).

Under Section 1288 of the Code, original issue discount on tax-exempt obligations accrues on a compound interest basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals:

- The Issue Price of the Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, *multiplied by* the yield to maturity of the Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of each accrual period),
- *Less,* any interest payable on the Discount Bond during such accrual period.

The amount of original issue discount accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period and will increase the owner's tax basis in the Discount Bond. The adjusted tax basis in a Discount Bond will be used to determine taxable gain or loss upon a disposition (for example, upon a sale, exchange, redemption, or payment at maturity) of the Discount Bond.

Owners of Discount Bonds who do not purchase their Discount Bonds in the initial offering at the Issue Price should consult their own tax advisors with respect to the federal tax consequences of owning Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning Discount Bonds. It is possible that under the applicable provisions governing the determination of state and local taxes, accrued original issue discount on the Discount Bonds may be deemed to be received in the year of accrual, even though there will not be a corresponding cash payment until a later year.

*Premium Bonds*

Each 2008 Series 3 Bond maturing in the years 2010 though 2012, 2014, 2016, 2018 through 2021, and 2025 (**Premium Bond**) has an Issue Price that is greater than the amount payable at the maturity of the respective 2008 Series 3 Bond.

Any Premium Bond purchased in the initial offering at the Issue Price will have "amortizable bond premium" within the meaning of Section 171 of the Code. An owner of a Premium Bond that has amortizable bond premium is not allowed any deduction for the amortizable bond premium. During each taxable year, such an owner must reduce his or her tax basis in the Premium Bond by the amount of the amortizable bond premium that is allocable to the portion of such taxable year during which the owner owned the Premium Bond. The adjusted tax basis in a Premium Bond will be used to determine taxable gain or loss upon a disposition (for example, upon a sale, exchange, redemption, or payment at maturity) of the Premium Bond.

Owners of Premium Bonds who do not purchase their Premium Bonds in the initial offering at the Issue Price should consult their own tax advisors with respect to the federal tax consequences of owning Premium Bonds. Owners of Premium Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning Premium Bonds.

## CONTINUING DISCLOSURE

The State has made an undertaking, for the benefit of the beneficial owners of the 2008 Series 3 Bonds, to provide an annual report presenting certain financial information and operating data about the Clean Water Fund Program **(Annual Reports).** The Annual Reports currently include information about MMSD and the State, which are currently expected to be the source of approximately 24% and 20%, respectively, of the funds to pay debt service on the Outstanding Bonds. By December 27 of each year, the State will send the report to each nationally recognized municipal securities information repository **(NRMSIR)** and to any state information depository

**(SID)** for the State. The State will also provide notices of the occurrence of certain events specified in the undertaking to each NRMSIR, or the Municipal Securities Rulemaking Board **(MSRB)**, and to any SID. At this time, there is no SID for the State. Part I of the 2007 Annual Report, which contains information on the undertaking, is incorporated 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
(608) 266-2305
DOACapitalFinanceOffice@wisconsin.gov
www.doa.wi.gov/capitalfinance

The undertaking also describes the consequences if the State fails to provide any required information. The State must report the failure to the NRMSIRs, or the MSRB, and to any SID. In the last five years, the State has not failed 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 Clean Water Revenue Bond Program. APPENDIX A includes the independent auditors' report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2008 and 2007, along with supplemental information as of June 30, 2008 and independent auditors' report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2008.

Dated: November 25, 2008

**STATE OF WISCONSIN**

/S/ JIM DOYLE

Governor Jim Doyle, Chairperson
State of Wisconsin Building Commission

/S/ MICHAEL L. MORGAN

Michael L. Morgan, Secretary
State of Wisconsin Department of Administration

/S/ DAVID W. HELBACH

David W. Helbach, Secretary
State of Wisconsin Building Commission

# APPENDIX A

## INFORMATION ABOUT THE CLEAN WATER FUND PROGRAM

This Appendix incorporates by reference information concerning the State of Wisconsin Clean Water Fund Program, contained in Part VI of the State of Wisconsin Continuing Disclosure Annual Report, dated December 21, 2007 **(2007 Annual Report)**, which can be obtained as described below. This Appendix also includes updated information and makes changes or additions to the information presented in Part VI of the 2007 Annual Report. These updates, changes, and additions include, but are not limited to, information on Pledged Loans as of November 1, 2008 and the independent auditors' report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2008 and 2007, along with supplemental information as of June 30, 2008, and the independent auditors' report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2008.

This Official Statement and the 2007 Annual Report use the term "Pledged Loans" to refer to the same loans that are called "Leveraged Loans" and "Loans" in the General Resolution.

Part VI of the 2007 Annual Report contains general information about the Environmental Improvement Fund, the Clean Water Fund Program, and the security and source of payment for the Bonds. More specifically, this part presents information about the following matters:

- Plan of finance
- Financial assistance
- Capitalization grants
- Funding levels
- Interest subsidy
- Management
- Security and source of payment
- Pledged Loans
- Subsidy Fund
- Loan Credit Reserve Fund
- Statutory powers
- State financial participation
- Additional Bonds
- General Resolution

The 2007 Annual Report has been filed with each nationally recognized municipal securities information repository **(NRMSIR)** and 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.wi.gov/capitalfinance

Copies of the 2007 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
DOACapitalFinanceOffice@wisconsin.gov

After publication and filing of the 2007 Annual Report, certain changes or events may occur that affect items discussed in the 2007 Annual Report. Listed below, by reference to particular sections of Part VI of the 2007 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.

**Security and Source of Payment for Bonds; Pledged Loans; Table VI-2** (Part VI; Pages 192-198)**.**
Update with the following table:

## State of Wisconsin Environmental Improvement Fund
## Outstanding Principal Balances
## November 1, 2008[(a)]
## (Amount in Thousands)

| Municipality[(b)] | FAA Loan Amount[(c)] | Total FAA Loan Disbursed | Pledged Loan Balance[(d)] | Non-Pledged Loan Balance | Total Outstanding Balance[(d)] | FAA Loan Remaining to Fund[(e)] | % of Bond Payment[(f)] |
|---|---|---|---|---|---|---|---|
| *Pledged Loans* | | | | | | | |
| Milwaukee Metropolitan Sewerage District | $ 1,026,678 | $ 844,228 | $ 220,937 | $ 351,907 | $ 572,844 | $ 169,922 | 24.28% |
| City of Fond du Lac | 82,775 | 75,584 | 56,867 | 17,343 | 74,210 | 6,901 | 6.28% |
| Madison Metropolitan Sewerage District | 100,460 | 96,061 | 54,638 | 6,062 | 60,700 | 1,001 | 5.94% |
| Heart of the Valley Metropolitan Sewerage District | 40,884 | 38,286 | 29,255 | 7,199 | 36,454 | 2,472 | 3.23% |
| City of Manitowoc | 22,018 | 21,512 | 13,724 | - | 13,724 | - | 1.47% |
| City of Reedsburg | 14,471 | 13,820 | 12,680 | - | 12,680 | 651 | 1.42% |
| Green Bay Metropolitan Sewerage District | 69,803 | 64,796 | 10,019 | 19,025 | 29,044 | - | 1.06% |
| Delafield/Hartland Pollution Control Commission | 10,000 | 10,000 | 8,307 | - | 8,307 | - | 0.92% |
| Village of Sussex | 18,842 | 17,961 | 8,036 | - | 8,036 | 458 | 0.91% |
| Village of Belleville | 9,252 | 8,839 | 7,365 | - | 7,365 | 263 | 0.82% |
| Village of East Troy | 10,102 | 7,168 | 7,168 | - | 7,168 | 2,934 | 0.82% |
| Village of Saukville | 11,332 | 10,692 | 7,134 | - | 7,134 | - | 0.77% |
| Village of Cross Plains | 8,287 | 7,763 | 6,806 | - | 6,806 | 516 | 0.75% |
| City of Two Rivers | 12,175 | 11,414 | 6,504 | 3,519 | 10,023 | 510 | 0.73% |
| Village of Union Grove | 10,808 | 10,683 | 6,024 | 1,807 | 7,831 | - | 0.66% |
| City of Racine | 123,968 | 122,938 | 5,980 | 90,191 | 96,171 | 302 | 0.63% |
| City of Stoughton - Utilities | 11,263 | 10,504 | 5,848 | 75 | 5,923 | 178 | 0.63% |
| Village of Cambridge | 6,676 | 6,283 | 5,799 | - | 5,799 | 392 | 0.64% |
| City of Waupaca | 13,251 | 12,719 | 5,662 | 851 | 6,513 | 26 | 0.59% |
| City of Mineral Point | 6,884 | 6,244 | 4,899 | - | 4,899 | - | 0.54% |
| City of Waupun | 6,249 | 6,062 | 4,896 | - | 4,896 | - | 0.56% |
| City of Brookfield | 30,606 | 29,304 | 4,786 | 12,131 | 16,917 | - | 0.52% |
| City of Menomonie | 8,732 | 8,653 | 4,740 | - | 4,740 | - | 0.51% |
| Town of Oakland Sanitary District #1 | 5,768 | 5,149 | 4,730 | - | 4,730 | 434 | 0.52% |
| City of South Milwaukee | 15,689 | 11,348 | 4,583 | 3,715 | 8,298 | 4,272 | 0.49% |
| City of Ripon | 6,337 | 5,773 | 4,529 | - | 4,529 | - | 0.50% |
| Village of Marshall | 7,744 | 7,507 | 4,154 | - | 4,154 | - | 0.43% |
| Village of Twin Lakes | 6,481 | 6,462 | 3,908 | 485 | 4,393 | - | 0.42% |
| City of Stevens Point | 13,560 | 13,117 | 3,805 | - | 3,805 | - | 0.37% |
| City of Bloomer | 6,694 | 6,690 | 3,641 | - | 3,641 | - | 0.38% |
| Village of Jackson | 6,130 | 6,130 | 3,619 | - | 3,619 | - | 0.38% |
| Village of Deerfield | 5,070 | 4,542 | 3,568 | - | 3,568 | - | 0.39% |
| Village of Hammond | 4,101 | 3,873 | 3,567 | - | 3,567 | 228 | 0.40% |
| City of Brodhead | 6,549 | 6,284 | 3,484 | - | 3,484 | - | 0.36% |
| Village of Cedar Grove | 4,400 | 4,253 | 3,376 | 423 | 3,799 | - | 0.37% |
| City of Baraboo | 5,304 | 5,186 | 3,348 | - | 3,348 | - | 0.37% |
| Village of New Glarus | 10,885 | 6,094 | 3,312 | - | 3,312 | 4,723 | 0.37% |
| City of Milton | 4,328 | 4,091 | 3,214 | - | 3,214 | - | 0.35% |
| City of Edgerton | 5,612 | 4,966 | 3,190 | - | 3,190 | - | 0.34% |
| City of Fort Atkinson | 14,594 | 14,266 | 3,157 | - | 3,157 | - | 0.31% |
| Town of Bristol | 6,364 | 6,077 | 3,092 | - | 3,092 | - | 0.33% |
| City of Omro | 3,510 | 3,335 | 3,081 | - | 3,081 | 176 | 0.35% |
| City of Dodgeville | 4,995 | 4,995 | 3,078 | - | 3,078 | - | 0.32% |
| Town of Salem | 12,215 | 11,756 | 3,054 | 5,563 | 8,617 | 293 | 0.32% |
| City of Oconomowoc | 5,449 | 5,414 | 2,927 | - | 2,927 | - | 0.30% |
| City of Richland Center | 6,998 | 6,660 | 2,862 | - | 2,862 | - | 0.31% |
| Norway Sanitary District #1 | 5,547 | 4,424 | 2,858 | - | 2,858 | - | 0.30% |
| Green Lake Sanitary District | 8,674 | 8,388 | 2,857 | - | 2,857 | - | 0.28% |
| City of Oshkosh | 57,410 | 56,098 | 2,851 | 28,363 | 31,214 | - | 0.31% |
| City of Janesville | 9,047 | 8,898 | 2,823 | 3,809 | 6,632 | - | 0.30% |
| Village of Lake Delton | 22,133 | 21,614 | 2,766 | 15,618 | 18,384 | 314 | 0.30% |
| Village of Lomira | 4,963 | 4,634 | 2,746 | 689 | 3,435 | 182 | 0.31% |
| Village of Caledonia | 4,465 | 4,411 | 2,667 | 728 | 3,395 | - | 0.29% |
| Village of West Salem | 4,990 | 4,634 | 2,592 | - | 2,592 | - | 0.27% |
| City of Hudson | 6,165 | 5,823 | 2,590 | - | 2,590 | - | 0.27% |
| City of Chippewa Falls | 7,593 | 7,252 | 2,467 | 1,509 | 3,976 | - | 0.25% |
| City of Chilton | 6,264 | 4,921 | 2,183 | 1,424 | 3,607 | 1,266 | 0.23% |
| Village of Black Creek | 4,332 | 4,332 | 2,144 | - | 2,144 | - | 0.22% |
| City of Sparta | 15,726 | 14,528 | 2,087 | 3,081 | 5,168 | - | 0.20% |
| City of Antigo | 4,317 | 4,286 | 2,039 | - | 2,039 | - | 0.21% |
| Village of Plover | 6,730 | 6,730 | 2,035 | 2,379 | 4,414 | - | 0.21% |
| City of Lodi | 4,050 | 3,907 | 1,938 | - | 1,938 | - | 0.20% |
| City of Mauston | 2,905 | 2,759 | 1,935 | - | 1,935 | - | 0.23% |
| Village of Luxemburg | 3,178 | 2,945 | 1,906 | - | 1,906 | - | 0.20% |
| Village of Somerset | 2,981 | 2,744 | 1,847 | - | 1,847 | - | 0.20% |
| City of Marshfield | 24,170 | 22,996 | 1,780 | 12,149 | 13,929 | - | 0.18% |
| City of Viroqua | 4,080 | 4,041 | 1,772 | 842 | 2,614 | - | 0.19% |
| City of New Richmond | 4,124 | 3,966 | 1,755 | 763 | 2,518 | 40 | 0.18% |
| City of Menasha | 16,652 | 14,987 | 1,659 | 12,633 | 14,292 | 1,579 | 0.19% |
| Village of Slinger | 7,008 | 6,249 | 1,649 | 3,972 | 5,621 | 403 | 0.18% |
| City of Sheboygan | 13,517 | 13,057 | 1,619 | 6,258 | 7,877 | - | 0.17% |
| Village of North Fond du Lac | 2,592 | 2,590 | 1,592 | - | 1,592 | - | 0.17% |
| City of Neillsville | 3,238 | 3,210 | 1,588 | - | 1,588 | - | 0.16% |

# State of Wisconsin Environmental Improvement Fund
# Outstanding Principal Balances
# November 1, 2008[(a)]—Continued
# (Amount in Thousands)

| Municipality[(b)] | FAA Loan Amount[(c)] | Total FAA Loan Disbursed | Pledged Loan Balance[(d)] | Non-Pledged Loan Balance | Total Outstanding Balance[(d)] | FAA Loan Remaining to Fund[(e)] | % of Bond Payment[(f)] |
|---|---|---|---|---|---|---|---|
| Village of Silver Lake | $ 2,318 | $ 2,318 | $ 1,581 | $ - | $ 1,581 | $ - | 0.17% |
| City of Cuba City | 2,562 | 2,316 | 1,570 | - | 1,570 | - | 0.17% |
| Village of Allouez | 3,072 | 3,062 | 1,512 | - | 1,512 | - | 0.16% |
| City of Monroe | 3,470 | 2,956 | 1,483 | - | 1,483 | - | 0.16% |
| City of Ashland | 14,595 | 14,040 | 1,482 | 2,983 | 4,465 | 144 | 0.15% |
| Village of Howards Grove | 2,102 | 1,905 | 1,444 | - | 1,444 | - | 0.16% |
| City of Rhinelander | 5,136 | 5,123 | 1,429 | - | 1,429 | - | 0.14% |
| Village of Random Lake | 1,919 | 1,653 | 1,355 | - | 1,355 | 244 | 0.15% |
| Village of Reedsville | 2,768 | 2,755 | 1,324 | - | 1,324 | - | 0.14% |
| City of Tomahawk | 3,026 | 2,864 | 1,303 | - | 1,303 | - | 0.13% |
| Freedom Sanitary District #1 | 2,748 | 2,645 | 1,303 | - | 1,303 | - | 0.13% |
| Rib Mountain Metro Sewerage District | 1,977 | 1,782 | 1,239 | - | 1,239 | - | 0.13% |
| City of Wautoma | 6,848 | 6,847 | 1,237 | 1,655 | 2,892 | - | 0.12% |
| City of Portage | 5,630 | 5,536 | 1,159 | 2,617 | 3,776 | - | 0.13% |
| City of Delafield | 1,556 | 1,556 | 1,157 | - | 1,157 | - | 0.13% |
| Village of Footville | 2,131 | 2,097 | 1,116 | 350 | 1,466 | - | 0.12% |
| City of Mayville | 1,483 | 1,481 | 1,077 | - | 1,077 | - | 0.12% |
| City of Amery | 3,060 | 2,909 | 1,072 | 294 | 1,366 | - | 0.11% |
| Village of Bangor | 1,587 | 1,584 | 1,062 | - | 1,062 | - | 0.12% |
| City of Colby | 2,837 | 2,647 | 1,021 | - | 1,021 | - | 0.10% |
| Ixonia Sanitary District #1 | 1,340 | 1,308 | 995 | - | 995 | - | 0.11% |
| Chain O'Lakes Sanitary District #1 | 2,082 | 2,063 | 959 | - | 959 | - | 0.10% |
| Village of Pewaukee | 8,191 | 7,695 | 931 | 3,134 | 4,065 | - | 0.10% |
| Village of Poynette | 2,288 | 2,112 | 925 | - | 925 | - | 0.09% |
| City of Jefferson | 7,534 | 6,958 | 909 | 4,343 | 5,252 | - | 0.10% |
| Village of Fremont | 1,867 | 1,815 | 901 | - | 901 | - | 0.09% |
| City of Kewaunee | 1,684 | 1,684 | 885 | - | 885 | - | 0.09% |
| Village of Shorewood | 2,512 | 2,298 | 845 | - | 845 | - | 0.09% |
| City of Lake Mills | 1,246 | 1,165 | 836 | - | 836 | - | 0.09% |
| City of Merrill | 4,044 | 4,033 | 824 | - | 824 | - | 0.08% |
| Village of Iron Ridge | 1,441 | 1,254 | 823 | - | 823 | - | 0.09% |
| Western Racine County Sewerage District | 11,459 | 10,617 | 791 | 8,494 | 9,285 | - | 0.09% |
| Village of Wrightstown | 1,427 | 1,427 | 779 | - | 779 | - | 0.08% |
| City of Whitewater | 1,564 | 1,564 | 772 | - | 772 | - | 0.08% |
| Village of Lake Nebagamon | 1,539 | 1,456 | 769 | - | 769 | - | 0.08% |
| Village of Newburg | 1,549 | 1,430 | 753 | - | 753 | - | 0.08% |
| City of Kenosha | 33,144 | 29,370 | 747 | 8,581 | 9,328 | - | 0.07% |
| Village of Trempealeau | 1,559 | 1,544 | 745 | - | 745 | - | 0.08% |
| Village of Monticello | 2,345 | 2,319 | 725 | - | 725 | - | 0.07% |
| City of Brillion | 1,064 | 1,061 | 715 | - | 715 | - | 0.08% |
| City of Crandon | 1,537 | 1,454 | 715 | - | 715 | - | 0.07% |
| Village of Dane | 1,228 | 1,228 | 704 | - | 704 | - | 0.07% |
| City of New Holstein | 1,100 | 990 | 664 | - | 664 | - | 0.07% |
| City of Oconto Falls | 1,316 | 1,150 | 654 | 310 | 964 | - | 0.07% |
| City of Tomah | 20,454 | 19,277 | 645 | 11,596 | 12,241 | 190 | 0.07% |
| City of Lancaster | 1,688 | 1,601 | 625 | - | 625 | - | 0.06% |
| City of Manawa | 1,408 | 1,391 | 619 | - | 619 | - | 0.06% |
| Town of Menasha | 1,659 | 1,642 | 608 | - | 608 | - | 0.06% |
| City of Watertown | 30,535 | 29,384 | 578 | 22,324 | 22,902 | - | 0.06% |
| Wisconsin Dells/Lake Delton Sewerage Commission | 1,935 | 1,892 | 555 | - | 555 | - | 0.06% |
| Village of Coleman | 1,224 | 917 | 543 | - | 543 | 249 | 0.06% |
| Village of Fontana | 2,725 | 2,652 | 543 | 996 | 1,539 | - | 0.06% |
| Village of Valders | 1,538 | 1,538 | 543 | 48 | 591 | - | 0.05% |
| City of Columbus | 4,044 | 4,044 | 540 | 2,704 | 3,244 | - | 0.05% |
| Village of Blue Mounds | 1,152 | 1,064 | 526 | - | 526 | - | 0.05% |
| City of Boscobel | 1,337 | 1,182 | 516 | - | 516 | - | 0.05% |
| Village of Mishicot | 4,106 | 3,679 | 513 | 3,000 | 3,513 | 388 | 0.06% |
| Potosi/Tennyson Sewerage Commission | 1,543 | 1,543 | 503 | - | 503 | - | 0.05% |
| Black Wolf Sanitary District #1 | 4,327 | 4,065 | 501 | - | 501 | - | 0.05% |
| City of Mosinee | 1,383 | 1,297 | 497 | - | 497 | - | 0.05% |
| Village of Bay City | 1,224 | 1,200 | 480 | - | 480 | - | 0.05% |
| City of Cumberland | 928 | 808 | 474 | - | 474 | - | 0.05% |
| Village of Mount Calvary | 1,430 | 1,430 | 462 | - | 462 | - | 0.04% |
| Village of Muscoda | 898 | 777 | 457 | - | 457 | - | 0.05% |
| Village of Rockland | 1,311 | 1,210 | 456 | 333 | 789 | - | 0.05% |
| City of River Falls | 4,766 | 4,351 | 445 | 2,963 | 3,408 | - | 0.05% |
| Village of Brokaw | 772 | 718 | 445 | - | 445 | - | 0.05% |
| Village of Spring Green | 950 | 920 | 438 | - | 438 | - | 0.05% |
| Village of Mount Horeb | 3,436 | 3,338 | 435 | 291 | 726 | - | 0.04% |
| Village of Highland | 1,147 | 850 | 413 | 66 | 479 | 257 | 0.04% |
| Village of Hewitt | 1,467 | 1,298 | 398 | - | 398 | - | 0.04% |
| Wrightstown Sanitary District #1 | 1,081 | 1,036 | 398 | - | 398 | - | 0.04% |
| Brazeau Sanitary District #1 | 793 | 758 | 397 | - | 397 | - | 0.04% |
| Village of Knapp | 669 | 669 | 371 | - | 371 | - | 0.04% |
| City of Shullsburg | 687 | 626 | 354 | - | 354 | - | 0.04% |
| Village of Rosholt | 662 | 649 | 354 | - | 354 | - | 0.04% |
| Mercer Sanitary District #1 | 787 | 787 | 343 | - | 343 | - | 0.04% |
| Village of Montfort | 779 | 756 | 332 | - | 332 | - | 0.03% |
| City of Black River Falls | 4,228 | 4,067 | 327 | 2,123 | 2,450 | - | 0.03% |

# State of Wisconsin Environmental Improvement Fund
# Outstanding Principal Balances
# November 1, 2008(a)—Continued
# (Amount in Thousands)

| Municipality(b) | FAA Loan Amount(c) | Total FAA Loan Disbursed | Pledged Loan Balance(d) | Non-Pledged Loan Balance | Total Outstanding Balance(d) | FAA Loan Remaining to Fund(e) | % of Bond Payment(f) |
|---|---|---|---|---|---|---|---|
| City of Abbotsford | $ 1,403 | $ 1,302 | $ 317 | $ 619 | $ 936 | $ 40 | 0.03% |
| Iron River Sanitary District #1 | 717 | 710 | 308 | - | 308 | - | 0.03% |
| Village of Brownsville | 1,017 | 917 | 303 | 307 | 610 | - | 0.03% |
| Sextonville Sanitary District | 589 | 564 | 299 | - | 299 | - | 0.03% |
| City of Galesville | 1,143 | 1,111 | 294 | - | 294 | - | 0.03% |
| City of Chetek | 528 | 512 | 290 | - | 290 | - | 0.03% |
| Village of Lena | 343 | 284 | 273 | - | 273 | - | 0.03% |
| City of Cudahy | 886 | 839 | 270 | - | 270 | - | 0.03% |
| Village of Argyle | 1,467 | 1,380 | 259 | - | 259 | - | 0.02% |
| Wolf Treatment Plant Commission | 12,847 | 12,377 | 250 | 7,129 | 7,379 | - | 0.02% |
| Silver Lake Sanitary District | 1,063 | 1,063 | 245 | - | 245 | - | 0.02% |
| Village of Kohler | 401 | 367 | 237 | - | 237 | - | 0.03% |
| Village of Redgranite | 2,303 | 2,303 | 234 | 938 | 1,172 | - | 0.02% |
| City of Plymouth | 5,848 | 5,427 | 230 | 1,806 | 2,036 | - | 0.02% |
| Village of Campbellsport | 405 | 359 | 225 | - | 225 | - | 0.02% |
| Silver Lake Sanitary District (Waushara County) | 722 | 722 | 224 | - | 224 | - | 0.02% |
| City of Westby | 417 | 395 | 223 | - | 223 | - | 0.02% |
| City of Prescott | 5,349 | 4,956 | 218 | 1,710 | 1,928 | - | 0.02% |
| City of Beaver Dam | 819 | 798 | 213 | - | 213 | - | 0.02% |
| Village of Prentice | 544 | 447 | 212 | - | 212 | - | 0.02% |
| Village of Mattoon | 628 | 586 | 205 | 128 | 333 | - | 0.02% |
| Village of Linden | 389 | 369 | 204 | - | 204 | - | 0.02% |
| Village of Cottage Grove | 506 | 360 | 203 | - | 203 | - | 0.02% |
| Village of Almond | 530 | 504 | 185 | - | 185 | - | 0.02% |
| Village of Wyocena | 389 | 298 | 183 | - | 183 | - | 0.02% |
| Village of North Freedom | 498 | 473 | 176 | - | 176 | - | 0.02% |
| Village of Belmont | 458 | 416 | 176 | - | 176 | - | 0.02% |
| City of New Lisbon | 5,845 | 5,434 | 170 | 4,008 | 4,178 | - | 0.02% |
| Village of Walworth | 332 | 305 | 167 | - | 167 | - | 0.02% |
| Village of Ellsworth | 373 | 373 | 165 | - | 165 | - | 0.02% |
| Neenah Sanitary District #2 | 1,057 | 1,057 | 163 | - | 163 | - | 0.01% |
| City of Montello | 260 | 256 | 160 | - | 160 | - | 0.02% |
| Village of Pulaski | 483 | 483 | 156 | - | 156 | - | 0.02% |
| Laona Sanitary District #1 | 746 | 746 | 155 | - | 155 | - | 0.01% |
| Village of Pepin | 363 | 281 | 149 | - | 149 | - | 0.02% |
| City of Shawano | 252 | 225 | 138 | - | 138 | - | 0.01% |
| Village of Potosi | 291 | 260 | 138 | - | 138 | - | 0.01% |
| Village of Osceola | 6,420 | 6,264 | 132 | 5,262 | 5,394 | - | 0.01% |
| Village of Cassville | 442 | 401 | 130 | - | 130 | - | 0.01% |
| Iowa County | 486 | 486 | 130 | - | 130 | - | 0.01% |
| Goodman Sanitary District #1 | 1,074 | 1,074 | 123 | 392 | 515 | - | 0.01% |
| Village of Baldwin | 262 | 262 | 116 | - | 116 | - | 0.01% |
| Village of Prairie du Sac | 205 | 183 | 96 | - | 96 | - | 0.01% |
| Village of Plum City | 1,685 | 1,659 | 93 | 1,410 | 1,503 | 26 | 0.01% |
| Village of Gays Mills | 180 | 173 | 91 | - | 91 | - | 0.01% |
| City of Prairie du Chien | 7,928 | 6,844 | 90 | 3,758 | 3,848 | 1,029 | 0.01% |
| Village of Hancock | 151 | 131 | 88 | - | 88 | - | 0.01% |
| Village of Blue River | 281 | 272 | 75 | - | 75 | - | 0.01% |
| Grand Chute/Menasha West Sewerage Commission | 12,747 | 12,097 | 70 | 4,445 | 4,515 | - | 0.01% |
| City of Hillsboro | 160 | 129 | 68 | - | 68 | - | 0.01% |
| Village of Spring Valley | 120 | 120 | 53 | - | 53 | - | 0.01% |
| Sunset Point Sanitary District | 686 | 655 | 45 | - | 45 | - | 0.00% |
| Little Elkhart Lake Rehabilitation District | 217 | 217 | 43 | - | 43 | - | 0.00% |
| Village of Webster | 204 | 194 | 39 | - | 39 | - | 0.00% |
| Village of Roberts | 3,194 | 3,194 | 36 | 2,869 | 2,905 | - | 0.00% |
| Village of Bowler | 794 | 729 | 20 | 505 | 525 | - | 0.00% |
| ***Subtotal*** | ***$ 2,445,549*** | ***$ 2,183,736*** | ***$ 709,579*** | ***$ 729,004*** | ***$ 1,438,583*** | ***$ 203,003*** | |
| *Direct Loans, Proprietary Loans, and Safe Drinking Water Loans* | | | | | | | |
| Village of Adell - Onion River | $ 721 | $ 721 | $ - | $ 148 | $ 148 | $ - | |
| Village of Adell | 566 | 566 | - | 116 | 116 | - | |
| Village of Albany | 536 | 472 | - | 297 | 297 | - | |
| Algoma Sanitary District #1 | 12,872 | 11,820 | - | 10,080 | 10,080 | - | |
| City of Algoma | 5,547 | 5,432 | - | 1,124 | 1,124 | - | |
| City of Appleton | 16,474 | 13,989 | - | 3,744 | 3,744 | - | |
| City of Arcadia | 3,599 | 3,269 | - | 3,056 | 3,056 | 161 | |
| Village of Arena | 1,627 | 1,587 | - | 998 | 998 | - | |
| Village of Arlington | 1,662 | 1,608 | - | 1,008 | 1,008 | - | |
| Ashippun Sanitary District, Inc. | 4,489 | 1,638 | - | 1,638 | 1,638 | 2,851 | |
| City of Augusta | 1,700 | 1,700 | - | 1,552 | 1,552 | - | |
| Village of Avoca | 359 | 344 | - | 151 | 151 | - | |
| Village of Bagley | 229 | 218 | - | 135 | 135 | - | |
| City of Bayfield | 2,364 | 2,300 | - | 1,908 | 1,908 | - | |
| Village of Bayside | 1,612 | 1,399 | - | 1,171 | 1,171 | - | |
| Village of Bear Creek | 432 | 387 | - | 184 | 184 | - | |
| Village of Belgium | 3,855 | 3,838 | - | 2,835 | 2,835 | - | |
| Town of Beloit | 956 | 904 | - | 726 | 726 | - | |
| Village of Benton | 1,702 | 1,702 | - | 1,242 | 1,242 | - | |
| Village of Black Earth | 4,278 | 4,125 | - | 2,606 | 2,606 | - | |

# State of Wisconsin Environmental Improvement Fund
# Outstanding Principal Balances
# November 1, 2008[(a)]—Continued
# (Amount in Thousands)

| Municipality[(b)] | FAA Loan Amount[(c)] | Total FAA Loan Disbursed | Pledged Loan Balance[(d)] | Non-Pledged Loan Balance | Total Outstanding Balance[(d)] | FAA Loan Remaining to Fund[(e)] | % of Bond Payment[(f)] |
|---|---|---|---|---|---|---|---|
| City of Blair | $ 2,566 | $ 1,725 | $ - | $ 1,725 | $ 1,725 | $ 840 | |
| Village of Boaz | 106 | 106 | - | 21 | 21 | - | |
| Bohner's Lake Sanitary District #1 | 8,007 | 7,857 | - | 1,510 | 1,510 | - | |
| Brookfield Sanitary District #4 | 5,750 | 5,608 | - | 3,020 | 3,020 | - | |
| Village of Brooklyn | 2,928 | 1,857 | - | 1,733 | 1,733 | 1,046 | |
| Brule Sanitary District | 367 | 299 | - | 57 | 57 | - | |
| City of Burlington | 23,977 | 20,842 | - | 6,519 | 6,519 | 2,502 | |
| Butte des Morts Consolidated Sanitary District #1 | 2,144 | 2,144 | - | 132 | 132 | - | |
| Calumet Sanitary District #1 | 505 | 505 | - | 8 | 8 | - | |
| Village of Cameron | 365 | 365 | - | 280 | 280 | - | |
| Caroline Sanitary District | 83 | 83 | - | 17 | 17 | - | |
| Chelsea Sanitary District | - | - | - | - | - | - | |
| Christmas Mountain Sanitary District | 1,659 | 1,614 | - | 1,086 | 1,086 | - | |
| Village of Cleveland | 3,610 | 3,452 | - | 1,512 | 1,512 | - | |
| Village of Clinton | 4,962 | 4,877 | - | 3,396 | 3,396 | - | |
| City of Clintonville | 4,750 | 3,078 | - | 2,937 | 2,937 | 1,505 | |
| Cloverleaf Lakes Sanitary District #1 | 1,022 | 977 | - | 134 | 134 | - | |
| Village of Cochrane | 454 | 441 | - | 284 | 284 | - | |
| Consolidated S.D. No. 1 | 155 | 155 | - | 29 | 29 | - | |
| Village of Crivitz | 1,725 | 1,725 | - | 460 | 460 | - | |
| Crystal Lake Sanitary District #1 | - | - | - | - | - | - | |
| Village of Curtiss | 353 | 342 | - | 290 | 290 | - | |
| Cushing Sanitary District #1 | 116 | 116 | - | 55 | 55 | - | |
| Danbury Sanitary District | - | - | - | - | - | - | |
| City of Darlington | 3,650 | 3,650 | - | 2,590 | 2,590 | - | |
| City of Delavan | 1,102 | 741 | - | 634 | 634 | 362 | |
| Village of Denmark | 2,959 | 2,795 | - | 1,221 | 1,221 | 147 | |
| Village of Dickeyville | 1,078 | 1,017 | - | 768 | 768 | - | |
| Town of Dover | 1,787 | 1,606 | - | 1,290 | 1,290 | - | |
| Dyckesville Sanitary District | 1,476 | 1,476 | - | 303 | 303 | - | |
| City of Eagle River | 3,563 | 3,401 | - | 1,358 | 1,358 | - | |
| Village of Eagle | 2,161 | 2,132 | - | 1,708 | 1,708 | - | |
| Village of Eastman | 323 | 323 | - | 65 | 65 | - | |
| Edgewood-Shangri La Sanitary District | 1,011 | 996 | - | 194 | 194 | - | |
| Village of Egg Harbor | 508 | 504 | - | 286 | 286 | - | |
| Elcho Sanitary District #1 | 956 | 956 | - | 460 | 460 | - | |
| Village of Elk Mound | 350 | 349 | - | 148 | 148 | - | |
| Village of Ephraim | 1,629 | 1,457 | - | 1,280 | 1,280 | - | |
| City of Evansville | 1,800 | 1,603 | - | 1,407 | 1,407 | - | |
| Village of Fairchild | 740 | 719 | - | 416 | 416 | - | |
| Village of Fairwater | 1,554 | 1,481 | - | 1,232 | 1,232 | - | |
| Forest Junction Sanitary District | 1,255 | 1,180 | - | 1,097 | 1,097 | - | |
| Village of Forestville | 585 | 552 | - | 343 | 343 | - | |
| City of Fountain City | 451 | 451 | - | 373 | 373 | - | |
| Fulton Sanitary District No. 2 | 211 | 211 | - | 155 | 155 | - | |
| Village of Genoa City | 4,227 | 4,015 | - | 3,034 | 3,034 | - | |
| Germantown Sanitary District | 34 | 34 | - | 7 | 7 | - | |
| Gibbsville Sanitary District | 1,518 | 1,383 | - | 1,204 | 1,204 | - | |
| City of Gillett | 1,420 | 1,347 | - | 1,301 | 1,301 | 73 | |
| Gordon Sanitary District #1 | 395 | 395 | - | 83 | 83 | - | |
| Village of Gratiot | 724 | 723 | - | 568 | 568 | - | |
| City of Green Lake | 3,507 | 3,429 | - | 3,429 | 3,429 | 77 | |
| Green Valley Sanitary District #1 | 188 | 188 | - | 81 | 81 | - | |
| Greenville Sanitary District No. 1 | 4,733 | 4,564 | - | 4,094 | 4,094 | - | |
| City of Greenwood | 847 | 786 | - | 739 | 739 | - | |
| Harmony Grove/Okee Sewerage Commission | 2,327 | 2,155 | - | 1,692 | 1,692 | - | |
| City of Hartford | 13,168 | 13,081 | - | 7,069 | 7,069 | - | |
| Hatfield Sanitary District #1 | 1,135 | 1,135 | - | 133 | 133 | - | |
| Village of Haugen | 285 | 285 | - | 184 | 184 | - | |
| Village of Hilbert | 2,502 | 2,496 | - | 1,096 | 1,096 | - | |
| Village of Hingham - Onion River | 227 | 227 | - | 50 | 50 | - | |
| Holland Sanitary District #1 | 1,380 | 1,380 | - | 1,039 | 1,039 | - | |
| Village of Holmen | 1,365 | 1,365 | - | 1,356 | 1,356 | - | |
| Hub-Rock Sanitary District No. 1 | 494 | 494 | - | 235 | 235 | - | |
| Village of Hustisford | 1,057 | 1,045 | - | 869 | 869 | - | |
| City of Independence | 1,592 | 1,556 | - | 1,354 | 1,354 | - | |
| Island View Sanitary District | 2,764 | 2,480 | - | 684 | 684 | - | |
| Ithaca Sanitary District #1 | 412 | 412 | - | 194 | 194 | - | |
| City of Juneau | 271 | 237 | - | 124 | 124 | - | |
| Kelly Lake Sanitary District #1 | 2,439 | 2,413 | - | 1,583 | 1,583 | - | |
| Village of Kewaskum | 9,423 | 3,230 | - | 3,132 | 3,132 | 6,193 | |
| City of Kiel | 2,470 | 2,470 | - | 1,322 | 1,322 | - | |
| Krakow Sanitary District No. 1 | 625 | 625 | - | 551 | 551 | - | |
| Lake Como Sanitary District #1 | 4,459 | 4,459 | - | 2,229 | 2,229 | - | |
| Lake Tomahawk Sanitary Dist #1 | 1,317 | 1,313 | - | 834 | 834 | - | |
| Village of Lannon | 2,982 | 2,982 | - | 678 | 678 | - | |
| Lebanon Sanitary District #1 | 606 | 587 | - | 563 | 563 | - | |
| Little Green Lake Protection & Rehab District | 1,898 | 1,734 | - | 1,246 | 1,246 | - | |
| Little Suamico Sanitary District #1 | 1,791 | 1,682 | - | 1,247 | 1,247 | - | |

# State of Wisconsin Environmental Improvement Fund
# Outstanding Principal Balances
# November 1, 2008[(a)]—Continued
# (Amount in Thousands)

| Municipality[(b)] | FAA Loan Amount[(c)] | Total FAA Loan Disbursed | Pledged Loan Balance[(d)] | Non-Pledged Loan Balance | Total Outstanding Balance[(d)] | FAA Loan Remaining to Fund[(e)] | % of Bond Payment[(f)] |
|---|---|---|---|---|---|---|---|
| City of Loyal | $ 729 | $ 442 | $ - | $ 442 | $ 442 | $ 287 | |
| Village of Lyndon Station | 615 | 583 | - | 364 | 364 | - | |
| Village of Marathon City | 1,890 | 1,853 | - | 1,157 | 1,157 | - | |
| City of Marinette | 7,232 | 6,282 | - | 5,104 | 5,104 | - | |
| Village of Mazomanie | 4,753 | 4,553 | - | 2,875 | 2,875 | - | |
| Village of Melvina | - | - | - | - | - | - | |
| Village of Menomonee Falls | 887 | 869 | - | 468 | 468 | - | |
| Village of Milltown | 337 | 302 | - | 160 | 160 | - | |
| City of Milwaukee (Comptroller's Office) | 70,716 | 67,776 | - | 59,968 | 59,968 | 1,142 | |
| Mindoro Sanitary District #1 | 1,114 | 1,090 | - | 961 | 961 | - | |
| Morrisonville Sanitary District #1 | 278 | 278 | - | 138 | 138 | - | |
| Village of Mount Hope | 386 | 386 | - | 323 | 323 | - | |
| Village of Mukwonago | 2,514 | 2,271 | - | 1,463 | 1,463 | - | |
| Village of Necedah | 3,911 | 3,839 | - | 3,074 | 3,074 | 72 | |
| City of Neenah | 26,390 | 25,714 | - | 22,967 | 22,967 | 676 | |
| City of Nekoosa | 6,709 | 6,564 | - | 4,496 | 4,496 | - | |
| Village of Nelson | 640 | 640 | - | 256 | 256 | - | |
| Village of New Auburn | 1,144 | 1,130 | - | 1,032 | 1,032 | - | |
| City of Niagara | 181 | 181 | - | 33 | 33 | - | |
| Village of Oakdale | 45 | 45 | - | 7 | 7 | - | |
| Village of Oakfield | 2,200 | 2,200 | - | 1,730 | 1,730 | - | |
| Town of Oconomowoc | 6,819 | 6,169 | - | 4,251 | 4,251 | - | |
| City of Oconto | 3,844 | 3,725 | - | 1,431 | 1,431 | - | |
| Ogema Sanitary District #1 | 190 | 181 | - | 50 | 50 | - | |
| Village of Oliver | 588 | 588 | - | 293 | 293 | - | |
| Omro Sanitary District #1 | 992 | 992 | - | 375 | 375 | - | |
| Oneida Tribe of Indians | 1,210 | 1,210 | - | 191 | 191 | - | |
| Village of Oregon | 7,217 | 7,073 | - | 2,940 | 2,940 | - | |
| Orihula Sanitary District | 2,522 | 2,485 | - | 747 | 747 | - | |
| City of Osseo | 1,575 | 1,575 | - | 1,125 | 1,125 | - | |
| City of Owen | 418 | 418 | - | 352 | 352 | - | |
| Packwaukee Sanitary Dist No. 1 | 242 | 242 | - | 133 | 133 | - | |
| City of Park Falls | 2,108 | 1,898 | - | 1,377 | 1,377 | 211 | |
| Pell Lake Sanitary District #1 | 5,917 | 5,917 | - | 3,168 | 3,168 | - | |
| Pensaukee Sanitary District #1 | 1,279 | 1,279 | - | 539 | 539 | - | |
| City of Peshtigo | 5,388 | 5,216 | - | 5,001 | 5,001 | - | |
| City of Pewaukee | 8,049 | 7,831 | - | 4,216 | 4,216 | - | |
| City of Phillips | 2,233 | 2,233 | - | 1,600 | 1,600 | - | |
| Pikes Bay Sanitary District | 1,621 | 666 | - | 589 | 589 | - | |
| City of Pittsville | 2,768 | 2,768 | - | 2,386 | 2,386 | - | |
| Pleasant Springs Sanitary District #1 | 1,029 | 934 | - | 412 | 412 | - | |
| Village of Port Edwards | 3,368 | 3,291 | - | 2,889 | 2,889 | - | |
| City of Port Washington | 3,404 | 3,404 | - | 2,442 | 2,442 | - | |
| Portland Sanitary District #1 | 295 | 287 | - | 236 | 236 | - | |
| Poy Sippi Sanitary District | 223 | 223 | - | 158 | 158 | - | |
| Rockland Sanitary District #1 | 222 | 222 | - | 33 | 33 | - | |
| Town of Rome | 4,481 | 3,893 | - | 3,893 | 3,893 | 588 | |
| Roxbury Sanitary District #1 | 940 | 914 | - | 561 | 561 | - | |
| Village of Saint Cloud | 935 | 855 | - | 820 | 820 | 79 | |
| City of Seymour | 708 | 654 | - | 602 | 602 | - | |
| Village of Sharon | 635 | 633 | - | 452 | 452 | - | |
| Village of Sheldon | 292 | 292 | - | 236 | 236 | - | |
| Village of Sherwood | 2,711 | 2,688 | - | 1,692 | 1,692 | - | |
| Village of South Wayne | 1,388 | 1,266 | - | 563 | 563 | - | |
| St. Croix Chippewa Indians of WI | - | - | - | - | - | - | |
| St. Joseph's Sanitary District No. 1 | 1,562 | 1,555 | - | 1,436 | 1,436 | - | |
| Village of Stetsonville | 1,141 | 1,141 | - | 763 | 763 | - | |
| Village of Stoddard | 556 | 526 | - | 481 | 481 | 29 | |
| Village of Stratford | 1,401 | 1,362 | - | 1,362 | 1,362 | - | |
| Village of Suamico | 9,940 | 9,283 | - | 8,081 | 8,081 | - | |
| Town of Summit | 7,832 | 7,695 | - | 5,783 | 5,783 | - | |
| City of Sun Prairie | 16,114 | 15,844 | - | 14,509 | 14,509 | - | |
| Village of Suring | 840 | 797 | - | 724 | 724 | 43 | |
| City of Thorp | 1,198 | 1,177 | - | 1,012 | 1,012 | - | |
| Village of Union Center | 299 | 299 | - | 189 | 189 | - | |
| Valley Ridge Clean Water Commission | 749 | 749 | - | 134 | 134 | - | |
| Village of Vesper | 1,724 | 1,680 | - | 1,061 | 1,061 | - | |
| Walworth County Metropolitan Sewerage District | 22,805 | 21,899 | - | 9,990 | 9,990 | - | |
| Village of Warrens | 4,769 | 4,769 | - | 4,308 | 4,308 | - | |
| City of Waukesha | 42,072 | 40,531 | - | 9,007 | 9,007 | - | |
| Village of Wausaukee | 1,662 | 1,662 | - | 464 | 464 | - | |
| Village of Wauzeka | 128 | 107 | - | 51 | 51 | - | |
| City of West Allis | 1,647 | 1,351 | - | 1,292 | 1,292 | 296 | |
| Westboro Sanitary District #1 | 51 | 51 | - | 22 | 22 | - | |
| Village of Whitefish Bay | 2,563 | 955 | - | 917 | 917 | 1,608 | |
| Village of Whitelaw | 1,494 | 1,491 | - | 1,062 | 1,062 | - | |
| Village of Williams Bay | 885 | 836 | - | 477 | 477 | - | |
| Winneconne Sanitary District #3 | 2,079 | 1,985 | - | 575 | 575 | - | |
| Village of Winneconne | 1,644 | 1,494 | - | 886 | 886 | - | |

**State of Wisconsin Environmental Improvement Fund**
**Outstanding Principal Balances**
**November 1, 2008(a)—Continued**
**(Amount in Thousands)**

| Municipality(b) | | FAA Loan Amount(c) | Total FAA Loan Disbursed | Pledged Loan Balance(d) | Non-Pledged Loan Balance | Total Outstanding Balance(d) | FAA Loan Remaining to Fund(e) | % of Bond Payment(f) |
|---|---|---|---|---|---|---|---|---|
| City of Wisconsin Dells | | $ 2,503 | $ 2,400 | $ - | $ 2,197 | $ 2,197 | $ 103 | |
| City of Wisconsin Rapids | | 11,670 | 11,348 | - | 2,447 | 2,447 | - | |
| Village of Withee | | 120 | 120 | - | 97 | 97 | - | |
| | *Subtotal* | *$ 582,645* | *$ 542,621* | *$ -* | *$ 343,354* | *$ 343,354* | *$ 20,891* | |
| | *Totals* | *$ 3,028,194* | *$ 2,726,357* | *$ 709,579* | *$ 1,072,358* | *$ 1,781,937* | *$ 223,894* | |

(a) Amounts and percentages determined after the November 1, 2008 interest payments due on loans, including Pledged Loans, were made.
(b) For Municipalities that have received a Financial Assistance Agreement that is funded with both Pledged Loans and Direct Loans or Proprietary Loans, the entire amount of the Financial Assistance Agreement is included within the group of Pledged Loans.
(c) The amount of financial assistance depicts only loans. Grants, which have been awarded in the aggregate amount of approximately $111 million, are not included.
(d) The principal balance may be less than the total amount disbursed due to repayment of loans.
(e) "FAA 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.
(f) Total remaining Pledged Loan Repayments (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) are shown as a percentage of total debt service remaining on the Outstanding Bonds, less those Bonds that are defeased. Pledged 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 Pledged Loans to be originated in the future from the remaining undisbursed 2008 Series 1 Bond proceeds.

**Security and Source of Payment for Bonds; Subsidy Fund** (Part VI; Pages 198-199)**.** Update with information that appears in "SECURITY; Subsidy Fund" on page 7 of this Official Statement.

**Security and Source of Payment for Bonds; Loan Credit Reserve Fund** (Part VI; Pages 199-201)**.** Update with information that appears in "SECURITY; Loan Credit Reserve Fund" on pages 7-8 of this Official Statement.

**Security and Source of Payment for Bonds; State Financial Participation** (Part VI; Pages 201-202)**.** Update with information that appears in "SECURITY; The State" on page 8 of this Official Statement.

**Security and Source of Payment for Bonds; Milwaukee Metropolitan Sewerage District** (Part VI; Page 202)**.** Update with information that appears in "SECURITY; Milwaukee Metropolitan Sewerage District" on pages 8-9 of this Official Statement, which incorporates by reference the MMSD Comprehensive Annual Financial Report for the year ended December 31, 2007.

**Deposits In Loan Credit Reserve Fund** (Part VI; Pages 203-207**.** Update with information that appears in "APPENDIX D" to this Official Statement.

**Appendix A; Audited Financial Statements.** Update with the following information. The following pages are the independent auditor's report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2008 and 2007, along with supplemental information as of June 30, 2008, and the independent auditor's report and financial statements for the Leveraged Loan Portfolio for the year ended June 1, 2008. Financial statements present the financial position, results of operations and cash flows of the Environmental Improvement Fund for the fiscal years ended June 30, 2008 and 2007.

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. Virchow, Krause & Company LLP, the independent auditors of the Environmental Improvement Fund, has not been engaged to perform and has not performed, since the date of their reports included on the following pages, any procedures on the financial statements addressed in those reports. Virchow, Krause & Company LLP also has not performed any procedures related to this Official Statement.

# STATE OF WISCONSIN

## ENVIRONMENTAL IMPROVEMENT FUND

## AND

## LEVERAGED LOAN PORTFOLIO

# STATE OF WISCONSIN

## ENVIRONMENTAL IMPROVEMENT FUND

FINANCIAL STATEMENTS
For the Years Ended June 30, 2008 and 2007,
SUPPLEMENTAL INFORMATION
For the Year Ended June 30, 2008, and
Independent Auditors' Report

## AND

## LEVERAGED LOAN PORTFOLIO

FINANCIAL STATEMENTS
For the Year Ended June 1, 2008 and
Independent Auditors' Report

## STATE OF WISCONSIN

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# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of June 30, 2008 and 2007, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the State of Wisconsin Environmental Improvement Fund and are not intended to present fairly the financial position of the State of Wisconsin, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement fund as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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



**Virchow, Krause & Company, LLP**
Certified Public Accountants & Consultants • An Independent Member of Baker Tilly International

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

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

The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The "Other Information" on page 34 is presented for informational purposes only and is not a required part of the financial statements of the State of Wisconsin Environmental Improvement Fund. The information has not been audited by us and, accordingly, we express no opinion on such information.

Virchow Krause & Company LLP

Madison, Wisconsin
November 11, 2008

## STATE OF WISCONSIN
## ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

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

See accompanying notes to financial statements.

# STATE OF WISCONSIN
# ENVIRONMENTAL IMPROVEMENT FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2008 and 2007

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

See accompanying notes to financial statements.

# STATE OF WISCONSIN
# ENVIRONMENTAL IMPROVEMENT FUND

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

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

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

**NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE**

See accompanying notes to financial statements.

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

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

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

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

- Leveraged Loan Portfolio—This portfolio is funded by proceeds of revenue obligation bonds and operating transfers from the State. Assets in this portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements of the Clean Water Fund Program.

- Direct Loan Portfolio—This portfolio is funded by the U.S. Environmental Protection Agency (the "EPA") grants and operating transfers from the State (i.e., a minimum 20% match of EPA capitalization grant). Repayments from loans in this portfolio are also used to fund new loans. Loans in this portfolio are made for wastewater projects that comply with EPA eligibility and reporting requirements of the Clean Water Fund Program.

- Proprietary Loan/Grant Portfolio—This portfolio is funded by operating transfers from the State. Assets of this portfolio are used to fund both loans and hardship grants for qualifying wastewater projects. Repayments from loans in this portfolio may be used to fund new loans or hardship grants under the Clean Water Fund Program.

- Drinking Water Loan Portfolio—This portfolio is funded by the EPA grants and operating transfers from the State (the State is required to match a minimum of 20% of EPA grants). Repayments from loans in this portfolio may be used to fund new loans. Loans in this portfolio are made for drinking water projects that comply with EPA eligibility and reporting requirements under the Safe Drinking Water Loan Program.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. There have been ten loans granted under this program for a total of $15,218,891. As of June 30, 2007, there were nine loans granted under this program for a total of $14,415,429. As of June 30, 2008 and 2007, the total amount drawn on these loans was $12,630,747 and $11,617,397, respectively. The Land Recycling Program loans are included in the Clean Water Fund Program – Direct Loan Portfolio for reporting purposes.

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

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

***Net Operating Income/Loss***—The Fund incurred net operating income of $2.9 million in 2008 and net operating income of $2.7 million in 2007. Management expects the Fund will generally incur net operating losses in most years. As explained in Note 2, a loss will generally result from the Fund's statutory mission to provide loans to municipalities at interest rates below the Fund's own cost of funds. Previous losses have historically been funded by EPA grants and operating transfers from the State of Wisconsin. EPA grants were approximately $41.4 million and $41.2 million in 2008 and 2007, respectively, and are classified as operating grants. Operating transfers from the State of Wisconsin were approximately $3.2 million and $8.5 million in 2008 and 2007, respectively, and are classified as transfers in. Management expects the grants and transfers will continue for the foreseeable future sufficient to fund both the anticipated future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

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

***Interest on Loans Receivable***—Interest on loans receivable is recognized on an accrual basis and recorded within Due From Other Governmental Entities on the statements of net assets.

***Investments***—The Fund may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States, and solvent financial institutions in the State, commercial paper and nonsecured corporation notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 3 to the financial statements).

***United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements***—The Fund holds United States Treasury Notes as investments at June 30, 2008 and 2007 and records the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

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

***United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements*** (cont.)—GASB Statement No. 31 (GASB No. 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The four forward delivery agreements with Wachovia Bank, NA ("Wachovia"); one forward delivery agreement with Westdeutsche Landesbank Girozentral ("WestLB"); and two forward delivery agreements with JP Morgan Chase Bank ("JP Morgan") described in Note 4 would be considered participating investment contracts under GASB No. 31. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 30, 2008, the fair value of the Fund's interest in these three agreements was below the cost of the treasury securities owned by approximately $680,000. At June 30, 2007, the fair value exceeded the cost by $20,000.

***Investments***—Investments that are stated at fair value include the State of Wisconsin Investment Board Local Government Investment Pool (see Note 3) and the State of Wisconsin General Obligation Clean Water Bonds (see Note 8). The Fund has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the internal Revenue Code; the amount that must be rebated ("estimated arbitrage") to the U.S. Treasury is recorded as a reduction of investment income (see Note 9). Investment transactions are recorded on the trade date.

***Deferred Debt Expense***—Issuance costs relating to the revenue obligation bonds are capitalized and are being amortized as a component of interest expense using the effective rate method.

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

***Debt Defeasance***—Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 7).

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

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

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

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

***Restricted Assets—***Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

***Net Assets***—Net assets are classified as either restricted or unrestricted based on the presence or absence of restrictions.

***Revenue Recognition***—Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expenditure occurs and include $41.4 million and $41.2 million of EPA contributions in 2008 and 2007, respectively.

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

***Transfers In/(Out)***—Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received. Transfers out consist of capital returned to the state's general fund.

***Estimates***—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS

Loans to local governments at June 30, 2008 and 2007 represent loans for wastewater treatment projects or drinking water projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, virtually all of the loans issued by the Clean Water Fund Program, Safe Drinking Water Loan Program and Land Recycling Loan Program are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State transfers. Interest rates on loans receivable ranged from 5.8% to 0% in both 2008 and 2007. The weighted average interest rate was 2.689% and 2.756% at June 30, 2008 and 2007, respectively. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment.

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

In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary. At June 30, 2008, all loans were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2008 and 2007, $543,910,827 and $460,488,581 (32% and 30%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program, Safe Drinking Water Loan Program, and Land Recycling Loan Program entered into $325,954,410 of new loans and $80,000 of new grants during fiscal year 2008. As of June 30, 2008, they had undisbursed commitments of $219,933,009 relating to loans and $475,157 relating to grants. From July 1, 2008 to October 1, 2008, the Fund made additional loan disbursements of $35,424,966 for financial assistance agreements that were outstanding prior to June 30, 2008. $18,140,100 of additional loans were executed between July 1, 2008 and October 1, 2008. These funding commitments are generally met through the proceeds from additional Federal grants, recycled loan payments, and from the issuance of additional revenue obligation bonds (Note 6).

## NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2008 and 2007, cash and cash equivalents consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP"), at fair value | $ 267,341,586 | $ 290,172,221 |
| Investments reported at cost: | | |
| MBIA Guaranteed Investment Agreement | 6,250,292 | 6,250,292 |
| Repurchase Agreement with Bayerische Landesbank | 7,597,910 | 7,597,910 |
| American International Group Matched Funding Corp. ("AIG") Guaranteed Investment Agreement | 21,842,081 | 21,842,081 |
| Miscellaneous cash | 266 | 479 |
| | 303,032,135 | 325,862,983 |
| Less - Amounts classified as restricted assets (see Note 6) | (92,102,609) | (84,820,742) |
| Total Unrestricted Cash and Cash Equivalents | $ 210,929,526 | $ 241,042,241 |

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

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a Securities and Exchange Commission ("SEC") registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2008, the current yield on the LGIP was 2.23%, compared to 5.19% as of June 30, 2007. The LGIP investment is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 30, 2007, the investment had a market value of $8,240,028, and was accruing interest at the rate of 6.2%. No market value was available at June 30, 2008 for MBIA (See Note 11). The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 30, 2008 and 2007, the agreement had a market value of $24,712,152 and $24,145,049, respectively, and was accruing interest at the rate of 8.1%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 30, 2008 and 2007, the repurchase agreement had a market value of $8,710,232 and $6,584,314, respectively. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement, along with the MBIA and AIG investment agreements, provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

| As of June 30, 2008 | Amount | Exposure to Custodial Credit Risk | Credit Risk | Interest Rate Risk | Interest Rate Highly Sensitive | Foreign Currency Rate | % of Portfolio |
|---|---|---|---|---|---|---|---|
| LGIP | $ 267,341,586 | N/A | Not rated | 51 days weighted average maturity | N/A | N/A | 54% |
| MBIA-GIC | 6,250,292 | N/A | A2 | 6-1-13 final maturity | N/A | N/A | 1 |
| Repo BL (vs. veterans affairs) | 7,597,910 | $0 | Not rated | 6-15-28 final maturity | N/A | N/A | 1 |
| AIG-GIC | 21,842,081 | N/A | A2 | 6-1-11 final maturity | N/A | N/A | 4 |
| Treasury notes – Forward delivery | 47,734,249 | $0 | N/A | See Note 4 | N/A | N/A | 10 |
| GO Bonds-WI | 147,407,901 | $0 | Aa3 | 5-1-24 final maturity | N/A | N/A | 30 |
| Miscellaneous cash | 266 | N/A | N/A | N/A | N/A | N/A | |

## NOTE 3 – Cash and Cash Equivalents (cont.)

| As of June 30, 2007 | Amount | Exposure to Custodial Credit Risk | Credit Risk | Interest Rate Risk | Interest Rate Highly Sensitive | Foreign Currency Rate | % of Portfolio |
|---|---|---|---|---|---|---|---|
| LGIP | $ 290,172,221 | N/A | Not rated | 36 days weighted average maturity | N/A | N/A | 58.6% |
| MBIA-GIC | 6,250,292 | N/A | Aaa | 6-1-13 final maturity | N/A | N/A | 1.3 |
| Repo BL (vs. veterans affairs) | 7,597,910 | $0 | Not rated | 6-15-28 final maturity | N/A | N/A | 1.5 |
| AIG-GIC | 21,842,081 | N/A | Aa2 | 6-1-11 final maturity | N/A | N/A | 4.4 |
| Treasury notes – Forward delivery | 37,807,956 | $0 | N/A | See Note 4 | N/A | N/A | 7.6 |
| GO Bonds-WI | 131,518,190 | $0 | Aa3 | 5-1-24 final maturity | N/A | N/A | 26.6 |
| Miscellaneous cash | 479 | N/A | N/A | N/A | N/A | N/A | |

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

Restricted assets of $92,102,609 and $84,820,742 at June 30, 2008 and 2007, respectively, represent amounts legally restricted by the Clean Water Revenue Bonds. The amounts restricted are the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

## NOTE 4 – Forward Delivery Agreements

The Fund has entered into seven agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Revenue Obligation Bonds (see Note 6). Four of the agreements are with Wachovia, one is with WestLB, and two are with JP Morgan and each provides for the delivery to, and purchase by, the Fund, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1993 Series 1, 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, and 2006 Series 2, and 2008 Series 1 Revenue Obligation Bonds.

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

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

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

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2008, are as follows:

| | Par Value of Treasuries | Coupon Rate of Treasuries | Cost of Treasuries | Agreement Interest Rate | Agreement Maturity Date | Agreement Market Value |
|---|---|---|---|---|---|---|
| Series 1997-1 Agreement | $ 7,024,000 | 4.625% | $ 6,991,281 | 5.58% | June 1, 2017 | $ 7,103,296 |
| Series 1998-1 Agreement | 7,306,000 | 4.625 | 7,292,156 | 5.01 | June 1, 2018 | 7,388,479 |
| Series 1993-1 Agreement | 2,241,000 | N/A | 2,183,992 | 5.22 | June 1, 2013 | 2,221,900 |
| Series 1999-1 Agreement | 6,976,000 | 4.625 | 6,918,683 | 6.32 | June 1, 2020 | 7,054,754 |
| Series 2006-1 Agreement | 6,420,000 | 6.250 | 6,421,977 | 4.56 | June 1, 2027 | 6,535,539 |
| Series 2006-2 Agreement | 8,008,000 | 4.625 | 7,999,465 | 4.84 | June 1, 2027 | 8,098,404 |
| Series 2008-1 Agreement | 9,901,000 | 4.625 | 9,926,695 | 4.10 | June 1, 2028 | 10,012,775 |

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

The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2007, are as follows:

| | Par Value of Treasuries | Coupon Rate of Treasuries | Cost of Treasuries | Agreement Interest Rate | Agreement Maturity Date | Agreement Market Value |
|---|---|---|---|---|---|---|
| Series 1997-1 Agreement | $ 7,037,000 | 4.25% | $ 6,991,387 | 5.58% | June 1, 2017 | $ 7,020,463 |
| Series 1998-1 Agreement | 7,320,000 | 4.25 | 7,292,755 | 5.01 | June 1, 2018 | 7,302,798 |
| Series 1993-1 Agreement | 2,241,000 | N/A | 2,183,992 | 5.22 | June 1, 2013 | 2,135,449 |
| Series 1999-1 Agreement | 6,989,000 | 4.25 | 6,918,879 | 6.32 | June 1, 2020 | 6,972,576 |
| Series 2006-1 Agreement | 6,431,000 | 4.25 | 6,421,173 | 4.56 | June 1, 2027 | 6,415,887 |
| Series 2006-2 Agreement | 8,023,000 | 4.25 | 7,999,769 | 4.84 | June 1, 2027 | 7,980,969 |

## NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

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

The following is a schedule of interfund transfers:

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

## NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

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

## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

### *REVENUE OBLIGATION BONDS*

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

Revenue bonds activity as of June 30, 2008 is as follows:

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

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

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Revenue bonds | | | | |
| Add/(subtract) deferred | $ 676,660,000 | $ 100,000,000 | $ 47,085,000 | $ 729,575,000 |
| amounts for: | | | | |
| Refundings-gains/(losses) | (11,818,022) | - | (2,341,432) | (9,476,590) |
| Premiums/discounts | 26,030,528 | 4,359,628 | 4,307,490 | 26,082,666 |
| Totals | $ 690,872,506 | $ 104,359,628 | $ 49,051,058 | $ 746,181,076 |

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

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

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

| | 2008 | 2007 |
|---|---|---|
| 1991 Series 1: | | |
| Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011 | $ 57,445,000 | $ 57,445,000 |
| Unamortized discount on bonds | (57,850) | (85,108) |
| | 57,387,150 | 57,359,892 |
| 1998 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008 | - | 23,485,000 |
| Unamortized discount bonds | - | (189,704) |
| | - | 23,295,296 |
| 1998 Series 2: | | |
| Serial Bonds, no optional redemption | 90,400,000 | 90,400,000 |
| Unamortized premium on bonds | 2,521,022 | 3,095,071 |
| | 92,921,022 | 93,495,071 |
| 1999 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009 | 3,535,000 | 6,910,000 |
| Unamortized premium on bonds | 4,623 | 9,435 |
| | 3,539,623 | 6,919,435 |
| 2001 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011 | 24,390,000 | 36,100,000 |
| Unamortized discount on bonds | (150,948) | (152,672) |
| | 24,239,052 | 35,947,328 |
| 2002 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012 | 55,720,000 | 59,305,000 |
| Unamortized discount on bonds | (100,272) | 12,043 |
| | 55,619,728 | 59,317,043 |
| 2002 Series 2: | | |
| Serial Bonds, no optional redemption | 44,345,000 | 59,260,000 |
| Unamortized premium on bonds | 1,775,804 | 2,393,409 |
| | 46,120,804 | 61,653,409 |

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

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

| | 2008 | 2007 |
|---|---|---|
| 2004 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014 | $ 89,075,000 | $ 109,645,000 |
| Unamortized premium on bonds | 2,840,455 | 3,643,345 |
| | 91,915,455 | 113,288,345 |
| 2004 Series 2: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015 | 107,025,000 | 107,025,000 |
| Unamortized premium on bonds | 7,528,503 | 8,707,377 |
| | 114,553,503 | 115,732,377 |
| 2006 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016 | 77,580,000 | 80,000,000 |
| Unamortized premium on bonds | 4,246,961 | 4,562,445 |
| | 81,826,961 | 84,562,445 |
| 2006 Series 2: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015 | 96,975,000 | 100,000,000 |
| Unamortized premium on bonds | 3,657,143 | 4,087,026 |
| | 100,632,143 | 104,087,026 |
| 2008 Series 1: | | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018 | 100,000,000 | - |
| Unamortized premium on bonds | 7,435,903 | - |
| | 107,435,903 | - |
| 2008 Series 2: | | |
| Serial bonds, no optional redemption, June 1, 2018 | 27,335,000 | - |
| Unamortized premium on bonds | 3,276,815 | - |
| | 30,611,815 | - |
| Total of All Series | 806,803,159 | 755,657,667 |
| Unamortized deferred charge related to debt defeasance (Note 7) | (8,824,043) | (9,476,590) |
| Revenue Obligation Bonds, Net of Deferred Charge | $ 797,979,116 | $ 746,181,077 |

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

The original issue discount or premium at issuance and the interest rates at June 30, 2008, on the following bond series were:

| Series | Original Issue Discount/ (Premium) | Interest Rates |
|---|---|---|
| 1991 Series 1 | $ 1,366,407 | 6.875% |
| 1998 Series 1 | (811,362) | 4.00 – 5.00% |
| 1998 Series 2 | (7,739,808) | 4.00 – 5.50% |
| 1999 Series 1 | (58,061) | 5.00 – 5.75% |
| 2001 Series 1 | (1,022,362) | 4.50 – 5.25% |
| 2002 Series 1 | (2,426,001) | 4.00 – 5.25% |
| 2002 Series 2 | (7,344,000) | 3.00 – 5.50% |
| 2004 Series 1 | (6,632,300) | 4.00 – 5.00% |
| 2004 Series 2 | (11,408,668) | 3.25 – 5.25% |
| 2006 Series 1 | (4,951,135) | 3.50 – 5.00% |
| 2006 Series 2 | (4,359,628) | 4.00 – 5.00% |
| 2008 Series 1 | (7,712,015) | 4.00 – 5.00% |
| 2008 Series 2 | (3,393,398) | 5.00% |

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

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

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2008 and 2007, the total assets of the Leveraged Loan Portfolio were $1,000,181,932 and $924,523,126, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

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

### *RESTRICTED ASSETS*

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net assets consist of substantially all of the MBIA, AIG, Bayerische Landesbank investments (Note 3) and $56.4 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

## NOTE 7 – ADVANCE REFUNDING

In 1993, the Fund defeased a portion of its 1991 Series 1 bonds through the issuance of 1993 Series 2 Refunding Bonds. The proceeds from the 1993 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2007, there was $16,755,000 of the defeased bonds outstanding.  These were paid off during June 2008.

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of $104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2008, and 2007, there was $91,985,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2002, the Fund defeased a portion of its 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 bonds through the issuance of $85,575,000 of 2002 Series 2 Refunding Bonds. The proceeds from the 2002 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2008 and 2007, there was $47,195,000 and $61,820,000, respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2005, the Fund defeased a portion of its 1998 Series 1, 1999 Series 1, 2001 Series 1, and 2002 Series 1 bonds through the issuance of $107,025,000 of 2004 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2008, and 2007, there was $109,185,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

## NOTE 7 – ADVANCE REFUNDING (cont.)

On February 12, 2008, the Fund issued $27,335,000 in revenue bonds with an average interest rate of 5 percent to advance refund $29,275,000 of its 1998 Series 1 and 2001 Series 1 bonds with an average interest rate of 4.87 percent. The net proceeds of $30,505,723 (after payment of $217,571 in underwriting fees, insurance and other issuance cost) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, this portion of the bonds are considered to be defeased and the liability for those bonds has been removed from these financial statements.

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

## NOTE 8 – GLOBAL CERTIFICATES

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for $116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program ("Global Certificate"). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2008 and 2007 is $101,986,724 and 2.76% and $111,740,278 and 12.6%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In February 2007, two additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for $13,148,554 and $6,851,446 (par value). The estimated market value and weighted average coupon interest rates of the Global Certificates at June 30, 2008 were $13,536,034 and 5.43% and $4,564,876 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In June 2008, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for $16,600,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2008 was $17,020,266 and 6.16%, respectively. The bonds are registered in the name of the fund and held by an independent trustee.

## NOTE 8 – GLOBAL CERTIFICATES (cont.)

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

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

## NOTE 9 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Interest: | | |
| State of Wisconsin Investment Board Local Government Investment Pool | $ 10,180,534 | $ 13,350,409 |
| MBIA Guaranteed Investment Agreement | 387,518 | 387,518 |
| Repurchase Agreement with Bayerishe Landesbank | 493,864 | 493,864 |
| AIG Guaranteed Investment Agreement | 1,769,209 | 1,769,209 |
| United States Treasury Notes | 2,110,678 | 1,819,699 |
| State of Wisconsin General Obligation Bonds | 19,192,074 | 20,406,082 |
| Total Interest | 34,133,877 | 38,226,781 |
| Changes in Unrealized Gains (Losses); | | |
| United States Treasury Notes | 33,873 | 32,844 |
| State of Wisconsin General Obligation Bonds | (11,010,290) | (14,163,351) |
| Total Changes in Unrealized Gains (Losses) | (10,976,417) | (14,130,507) |
| Total Interest and Changes in Unrealized Gains (Losses) | 23,157,460 | 24,096,274 |
| Change in Estimated Rebatable Arbitrage Liability | (1,948,851) | 624,565 |
| TOTAL INVESTMENT INCOME | $ 21,208,609 | $ 24,720,839 |

## NOTE 10 – OPERATING GRANTS AND HARDSHIP GRANTS

***EPA Operating Grants for Wastewater Projects***—The Federal Water Quality Act of 1987 (the "Water Quality Act") established a joint Federal and state program with the EPA to assist in providing financial assistance to municipalities within the states for governmentally owned wastewater treatment projects. Under the terms of the EPA grant, the State was required (1) to establish the Clean Water Fund Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmental owned wastewater treatment projects in a number of ways, provided that such assistance is not in the form of a grant. Reauthorization of the Water Quality Act of 1987 is expected to result in the allocation of capitalization grant to Wisconsin of approximately $18.4 million for federal fiscal year 2008. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2008 are unknown at this time.

***EPA Operating Grants for Drinking Water Projects***—The Federal Safe Drinking Water Act Amendment of 1996 (the "Safe Drinking Water Act") established a joint Federal and State program with the EPA to assist in providing financial assistance to municipal and community water system projects. Under the terms of the EPA grant, the State was required (1) to establish the Safe Drinking Water Loan Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipal and community water system projects. The Safe Drinking Water Act was authorized through federal fiscal year 2008 and a grant to Wisconsin of approximately $15.8 million is expected for federal fiscal year 2008.

Reauthorization of the Safe Drinking Water Act may not be acted upon by the present Congress of the United States, although the Fund expects EPA capitalization grants to states to continue into the future. Four percent of the EPA grant amount may be used for water program administrative expenses plus a portion of the grant may be used by DNR for various water-related issues and initiatives.

***Hardship Grants***—Wisconsin statutes require that the Fund provide financial hardship assistance for wastewater projects to communities that qualify under Wisconsin Statute 281.58(13). This assistance may come in the form of reduced interest rates (as low as 0%) or grants subject to limitations prescribed by the statute. In 2008 and 2007, the Fund expended hardship grants of $887,491 and $1,318,129, respectively. At June 30, 2008 and 2007, the Fund was committed to award $475,157 and $1,582,763, respectively, of additional hardship grants. At June 30, 2007, the Fund had projected $2,690,533 of additional hardship grants. No additional hardship grants are projected as of June 30, 2008.

## NOTE 11 – SUBSEQUENT EVENT

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

# SUPPLEMENTAL INFORMATION

**STATE OF WISCONSIN**
**ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2008

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

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

# STATE OF WISCONSIN
# ENVIRONMENTAL IMPROVEMENT FUND

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2008

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

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

## STATE OF WISCONSIN
## ENVIRONMENTAL IMPROVEMENT FUND

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

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

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

# STATE OF WISCONSIN
# ENVIRONMENTAL IMPROVEMENT FUND

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

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

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

# STATE OF WISCONSIN
# ENVIRONMENTAL IMPROVEMENT FUND

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

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

**NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE**

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)
Years Ended June 30, 2008 and 2007

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

Virchow Krause & company

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

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

We have audited the accompanying financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of June 30, 2008 and 2007 and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

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

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

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

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

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

**Significant Deficiency – Financial Reporting**

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

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

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

Internal control consists of five interrelated components:

a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

b. *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.

c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.

d. *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

e. *Monitoring* is a process that assesses the quality of internal control performance over time.

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

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

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

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

***Auditee Response***

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

***Compliance and Other Matters***

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

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

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

Madison, Wisconsin
November 11, 2008

Virchow Krause & Company, LLP

# STATE OF WISCONSIN

## LEVERAGED LOAN PORTFOLIO

FINANCIAL STATEMENTS
For the Year Ended June 1, 2008 and
Independent Auditors' Report

Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Leveraged Loan Portfolio (an environmental financing program) of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin), as of June 1, 2008, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund and are not intended to present fairly the financial position of the State of Wisconsin, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund as of June 1, 2008, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The "Other Information" on page 56 is presented for informational purposes only and is not a required part of the financial statements of the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund. The information has not been audited by us, and, accordingly, we express no opinion on such information.

Madison, Wisconsin
November 11, 2008

Virchow Krause & Company LLP

## STATE OF WISCONSIN
## LEVERAGED LOAN PORTFOLIO

STATEMENT OF NET ASSETS
June 1, 2008

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

See accompanying notes to financial statements.

## STATE OF WISCONSIN
## LEVERAGED LOAN PORTFOLIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 1, 2008

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

See accompanying notes to financial statements.

## STATE OF WISCONSIN
## LEVERAGED LOAN PORTFOLIO

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

| | |
|---|---|
| **CASH FLOWS USED BY OPERATING ACTIVITIES** | |
| Payments to employees for services | $ (3,786,232) |
| Payments to suppliers and other | (1,037,747) |
| Net Cash Flows Used by Operating Activities | (4,823,979) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Transfers in | 13,300,000 |
| Proceeds from issuance of long-term debt | 107,213,970 |
| Refunding bond proceeds deposited in irrevocable trust | 29,275,000 |
| Retirement of long-term debt | (29,275,000) |
| Interest payments | (19,634,819) |
| Net Cash Flows From Noncapital Financing Activities | 100,879,151 |
| **CASH FLOWS USED BY INVESTING ACTIVITIES** | |
| Origination of loans | (71,882,369) |
| Collection on loans | 54,143,346 |
| Interest and dividends received | 24,182,385 |
| Purchase of investments | (55,850,068) |
| Liquidation of investments | 37,808,589 |
| Investment and interest income | 18,880,530 |
| Net Cash Flows Used by Investing Activities | 7,282,413 |
| **Net Increase in Cash and Cash Equivalents** | 103,337,585 |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 119,828,018 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 223,165,603 |

| | |
|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATIONS** | |
| Operating Loss | $ (19,879,748) |
| | |
| **ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATION** | |
| Interest income classified as investing activity | (18,894,122) |
| Interest expense classified as noncapital financing activity | 35,165,655 |
| Changes in assets and liabilities: | |
| Accrued interest | 1,116,884 |
| Deferred debt expense | (112,420) |
| Due to other funds | (2,220,228) |
| Total Adjustments | 15,055,769 |
| | |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | $ (4,823,979) |
| | |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS** | |
| Unrestricted cash and cash equivalents - statement of net assets | $ 133,448,205 |
| Restricted cash and cash equivalents - statement of net assets | 89,717,398 |
| | |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 223,165,603 |

See accompanying notes to financial statements.

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

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

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

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

***Net Operating Loss***—The Portfolio incurred an operating loss of $19.9 million in 2008. Management expects the Portfolio will generally incur net operating losses for the foreseeable future. As explained in Note 2, the losses result from the Portfolio’s statutory mission to provide loans to municipalities at interest rates below the Portfolio’s own cost of funds. The losses have historically been funded by transfers from the State. No transfers for the purpose were required in 2008. Management expects transfers will continue for the foreseeable future sufficient to fund both the future operating losses and, together with additional borrowing, to fund additional loans to municipalities.

***Interest on Loans Receivable***—Interest on loans receivable is recognized on an accrual basis and recorded within Due From Other Governmental Entities on the statement of net assets.

***United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements***—The Portfolio holds United States Treasury Notes as investments at June 1, 2008 and records the notes at cost. The Portfolio purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

GASB Statement No. 31 (GASB No. 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The four forward delivery agreements with Wachovia Bank, NA (“Wachovia”); and two forward delivery agreements with JP Morgan Chase Bank (JP Morgan) described in Note 4 would be considered participating investment contracts under GASB No. 31. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 1, 2008, the fair value of the Fund’s interest in these three agreements exceeded the cost of the treasury securities owned by approximately $774,000.

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

***Investments***—Investments that are stated at fair value include the State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP") (see Note 3). The Portfolio has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the Internal Revenue Code, the amount that must be rebated ("estimated arbitrage") to the U.S. Treasury is recorded as a reduction of investment income (see Note 9). Investment transactions are recorded on the trade date.

***Restricted Assets—***Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

***Deferred Debt Expense***—Issuance costs relating to the revenue obligation bonds were capitalized and are being amortized as a component of interest expense using the effective rate method.

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

***Debt Defeasance***—Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 7).

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

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

***Net Assets***—Net assets are classified as either restricted or unrestricted based on the presence or absence of restrictions.

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

***Estimates***—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 – FINANCIAL ASSISTANCE COMMITMENTS TO LOCAL GOVERNMENTS

Leveraged loans to local governments at June 1, 2008, represent loans for wastewater treatment projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, a majority of the loans issued by the Portfolio are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State contributions. Interest rates on loans receivable ranged from 0% to 5.8% in 2008. The weighted average interest rate was 2.802% at June 1, 2008. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment. In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary.

Of the loans outstanding at June 1, 2008, $172,381,260 (27%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio entered into $53,705,299 of new loans during the 12 month period ending June 1, 2008. As of June 1, 2008, the Portfolio had undisbursed loan commitments totaling $51,206,575. From June 1, 2008 to October 1, 2008, the Portfolio made additional loan disbursements of $9,949,161 for financial assistance agreements that were outstanding prior to June 1, 2008. $71,764,288 of additional leverage loans were executed between June 1, 2008 and October 1, 2008. These funding commitments are generally met through the proceeds from the issuance of additional Clean Water revenue bonds and investment earnings thereon (Note 6). Financial assistance in the form of grants is not provided in the Leverage Portfolio. The management of the EIF may elect to switch the target funding portfolio for a loan from Leverage to another loan portfolio based on various business or program needs.

## NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 1, 2008, cash and cash equivalents consisted of the following:

| | |
|---|---|
| Local Government Investment Pool ("LGIP"), at fair value | $ 187,471,862 |
| Cash held by trustee | 3,458 |
| Investments reported at cost: | |
| MBIA Guaranteed Investment Agreement | 6,250,292 |
| Repurchase Agreement with Bayerische Landesbank | 7,597,910 |
| American International Group Matched Funding Corp. (AIG) Guaranteed Investment Agreement | 21,842,081 |
| | 223,165,603 |
| Less: Amounts classified as restricted assets (see Note 6) | (89,717,398) |
| Total Unrestricted Cash and Cash Equivalents | $ 133,448,205 |

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

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a SEC registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 1, 2008, the current yield on the LGIP was 2.27%. The LGIP investment is stated at fair value.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 1, 2008, no market value was available for MBIA (See Note 10). The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 1, 2008, the agreement had a market value of $24,886,910 and was accruing interest at the rate of 8.1%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 1, 2008, the repurchase agreement had a market value of $8,833,126. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement, along with the MBIA and AIG investment agreements, provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

| | Amount | Exposure to Custodial Credit Risk | Credit Risk | Interest Rate Risk | Interest Rate Highly Sensitive | Foreign Currency Rate | % of Portfolio |
|---|---|---|---|---|---|---|---|
| LGIP | $ 187,471,862 | N/A | Not rated | 51 days weighted average maturity | N/A | N/A | 47.0% |
| MBIA-GIC | 6,250,292 | N/A | A2 | 6-1-13 final maturity | N/A | N/A | 1.5 |
| Repo BL (vs. veterans affairs) | 7,597,910 | $0 | Not rated | 6-15-28 final maturity | N/A | N/A | 1.9 |
| AIG-GIC | 21,842,081 | N/A | A2 | 6-1-11 final maturity | N/A | N/A | 5.6 |
| Treasury notes – Forward delivery | 45,550,069 | $0 | N/A | See Note 4 | N/A | N/A | 11.4 |
| GO Bonds-WI | 130,020,406 | $0 | Aa3 | 5-1-24 final maturity | N/A | N/A | 32.6 |
| Miscellaneous cash | 3,458 | N/A | N/A | N/A | N/A | N/A | |

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

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

Restricted assets of $89,717,398 represent amounts legally restricted by the Clean Water Revenue Bonds. The amount restricted is the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

## NOTE 4 – FORWARD DELIVERY AGREEMENTS

The Portfolio has entered into six agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Revenue Obligation Bonds (see Note 6). Four of the agreements are with Wachovia and two are with JP Morgan and each provides for the delivery to, and purchase by, the Portfolio, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, 2006 Series 2, and 2008 Series 1 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wachovia, WestLB, and JP Morgan are required to deliver United States Treasury securities (“Treasury securities”) to the Portfolio for purchase. The Treasury securities are held as investments by the Portfolio. The price paid by the Portfolio for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The Wachovia agreements may be terminated at the option of the Portfolio and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination.

Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Portfolio to Wachovia. If the agreements were terminated at a time when a payment would be due to Wachovia, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

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

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 1, 2008, are as follows:

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

## NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Proprietary Portfolio | Leveraged Loan Portfolio | $ 2,224,305 |
| Total Due to Other Funds – Statement of Net Assets | | $ 2,224,305 |

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

The following is a schedule of interfund transfers:

| Fund Transferred To | Fund Transferred From | Amount | Principal Purpose |
|---|---|---|---|
| Leveraged Loan Portfolio | Proprietary Portfolio | $ 3,000,000 | Future Debt Service |
| Leveraged Loan Portfolio | Capital Improvement | 10,300,000 | Future Debt Service |
| Total Transfers – Statement of Revenues, Expenses and Changes in Net Assets | | $ 13,300,000 | |

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

## NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

### *REVENUE OBLIGATION BONDS*

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

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

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

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

| | 2008 |
|---|---|
| 1991 Series 1: | |
| Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011 | $ 57,445,000 |
| Unamortized discount on bonds | (60,226) |
| | 57,384,774 |
| 1998 Series 1: | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2008 | 3,195,000 |
| Unamortized discount bonds | - |
| | 3,195,000 |
| 1998 Series 2: | |
| Serial Bonds, no optional redemption | 90,400,000 |
| Unamortized premium on bonds | 2,570,331 |
| | 92,970,331 |
| 1999 Series 1: | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009 | 6,910,000 |
| Unamortized premium on bonds | 5,038 |
| | 6,915,038 |
| 2001 Series 1: | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011 | 27,115,000 |
| Unamortized discount on bonds | (150,429) |
| | 26,964,571 |
| 2002 Series 1: | |
| Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012 | 59,305,000 |
| Unamortized discount on bonds | (93,737) |
| | 59,211,263 |

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

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

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

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

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

The original issue discount or premium at issuance and the interest rates at June 1, 2008, on the following bond series were:

| Series | Original Issue Discount/ (Premium) | Interest Rates |
|---|---|---|
| 1991 Series 1 | $ 1,366,407 | 6.875% |
| 1998 Series 1 | (811,362) | 4.00 – 5.00% |
| 1998 Series 2 | (7,739,808) | 4.00 – 5.50% |
| 1999 Series 1 | (58,061) | 5.00 – 5.75% |
| 2001 Series 1 | (1,022,362) | 4.50 – 5.25% |
| 2002 Series 1 | (2,426,001) | 4.00 – 5.25% |
| 2002 Series 2 | (7,344,000) | 3.00 – 5.50% |
| 2004 Series 1 | (6,632,300) | 4.00 – 5.00% |
| 2004 Series 2 | (11,408,668) | 3.25 – 5.25% |
| 2006 Series 1 | (4,951,135) | 3.50 – 5.00% |
| 2006 Series 2 | (4,359,628) | 4.00 – 5.00% |
| 2008 Series 1 | (7,712,015) | 4.00 – 5.00% |
| 2008 Series 2 | (3,393,398) | 5.00% |

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

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

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2008, the total assets of the Leveraged Loan Portfolio were $1,052,410,964. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

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

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

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheets consist of substantially all of the MBIA, AIG, Bayerische Landesbank investments (Note 3) and $54 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

## NOTE 7 – ADVANCE REFUNDING

In 1993, the Fund defeased a portion of its 1991 Series 1 bonds through the issuance of 1993 Series 2 Refunding Bonds. The proceeds from the 1993 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2008, there was $16,755,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of $104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2008, there was $91,985,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2002, the Fund defeased a portion of its 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 bonds through the issuance of $85,575,000 of 2002 Series 2 Refunding Bonds. The proceeds from the 2002 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2008, there was $61,820,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2005, the Fund defeased a portion of its 1998 Series 1, 1999 Series 1, 2001 Series 1, and 2002 Series 1 bonds through the issuance of $107,025,000 of 2004 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2008, there was $109,185,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

## NOTE 7 – ADVANCE REFUNDING (cont.)

On February 12, 2008, the Fund issued $27,335,000 in revenue bonds with an average interest rate of 5 percent to advance refund $29,275,000 of its 1998 Series 1 and 2001 Series 1 bonds with an average interest rate of 4.87 percent. The net proceeds of $30,505,723 (after payment of $217,571 in underwriting fees, insurance and other issuance cost) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, this portion of the bonds are considered to be defeased and the liability for those bonds has been removed from these financial statements.

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

## NOTE 8 – GLOBAL CERTIFICATES

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for $116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program (“Global Certificate”). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2008 is $101,694,322 and 2.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In February 2007, two additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program (“Global Certificate”) for $13,148,554 and $6,851,446 (par value). The estimated market value and weighted average coupon interest rates of the Global Certificates at June 1, 2008 were $13,483,846 and 5.43% and $4,542,238 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

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

## NOTE 8 – GLOBAL CERTIFICATES (cont.)

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

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

## NOTE 9 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal year ended June 1, 2008:

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

**NOTE 10 – SUBSEQUENT EVENTS** (cont.)

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

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

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

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

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

# APPENDIX B

## INFORMATION ABOUT THE STATE

This Appendix includes by reference information concerning the State of Wisconsin **(State)** and general obligations issued by the State, contained in Parts II and III of the State of Wisconsin Continuing Disclosure Annual Report, dated December 21, 2007 **(2007 Annual Report)**, which can be obtained as described below. This Appendix also includes updated information and makes changes or additions to the information presented in Parts II and III of the 2007 Annual Report. These updates, changes, or additions include information on the following:

- Updated projections of General Fund tax revenue estimates for the 2008-09 fiscal year and projections for the 2009-11 biennium, which were provided on November 20, 2008 by the State of Wisconsin Department of Revenue **(DOR)**.
- Projected and actual General Fund cash flows as of October 31, 2008.
- Information on the Annual Fiscal Report (budgetary basis) for the 2007-08 fiscal year, which was released on October 15, 2008.
- The budget adjustment bill for the 2007-09 biennium, as signed into law, with some vetoes, by the Governor on May 16, 2008 (2007 Wisconsin Act 226).

Part II of the 2007 Annual Report contains general information about the State. More specifically, that part presents information about 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 2006-07
- State budget
- Potential effects of litigation
- 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 2007 Annual Report are the audited general purpose external financial statements for the fiscal year ending June 30, 2007, prepared in conformity with generally accepted accounting principles **(GAAP)** for governments as prescribed by the Government Accounting Standards Board, and the independent auditor's report provided by the State Auditor.

Part III of the 2007 Annual Report contains information concerning general obligations issued by the State. That part discusses the security provisions for general obligations (including the flow of funds to pay debt service on general obligations) and presents data about the State's outstanding general obligations and the portion of outstanding general obligations that is revenue supported.

The 2007 Annual Report has been filed with each nationally recognized municipal securities information repository **(NRMSIR)** and is also 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.wi.gov/capitalfinance

Copies of the 2007 Annual Report may also be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
Attn: Capital Finance Director
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
DOACapitalFinanceOffice@wisconsin.gov

After publication and filing of the 2007 Annual Report, certain changes or events have occurred that affect items discussed in the 2007 Annual Report. Listed below, by reference to particular sections of Parts II and III of the 2007 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 describe matters other than listed material events under the State's Master Agreement on Continuing Disclosure.

**Budget for 2007-08 and 2008-09 Fiscal Years (Part II; Pages 26-27).** Add the following new sections:

*November 20, 2008 General Fund Tax Revenue Estimates*

On November 20, 2008, DOR provided updated projections of General Fund, or general purpose revenue **(GPR),** tax revenues for the 2008-09 fiscal year. The updated total projection of GPR tax revenues for the 2008-09 fiscal year is $12.762 billion, which is approximately $281 million, or 2.2%, lower than actual GPR tax revenue collections for the 2007-08 fiscal year. This projection is also $509 million lower than the amount previously estimated in February 2008 by the Legislative Fiscal Bureau **(LFB)**. The following table provides a summary of the updated projections of GPR tax revenues for the 2008-09 fiscal year, and for comparison, other previous projections.

**Projected General Fund Tax Revenues Compared to Previous Projections**
**2008-09 Fiscal Year**
**(in Millions)**

| | DOR Projections November 2008 | LFB Projections February 2008 | 2007-09 Biennial Budget |
|---|---|---|---|
| Individual Income | $ 6,705.4 | $ 6,965.0 | $ 7,105.5 |
| Sales and Use | 4,097.4 | 4,295.0 | 4,479.4 |
| Corp. Income & Franchise | 720.0 | 815.0 | 860.3 |
| Public Utility | 309.1 | 316.2 | 214.4 |
| Excise | | | |
| Cigarettes | 565.4 | 523.7 | 531.0 |
| Liquor & Wine | 43.5 | 43.0 | 43.0 |
| Tobacco Products | 39.9 | 41.2 | 41.2 |
| Beer | 9.8 | 9.4 | 9.4 |
| Insurance Company | 184.7 | 160.0 | 144.0 |
| Estate | 25.4 | 30.0 | 25.0 |
| Miscellaneous Taxes | 61.7 | 73.0 | 73.0 |
| TOTAL | $12,762.3 | $13,271.5 | $13,626.2 |

*November 20, 2008 Department of Administration Report; Updated General Fund Condition Statement*

On November 20, 2008, the Secretary of Administration provided a report (required by Wisconsin Statutes) that included DOR's updated projections of GPR tax revenues for the 2008-09 fiscal year and the next two fiscal years (2009-10 and 2010-11), a summary of agency budget requests for the next two fiscal years, and an updated projection of the General Fund condition statement for the 2008-09 fiscal year and next two fiscal years (2009-10 and 2010-11).

The updated projection of the General Fund condition statement for the 2008-09 fiscal year takes into account DOR's updated projections of GPR tax revenues, current estimates of departmental revenues, sum sufficient appropriations, and lapses, and the final budget for the fiscal year. The following table provides the updated projection of the General Fund condition statement for the 2008-09 fiscal year and, for comparison, the estimated General Fund condition statement for the budget (1) as changed by the budget adjustment bill signed into law in May 2008 (2007 Wisconsin Act 226), and (2) initially enacted for the 2007-09 biennium (2007 Wisconsin Act 20).

**Estimated General Fund Condition Statement**
**2008-09 Fiscal Year**
**(in Millions)**

| | November 2008 Projection | Budget Adjustment Bill (2007 Act 226) | 2007 Act 20 |
|---|---|---|---|
| Revenues | | | |
| Opening Balance | $ 130.6 | $ 80.5 | $ 67.0 |
| Taxes | 12,762.3 | 13,286.5 | 13,626.2 |
| Department Revenues | | | |
| Tribal Gaming | 90.7 | 46.3 | 46.3 |
| Other | 541.8 | 514.2 | 435.0 |
| Total Available | $13,525.4 | $13,917.5 | $14,174.5 |
| Appropriations | | | |
| Gross Appropriations | $14,117.9 | $14,117.9 | $14,212.1 |
| Compensation Reserves | 132.6 | 132.6 | 156.6 |
| Sum Sufficient Reestimates | 11.2 | n/a | n/a |
| Biennial Appropriations Spending Ahead[(a)] | (34.8) | n/a | n/a |
| Less: Lapses | (420.3) | (429.3) | (262.0) |
| Net Appropriations | $13,806.6 | $13,821.2 | $14,106.8 |
| Balances | | | |
| Gross Balance | $ (281.2) | $ 106.2 | $ 67.7 |
| Less: Req. Statutory Balance | (65.0) | (65.0) | (65.0) |
| Net Balance, June 30 | $ (346.2) | $ 41.3 | $ 2.7 |

(a) Certain biennial appropriations from the 2008-09 fiscal year were expended in the 2007-08 fiscal year.

The November 20, 2008 report from the Secretary of Administration identified that a shortfall of approximately $40 million is projected for Wisconsin Works (W-2) and the State's child care subsidy programs. If this shortfall continues and legislation is adopted and signed into law that funds this shortfall from the General Fund, the estimated deficit for the 2008-09 fiscal year may increase to $386.2 million.

The November 20, 2008 report from the Secretary of Administration also constitutes the notification to the Governor and Legislature, as required by Wisconsin Statutes, that the Secretary of Administration has determined for the 2008-09 fiscal year that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues. It is expected that the Governor will prepare legislation to address this projected deficit for the 2008-09 fiscal year, with introduction of such legislation tentatively planned for early calendar year 2009.

The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget (which the Legislature has done, including for the 2007-09 biennium) and also requires that if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take action to balance the budget in the succeeding fiscal year.

A complete copy of the November 20, 2008 report from the Secretary of Administration is available from the addresses shown on pages B-1 and B-2 of this Official Statement.

*Results of 2007-08 Fiscal Year*

The State's Annual Fiscal Report included the ending general fund balance for the 2007-08 fiscal year (unaudited, budgetary basis) and was released on October 15, 2008. It reports the State ended the 2007-08 fiscal year on a statutory and unaudited basis with an undesignated balance of $130.7 million. This amount is $50.2 million more than the projected balance of $80.5 million from the estimate for the budget adjustment bill signed into law in May 2008 (2007 Wisconsin Act 226). The State did issue operating notes during the 2007-08 fiscal year.

The following table shows the final General Fund condition statement for the 2007-08 fiscal year. This table also includes, for comparison, the estimated General Fund condition statements that reflect (1) the budget adjustment bill (2007 Wisconsin Act 226), and (2) the biennial budget bill (2007 Wisconsin Act 20).

**General Fund Condition Statement**
**2007-08 Fiscal Year**
**(in Millions)**

| | Annual Fiscal Report | Budget Adjustment Bill (2007 Act 226) | Biennial Budget Bill (2007 Act 20) |
|---|---|---|---|
| Revenues | | | |
| Opening Balance | $ 66.3 | $ 66.3 | $ 66.3 |
| Prior Year Designation of Cont. Balance | 6.8 | n/a | n/a |
| Taxes | 13,042.9 | 12,868.3 | 13,100.1 |
| Department Revenues[(a)] | | | |
| Tribal Gaming | 18.0 | 96.7 | 96.7 |
| Other | 550.5 | 643.1 | 428.2 |
| Total Available | $13,684.4 | $13,674.4 | $13,691.4 |
| Appropriations | | | |
| Gross Appropriations | $13,861.1 | $13,799.4 | $13,824.0 |
| Compensation Reserves | 50.4 | 62.8 | 62.8 |
| Less: Lapses and Sum Sufficient Reestimates | (357.8) | (268.3) | (262.4) |
| Net Appropriations | $13,553.8 | $13,593.9 | $13,624.4 |
| Balances | | | |
| Gross Balance | $ 130.7 | $ 80.5 | $ 67.0 |
| Less: Required Statutory Balance | n/a | (65.0) | (65.0) |
| Net Balance, June 30 | $ 130.7 | $ 15.5 | $ 2.0 |

(a) On a budgetary basis, final tribal gaming payments were $78.7 million less than estimates due to payments that were expected to be received in the 2007-08 fiscal year but were actually received in the 2008-09 fiscal year. In addition, estimates used in 2007 Wisconsin Act 226 assumed that entire $270 million of state agency reductions would be allocated to departmental revenues; however, some of those reductions actually occurred as lapses from GPR appropriations.

The annual fiscal report also included final GPR tax revenue collections for the 2007-08 fiscal year. These GPR tax revenue collections, on a budgetary basis, were about $425 million, or 3.4%, above collections in the 2006-07 fiscal year and about $175 million above the previous projections from LFB in February,

2008. The following table provides a summary of the final GPR tax revenue collections for the 2007-08 fiscal year, and for comparison, other previous projections.

**General Fund Tax Collections Compared to Previous Projections**
**2007-08 Fiscal Year**
**(in Millions)**

| | Annual Fiscal Report October 2008 | LFB Projections February 2008 | 2007-09 Biennial Budget |
|---|---|---|---|
| Individual Income | $ 6,713.7 | $ 6,660.0 | $ 6,758.8 |
| Sales and Use | 4,268.0 | 4,210.0 | 4,310.0 |
| Corp. Income & Franchise | 837.8 | 810.0 | 887.8 |
| Public Utility | 297.5 | 295.6 | 297.2 |
| Excise | | | |
| Cigarettes | 455.7 | 448.9 | 456.5 |
| Liquor & Wine | 45.2 | 42.5 | 42.5 |
| Tobacco Products | 29.7 | 28.9 | 28.9 |
| Beer | 9.6 | 9.4 | 9.4 |
| Insurance Company | 156.6 | 140.0 | 141.0 |
| Estate | 158.8 | 150.0 | 95.0 |
| Miscellaneous Taxes | 70.3 | 83.0 | 73.0 |
| TOTAL | $13,042.9 | $12,868.3 | $13,100.1 |

The complete Annual Fiscal Report is available from the addresses shown on pages B-1 and B-2 of this Official Statement.

*Preliminary General Fund Tax Collections; 2007-08 Fiscal Year*

On September 17, 2008, DOR released preliminary GPR tax collections for the 2007-08 fiscal year, which on a budgetary basis, were about $423 million, or 3.4%, above collections in the 2006-07 fiscal year and about $173 million above the previous projections from LFB in February, 2008. DOR's release of these preliminary GPR tax collections included the following additional information. The difference between the LFB estimated tax collections and the preliminary figures can be attributed to two sources: $88.2 million from a stronger economy in the first half of calendar year 2008, and $84.9 million from process improvements at DOR. With respect to the stronger economy in the first half of calendar year 2008, much of the gain was realized in sales tax revenues and related to the $2.1 billion of stimulus checks that were issued by the U.S. Treasury to Wisconsin taxpayers.

*Budget Adjustment Bill*

A budget adjustment bill for the 2007-09 biennium was passed by the Senate and the Assembly and signed into law, with some vetoes, by the Governor on May 16, 2008 (2007 Wisconsin Act 226). This budget adjustment bill was in response to the February 13, 2008 LFB memorandum (see below) and the Secretary of Administration's determination that, as a result of the revised projections of General Fund tax collections, budgeted expenditures would exceed revenues by more than one-half of one percent of general purpose revenues.

*February 2008 General Fund Revenue Projections - LFB*

On February 13, 2008, LFB released projections of General Fund tax collections for the 2007-09 biennium. These projections differed adversely from the projections of General Fund tax collections that were made in January 2007 and used in preparing the State's 2007-09 biennial budget (2007 Wisconsin Act 20). For the 2007-09 biennium, the February 13, 2008 LFB memorandum projected:

- A decrease of $240 million in estimated individual income tax collections.
- A decrease of $284 million in estimated general sale and use tax collections.
- A decrease of $124 million in estimated corporate income and franchise tax collections.

The February 13, 2008 LFB memorandum identified other items that may impact the projections and information presented in such memorandum. These items include the following, which have been previously discussed in the 2007 Annual Report:

- Budgetary assumptions related to payment of amounts due in previous fiscal years from a tribal government, pursuant to amended gaming compacts in calendar year 2003–see "General Fund Information; General Fund Cash Flow; *Settlement of Amended Gaming Compact*" in this Appendix B to the Official Statement.
- Litigation from calendar year 2007 related to the transfer of certain amounts from the State's Patient and Families Compensation Fund to the Medical Assistance Trust Fund.
- The Supreme Court's consideration of an appeal from the State of Wisconsin related to the taxability of computer software–see "State Budget; Potential Effect of Litigation; Sales Tax on Customized Computer Software" in this Appendix B to the Official Statement.

**Budget for 2009-11 Biennium (Part II).** Add the following new section:

The estimates provided by DOR on November 20, 2008 also include estimates of GPR tax revenues for the 2009-11 biennium, namely, $12.268 billion for the 2009-10 fiscal year and $12.722 billion for the 2010-11 fiscal year, or annual changes of (3.9%) and 4.1%, respectively.

The projected General Fund condition statement for the 2009-2011 biennium, based on the estimates of GPR tax revenue provided by DOR on November 20, 2008, tax law cuts, credits, and other advanced commitments from prior biennia, and budget requests that have been provided by State agencies, has a net balance on June 30, 2011 of negative $5.363 billion. The Governor will use these revenue estimates and agency requests to propose a balanced biennial budget, which must be submitted to the Legislature on or before January 31, 2009; however, a later submission date may be allowed by the Legislature if requested by the Governor. The Wisconsin Constitution also requires the Legislature to enact a balanced biennial budget.

**State Budget; Potential Effect of Litigation; Sales Tax on Customized Computer Software (Part II; Pages 30-31).** Update with the following information:

On July 11, 2008, the Wisconsin Supreme Court affirmed a Wisconsin court of appeals' decision in this case, that sales of certain customized software are not subject to the State's sales tax (Wisconsin Department of Revenue v. Menasha Corporation).

The LFB memorandum of February 13, 2008 included prior estimates from DOR that such a decision could reduce the State sales tax revenues by approximately $28 million annually. In addition, the LFB memorandum estimated that refund requests associated with years prior to the 2008-09 fiscal year will be approximately $265 million.

The projections of GPR tax revenues provided on November 20, 2008 by DOR reflect the estimated timing and amounts of refunds due as a result of this decision. It is expected that refunds will be paid in the amount of $21 million in the 2008-09 fiscal year, $212 million in the 2009-10 fiscal year, and $37 million in the 2010-11 fiscal year. These projected refunds reduced the overall projected sales tax revenue estimates in each of the respective fiscal years.

**General Fund Information; General Fund Cash Flow (Part II; Pages 36-44).**

The following tables provide updates and additions to various tables containing General Fund information for the 2007-08 and the 2008-09 fiscal years, which are presented on either a cash basis or agency recorded basis. The projections and estimates in the following tables, unless noted, reflect the projected General Fund revenues released by LFB on February 13, 2008 and the budget adjustment bill for the 2007-09 biennium (2007 Wisconsin Act 226). The tables contain information through October 31, 2008, and generally reflect revenues from economic activity that occurred in September, 2008. As a result, the data for these reports do not reflect the economic downturns that are generally acknowledged to have occurred in October and November, 2008. The projections in the tables *do not reflect* the updated projections of General Fund tax revenues, as released by DOR on November 20, 2008.

The comparison of monthly General Fund information that is presented on a cash basis has many inherent problems. Unforeseen events or variations from underlying assumptions may cause a decrease or increase in receipts and disbursements from those projected for any specific month.

The following tables may show negative balances on a cash basis. The 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 can have a negative cash balance at the end of a fiscal year. The Wisconsin Constitution, however, requires the Legislature to enact a balanced biennial budget, and if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take actions to balance the budget in the succeeding fiscal year.

*Settlement of Amended Gaming Compact*

On September 17, 2008, the State reached an agreement on a new gaming compact amendment with the tribal government that had not made scheduled payments pursuant to a previous amendment to its gaming compact. As part of this new gaming compact amendment, the tribal government will make a $60 million payment to the State upon notice of this gaming compact amendment being published in the Federal Register, and the parties agreed on the methodology for future payments due from the tribal government, beginning with the 2008-09 fiscal year.

# ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2007 TO JUNE 30, 2008[a]

(In Thousands of Dollars)

| | July 2007 | August 2007 | September 2007 | October 2007 | November 2007 | December 2007 | January 2008 | February 2008 | March 2008 | April 2008 | May 2008 | June 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCES[b]** | | | | | | | | | | | | |
| **Beginning Balance** | $ 49,148 | $ 349,749 | $ 638,780 | $ 723,620 | $ 1,417,676 | $ 1,131,328 | $ 446,854 | $ 1,364,065 | $ 1,117,488 | $ (212,538) | $ 412,897 | $ 584,332 |
| **Ending Balance [c]** | 349,749 | 638,780 | 723,620 | 1,417,676 | 1,131,328 | 446,854 | 1,364,065 | 1,117,488 | (212,538) | 412,897 | 584,332 | 24,835 |
| **Lowest Daily Balance [c]** | 39,257 | (441) | 159,554 | 606,183 | 783,121 | (285,238) | 435,780 | 1,048,982 | (212,538) | (648,410) | 121,190 | (576,399) |
| **RECEIPTS** | | | | | | | | | | | | |
| **TAX RECEIPTS** | | | | | | | | | | | | |
| Individual Income | $ 682,211 | $ 500,798 | $ 651,858 | $ 695,206 | $ 521,419 | $ 459,790 | $ 1,112,129 | $ 574,257 | $ 578,486 | $ 1,193,252 | $ 411,259 | $ 860,989 |
| Sales & Use | 414,387 | 413,404 | 401,674 | 396,967 | 385,034 | 345,203 | 421,814 | 323,947 | 310,458 | 358,240 | 353,900 | 409,089 |
| Corporate Income | 35,238 | 20,042 | 154,364 | 51,110 | 31,669 | 174,535 | 21,726 | 30,498 | 188,247 | 49,678 | 42,495 | 144,842 |
| Public Utility | 20 | 20 | 509 | 1,871 | 148,786 | 987 | 56 | 20 | 94 | 1,111 | 154,287 | 213 |
| Excise | 30,620 | 34,376 | 36,523 | 27,764 | 36,994 | 26,518 | 28,435 | 74,544 | 47,280 | 51,023 | 53,713 | 55,139 |
| Insurance | 584 | 1,777 | 33,083 | 489 | 1,004 | 31,518 | 2,096 | 23,510 | 26,594 | 33,065 | 1,627 | 37,004 |
| Inheritance | 12,784 | 17,121 | 14,108 | 14,117 | 15,580 | 10,886 | 4,291 | 11,192 | 18,117 | 10,360 | 12,993 | 9,900 |
| **Subtotal Tax Receipts** | $ 1,175,844 | $ 987,538 | $ 1,292,119 | $ 1,187,524 | $ 1,140,486 | $ 1,049,437 | $ 1,590,547 | $ 1,037,968 | $ 1,169,276 | $ 1,696,729 | $ 1,030,274 | $ 1,517,176 |
| **NON-TAX RECEIPTS** | | | | | | | | | | | | |
| Federal | $ 579,248 | $ 553,559 | $ 479,277 | $ 518,519 | $ 557,015 | $ 504,290 | $ 650,871 | $ 609,628 | $ 553,043 | $ 450,485 | $ 715,921 | $ 509,436 |
| Other & Transfers | 397,510 | 231,439 | 414,249 | 418,712 | 264,756 | 215,831 | 457,837 | 507,579 | 230,775 | 315,770 | 241,706 | 587,733 |
| Note Proceeds[d] | 594,000 | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal Non-Tax Receipts** | $ 1,570,758 | $ 784,998 | $ 893,526 | $ 937,231 | $ 821,771 | $ 720,121 | $ 1,108,708 | $ 1,117,207 | $ 783,818 | $ 766,255 | $ 957,627 | $ 1,097,169 |
| **TOTAL RECEIPTS** | $ 2,746,602 | $ 1,772,536 | $ 2,185,645 | $ 2,124,755 | $ 1,962,257 | $ 1,769,558 | $ 2,699,255 | $ 2,155,175 | $ 1,953,094 | $ 2,462,984 | $ 1,987,901 | $ 2,614,345 |
| **DISBURSEMENTS** | | | | | | | | | | | | |
| Local Aids | $ 1,088,886 | $ 170,143 | $ 841,399 | $ 120,205 | $ 928,976 | $ 1,293,374 | $ 244,301 | $ 255,745 | $ 1,358,278 | $ 113,409 | $ 274,666 | $ 1,958,842 |
| Income Maintenance | 554,657 | 462,141 | 430,767 | 475,577 | 408,147 | 473,582 | 425,771 | 484,702 | 438,158 | 484,009 | 356,006 | 338,683 |
| Payroll and Related | 293,794 | 439,220 | 257,475 | 384,708 | 457,197 | 272,879 | 447,230 | 491,507 | 258,898 | 398,933 | 435,843 | 289,695 |
| Tax Refunds | 114,634 | 89,140 | 53,251 | 63,034 | 69,419 | 157,306 | 100,895 | 567,085 | 409,708 | 384,057 | 160,371 | 156,033 |
| Debt Service | 95,411 | 5,720 | 170,526 | - | 3,239 | - | - | 1,500 | 330,346 | - | 12,688 | - |
| Miscellaneous | 294,406 | 317,141 | 347,387 | 387,175 | 381,627 | 256,891 | 563,847 | 450,369 | 331,924 | 301,106 | 420,593 | 430,589 |
| Note Repayment[d] | 4,213 | - | - | - | - | - | - | 150,844 | 155,808 | 156,035 | 156,299 | - |
| **TOTAL DISBURSEMENTS** | $ 2,446,001 | $ 1,483,505 | $ 2,100,805 | $ 1,430,699 | $ 2,248,605 | $ 2,454,032 | $ 1,782,044 | $ 2,401,752 | $ 3,283,120 | $ 1,837,549 | $ 1,816,466 | $ 3,173,842 |

(a) Projections had reflected the assumption that the State would receive approximately $124 million pursuant to the amended gaming compacts with tribal governments ($72 million of this amount was an estimate of all payments due in the 2007-08 fiscal year, and $52 million of this amount was an estimate of payments due in previous years from a tribal government that were expected to be made in the 2007-08 fiscal year). With respect to the estimated $72 million of payments due in the 2007-08 fiscal year, as of June 30, 2008 the State received payments totaling $44 million and had not yet received (and did not expect to receive) payment from one other tribal government. With respect to the estimated $52 million of payments due in previous years, the State did not receive such payments. It is the same tribal government that is not expected to make its scheduled payment in the 2007-08 fiscal year and the payments due in previous years. As of June 30, 2008, the State and this tribal government were continuing arbitration with respect to this tribal government's amended gaming compact. This table does not include interfund borrowing amounts.

(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. The designated funds were expected to range from $191 to $324 million during the 2007-08 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds were expected to average approximately $22 million during the 2007-08 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. Based on the enacted budget bill and budget adjustment bill, this amount was approximately $690 million for the 2007-08 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $414 million for the 2007-08 fiscal year) for a period of up to 30 days. 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.

(d) Included $600 million of proceeds from an operating note issue that was issued on July 2, 2007 and impoundment payments made on February 29, 2008, March 31, 2008, April 30, 2008, and May 30, 2008. The February 29, 2008 impoundment payment reflected the premium that was received on July 2, 2007 and deposited into the Operating Note Redemption Fund.

# ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2008 TO OCTOBER 31, 2008
# PROJECTED GENERAL FUND CASH FLOW; NOVEMBER 1, 2008 TO JUNE 30, 2009[(a)]

(In Thousands of Dollars)

| | July 2008 | August 2008 | September 2008 | October 2008 | November 2008 | December 2008 | January 2009 | February 2009 | March 2009 | April 2009 | May 2009 | June 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCES[(b)]** | | | | | | | | | | | | |
| **Beginning Balance** | $ 24,835 | $ 172,120 | $ 464,375 | $ 895,808 | $ 1,403,014 | $ 1,090,619 | $ 542,231 | $ 1,353,402 | $ 1,249,992 | $ (142,836) | $ 311,826 | $ 570,644 |
| **Ending Balance [(c)]** | 172,120 | 464,375 | 895,808 | 1,403,014 | 1,090,619 | 542,231 | 1,353,402 | 1,249,992 | (142,836) | 311,826 | 570,644 | (230,268) |
| **Lowest Daily Balance [(c)]** | 17,165 | (74,304) | 125,448 | 395,498 | 805,764 | (400,463) | 397,864 | 1,005,944 | (142,836) | (532,561) | 39,467 | (882,851) |
| **RECEIPTS** | | | | | | | | | | | | |
| **TAX RECEIPTS** | | | | | | | | | | | | |
| Individual Income | $ 599,419 | $ 416,459 | $ 852,654 | $ 635,921 | $ 470,404 | $ 555,940 | $ 1,088,287 | $ 600,673 | $ 613,719 | $ 1,025,393 | $ 540,072 | $ 688,256 |
| Sales & Use | 424,497 | 414,465 | 400,891 | 405,299 | 380,600 | 353,400 | 425,200 | 326,400 | 315,800 | 359,800 | 362,900 | 395,600 |
| Corporate Income | 29,250 | 34,416 | 144,769 | 36,415 | 28,300 | 163,800 | 28,600 | 20,300 | 215,400 | 43,200 | 22,300 | 158,600 |
| Public Utility | 61 | 150 | 1,178 | 4,977 | 156,900 | 1,600 | 100 | 1,200 | 200 | 2,900 | 159,400 | 900 |
| Excise | 68,383 | 58,369 | 61,880 | 62,978 | 53,400 | 49,300 | 51,000 | 47,200 | 41,600 | 47,800 | 51,000 | 54,100 |
| Insurance | 712 | 1,106 | 37,504 | 440 | 1,578 | 40,185 | 2,978 | 21,558 | 28,211 | 31,639 | 1,861 | 33,748 |
| Inheritance | 12,093 | 10,971 | 7,118 | 3,216 | - | - | - | - | - | - | - | - |
| **Subtotal Tax Receipts** | $ 1,134,415 | $ 935,936 | $ 1,505,994 | $ 1,149,246 | $ 1,091,182 | $ 1,164,225 | $ 1,596,165 | $ 1,017,331 | $ 1,214,930 | $ 1,510,732 | $ 1,137,533 | $ 1,331,204 |
| **NON-TAX RECEIPTS** | | | | | | | | | | | | |
| Federal | $ 563,248 | $ 566,365 | $ 480,475 | $ 697,621 | $ 576,488 | $ 521,920 | $ 673,625 | $ 630,940 | $ 507,525 | $ 540,249 | $ 572,436 | $ 641,030 |
| Other & Transfers | 514,783 | 206,097 | 514,202 | 574,653 | 282,545 | 293,232 | 465,544 | 556,921 | 283,616 | 340,483 | 320,272 | 451,360 |
| Note Proceeds[(d)] | 801,840 | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal Non-Tax Receipts** | $ 1,879,871 | $ 772,462 | $ 994,677 | $ 1,272,274 | $ 859,033 | $ 815,152 | $ 1,139,169 | $ 1,187,861 | $ 791,141 | $ 880,732 | $ 892,708 | $ 1,092,390 |
| **TOTAL RECEIPTS** | $ 3,014,286 | $ 1,708,398 | $ 2,500,671 | $ 2,421,520 | $ 1,950,215 | $ 1,979,377 | $ 2,735,334 | $ 2,205,192 | $ 2,006,071 | $ 2,391,464 | $ 2,030,241 | $ 2,423,594 |
| **DISBURSEMENTS** | | | | | | | | | | | | |
| Local Aids | $ 1,172,822 | $ 130,313 | $ 881,727 | $ 181,686 | $ 1,025,475 | $ 1,331,112 | $ 245,207 | $ 282,190 | $ 1,357,945 | $ 111,512 | $ 160,021 | $ 1,969,005 |
| Income Maintenance | 636,352 | 425,402 | 352,616 | 720,279 | 403,477 | 450,789 | 443,039 | 418,166 | 410,209 | 448,219 | 338,725 | 229,859 |
| Payroll and Related | 474,451 | 427,624 | 275,539 | 508,109 | 384,195 | 358,393 | 522,558 | 395,680 | 286,440 | 436,168 | 386,805 | 384,555 |
| Tax Refunds | 76,352 | 67,223 | 47,309 | 69,728 | 52,000 | 122,100 | 130,900 | 549,900 | 473,200 | 395,000 | 156,800 | 166,300 |
| Debt Service | 104,317 | 0 | 158,589 | - | 3,239 | - | - | 1,537 | 327,165 | - | 28,837 | - |
| Miscellaneous | 392,867 | 365,581 | 353,458 | 434,512 | 394,224 | 265,371 | 582,459 | 465,236 | 338,207 | 340,170 | 494,502 | 474,787 |
| Note Repayment[(d)] | 9,840 | - | - | - | - | - | - | 195,893 | 205,733 | 205,733 | 205,733 | - |
| **TOTAL DISBURSEMENTS** | $ 2,867,001 | $ 1,416,143 | $ 2,069,238 | $ 1,914,314 | $ 2,262,610 | $ 2,527,765 | $ 1,924,163 | $ 2,308,602 | $ 3,398,899 | $ 1,936,802 | $ 1,771,423 | $ 3,224,506 |

(a) The projections in this table reflect the budget for the 2007-09 biennium (2007 Wisconsin Act 20), updated General Fund revenues estimates released by LFB on February 13, 2008, and the budget adjustment bill for the 2007-09 biennium (2007 Wisconsin Act 226). The projections also reflect an assumption that the State will receive approximately $75 million pursuant to the amended gaming compacts with tribal governments (which is the estimate of all payments due in the 2008-09 fiscal year). Finally, the projections were updated for September 2008 and subsequent months to reflect receipt of $60 million to be made by a tribal government pursuant to settlement of a new gaming compact amendment, and additional receipts resulting from lapses and timing of transfers during May and June 2009. The projections ***do not reflect*** the updated projections of General Fund tax revenues, as released by DOR on November 20, 2008. This table does 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. The designated funds are expected to range from $206 to $350 million during the 2008-09 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $10 million during the 2008-09 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 $706 million for the 2008-09 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $424 million for the 2008-09 fiscal year) for a period of up to 30 days. 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.

(d) Includes $800 million of operating note proceeds issued on July 1, 2008 and impoundment payments expected to be made on February 27, 2009, March 31, 2009, April 30, 2009, and May 29, 2009. The February 27, 2009 impoundment payment reflects the premium received on July 1, 2008 and deposited into the Operating Note Redemption Fund.

**2008-09 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, 2008**
**(Amounts in Thousands)**

| | FY08 through October 2007 | FY09 through October 2008 | | | | |
|---|---|---|---|---|---|---|
| | Actual | Actual | Estimate[b] | Variance | Adjusted Variance[c] | Difference FY08 Actual to FY09 Actual |
| RECEIPTS | | | | | | |
| Tax Receipts | | | | | | |
| Individual Income | $ 2,530,073 | $ 2,504,453 | $ 2,571,456 | $ (67,003) | $ (67,003) | $ (25,620) |
| Sales | 1,626,432 | 1,645,152 | 1,611,200 | 33,952 | 33,952 | 18,720 |
| Corporate Income | 260,754 | 244,850 | 242,000 | 2,850 | 2,850 | (15,904) |
| Public Utility | 2,420 | 6,366 | 4,400 | 1,966 | 1,966 | 3,946 |
| Excise | 129,283 | 251,610 | 223,300 | 28,310 | 28,310 | 122,327 |
| Insurance | 35,933 | 39,762 | 34,584 | 5,178 | 5,178 | 3,829 |
| Inheritance | 58,130 | 33,398 | 30,953 | 2,445 | 2,445 | (24,732) |
| Total Tax Receipts | $ 4,643,025 | $ 4,725,591 | $ 4,717,893 | $ 7,698 | $ 7,698 | $ 82,566 |
| Non-Tax Receipts | | | | | | |
| Federal | $ 2,130,603 | $ 2,307,709 | $ 2,205,087 | $ 102,622 | $ 102,622 | $ 177,106 |
| Other and Transfers | 1,461,910 | 1,809,735 | 1,459,675 | 350,060 | 350,060 | 347,825 |
| Note Proceeds | 594,000 | 801,840 | 801,840 | - | - | 207,840 |
| Total Non-Tax Receipts | $ 4,186,513 | $ 4,919,284 | $ 4,466,602 | $ 452,682 | $ 452,682 | $ 732,771 |
| TOTAL RECEIPTS | $ 8,829,538 | $ 9,644,875 | $ 9,184,495 | $ 460,380 | $ 460,380 | $ 815,337 |
| DISBURSEMENTS | | | | | | |
| Local Aids | $ 2,220,633 | $ 2,366,548 | $ 2,395,933 | $ 29,385 | $ 29,385 | $ 145,915 |
| Income Maintenance | 1,923,142 | 2,134,649 | 1,978,469 | (156,180) | (156,180) | 211,507 |
| Payroll & Related | 1,375,197 | 1,685,723 | 1,687,875 | 2,152 | 2,152 | 310,526 |
| Tax Refunds | 320,059 | 260,612 | 172,900 | (87,712) | (87,712) | (59,447) |
| Debt Service | 271,657 | 262,906 | 279,422 | 16,516 | 16,516 | (8,751) |
| Miscellaneous | 1,346,109 | 1,546,418 | 1,382,778 | (163,640) | (163,640) | 200,309 |
| Note Repayment | 4,213 | 9,840 | 9,840 | - | - | 5,627 |
| TOTAL DISBURSEMENTS | $ 7,461,010 | $ 8,266,696 | $ 7,907,217 | $ (359,479) | $ (359,479) | $ 805,686 |
| VARIANCE FY09 YEAR-TO-DATE | | | | $ 100,901 | $ 100,901 | |

(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) The estimates in this table reflect the budget for the 2007-09 biennium (2007 Wisconsin Act 20), the updated General Fund revenues estimates released by LFB on February 13, 2008, the budget adjustment bill (2007 Wisconsin Act 226), and the issuance of $800 million in operating notes for the 2008-09 fiscal year. The estimates in this table do not reflect the updated projections of General Fund tax revenues, as released by DOR on November 20, 2008.

(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 cannot be changed, which may result in large variances. This column includes adjustments to the variances to more accurately reflect the variance between the estimated and actual amounts.

**Source: Wisconsin Department of Administration**

**Table II-9; General Fund Monthly Position (Page 41).** Replace with the following updated table:

**GENERAL FUND MONTHLY CASH POSITION[(a)]**
**July 1, 2006 through October 31, 2008 – Actual**
**November 1, 2008 through June 30, 2009 – Estimated[(b)]**
**(Amounts in Thousands)**

| | Starting Date | Starting Balance | | Receipts[(c)] | Disbursements[(c)] |
|---|---|---|---|---|---|
| 2006 | July | $ 4,563 | (d) | $ 1,920,630 | $ 2,121,122 |
| | August | (195,929) | (d) | 1,695,545 | 1,391,455 |
| | September | 108,161 | (d) | 2,288,498 | 2,041,092 |
| | October | 355,567 | | 2,130,549 | 1,373,404 |
| | November | 1,112,712 | | 1,856,520 | 2,086,743 |
| | December | 882,489 | (d) | 1,791,636 | 2,501,552 |
| 2007 | January | 172,573 | | 2,570,733 | 1,717,796 |
| | February | 1,025,510 | | 1,949,875 | 1,947,201 |
| | March | 1,028,184 | | 1,869,287 | 2,934,724 |
| | April | (37,253) | (d) | 2,548,712 | 1,896,578 |
| | May | 614,881 | | 2,009,550 | 1,525,908 |
| | June | 1,098,523 | (d) | 2,307,089 | 3,356,463 |
| | July | 49,149 | | 2,746,602 | 2,446,001 |
| | August | 349,750 | (d) | 1,772,536 | 1,483,505 |
| | September | 638,781 | | 2,185,645 | 2,100,805 |
| | October | 723,621 | | 2,124,755 | 1,430,699 |
| | November | 1,417,677 | | 1,962,257 | 2,248,605 |
| | December | 1,131,329 | (d) | 1,769,558 | 2,454,032 |
| 2008 | January | 446,855 | | 2,699,255 | 1,782,044 |
| | February | 1,364,066 | | 2,155,175 | 2,401,752 |
| | March | 1,117,489 | (d) | 1,953,094 | 3,283,120 |
| | April | (212,537) | (d) | 2,462,984 | 1,837,549 |
| | May | 412,898 | | 1,987,901 | 1,816,466 |
| | June | 584,333 | (d) | 2,614,345 | 3,173,842 |
| | July | 24,836 | | 3,014,286 | 2,867,001 |
| | August | 172,121 | (d) | 1,708,398 | 1,416,143 |
| | September | 464,376 | | 2,500,671 | 2,069,238 |
| | October | 895,809 | | 2,421,520 | 1,914,314 |
| | November | 1,403,015 | (d) | 1,950,215 | 2,262,610 |
| | December | 1,090,620 | | 1,979,377 | 2,527,765 |
| 2009 | January | 542,232 | | 2,735,334 | 1,924,163 |
| | February | 1,353,403 | | 2,205,192 | 2,308,602 |
| | March | 1,249,993 | (d) | 2,006,071 | 3,398,899 |
| | April | (142,835) | (d) | 2,391,464 | 1,936,802 |
| | May | 311,827 | | 2,030,241 | 1,771,423 |
| | June | 570,645 | (d) | 2,423,594 | 3,224,506 |

(a) The General Fund balances presented in this table are not based on generally accepted accounting principles (GAAP).

(b) The projections in this table reflect the budget for the 2007-09 biennium (2007 Wisconsin Act 20), the updated General Fund revenues estimates released by LFB on February 13, 2008, and the budget adjustment bill (2007 Wisconsin Act 226). The estimates in this table do not reflect the updated projections of General Fund tax revenues, as released by DOR on November 20, 2008.

(c) Operating notes were not issued for the 2006-07 fiscal year but were issued for the 2007-08 and 2008-09 fiscal years.

(d) At some period during this month, the General Fund was in a negative cash position. 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 $706 million for the 2008-09 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $424 million for the 2008-09 fiscal year) for a period of up to 30 days. 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.

**Source: Wisconsin Department of Administration**

**Table II-10; Balances in Funds Available for Interfund Borrowing (Page 42).** Replace with the following updated table:

**BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[(a)]**
**July 31, 2006 to October 31, 2008 – Actual**
**November 30, 2008 to June 30, 2009 – Estimated**
**(Amounts in Millions)**

The following two tables show, on a monthly basis, the cash balances available for temporary reallocation, or interfund borrowing. The first table does not include balances in the Local Government Investment Pool **(LGIP)** and the second table does include such balances. Though 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. The monthly average daily balances in the LGIP for the past five years have ranged from a low of $2.2 billion during November 2005 to a high of $4.3 billion in August 2008. The Secretary of Administration may not exercise the authority to use interfund borrowing if doing so would jeopardize the cash flow of any fund or account from which a temporary reallocation would be made.

**Available Balances; Does Not Include Balances in the LGIP**

| Month (Last Day) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| January | | $ 1,048 | $ 1,203 | $ 1,203 |
| February | | 1,131 | 1,265 | 1,265 |
| March | | 1,154 | 1,298 | 1,298 |
| April | | 1,114 | 1,210 | 1,210 |
| May | | 1,202 | 1,166 | 1,166 |
| June | | 1,208 | 1,079 | 1,079 |
| July | $ 932 | 1,141 | 910 | |
| August | 1,052 | 1,204 | 943 | |
| September | 1,067 | 1,204 | 1,081 | |
| October | 925 | 1,110 | 906 | |
| November | 966 | 1,229 | 1,229 | |
| December | 1,019 | 1,244 | 1,244 | |

**Available Balances; Includes Balances in the LGIP**

| Month (Last Day) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| January | | $ 4,509 | $ 4,943 | $ 4,943 |
| February | | 4,773 | 5,255 | 5,255 |
| March | | 4,860 | 5,453 | 5,453 |
| April | | 4,593 | 5,273 | 5,273 |
| May | | 4,408 | 5,010 | 5,010 |
| June | | 4,536 | 3,941 | 3,941 |
| July | $ 4,218 | 4,862 | 5,422 | |
| August | 3,978 | 4,383 | 4,589 | |
| September | 3,845 | 4,264 | 4,479 | |
| October | 3,361 | 3,900 | 3,900 | |
| November | 3,477 | 4,017 | 4,017 | |
| December | 3,764 | 4,141 | 4,141 | |

[(a)] The amounts shown reflect a reduction in the aggregate cash balances available to the extent any fund had a negative balance and interfund borrowing was used for such fund.

**Source: Wisconsin Department of Administration**

**Table II-11; General Fund Recorded Revenues (Page 43).** Replace with the following updated table:

**GENERAL FUND RECORDED REVENUES[(a)]**
**(Agency Recorded Basis)**
**July 1, 2008 to October 31, 2008 compared with previous year**

| | Annual Fiscal Report Revenues 2007-08 FY[(b)] | Projected Revenues 2008-09 FY[(c)] | Recorded Revenues July 1, 2007 to October 31, 2007[(d)] | Recorded Revenues July 1, 2008 to October 31, 2008[(e)] |
|---|---|---|---|---|
| Individual Income Tax ............ | $ 6,713,681,000 | $ 6,965,000,000 | $ 1,964,094,008 | $ 2,082,661,735 |
| General Sales and Use Tax ........ | 4,268,045,000 | 4,295,000,000 | 1,157,511,735 | 1,131,183,675 |
| Corporate Franchise and Income Tax .................... | 837,807,000 | 830,000,000 | 226,770,614 | 175,959,800 |
| Public Utility Taxes .................. | 297,460,000 | 316,200,000 | 761,715 | 4,345,860 |
| Excise Taxes ............................ | 540,259,000 | 617,300,000 | 96,245,640 | 182,211,073 |
| Inheritance Taxes ..................... | 158,789,000 | 30,000,000 | 55,594,029 | 20,387,791 |
| Insurance Company Taxes ........ | 156,606,000 | 160,000,000 | 34,662,850 | 37,865,390 |
| Miscellaneous Taxes ................ | 70,296,000 | 73,000,000 | 25,077,280 | 23,623,868 |
| SUBTOTAL.......................... | 13,042,943,000 | 13,286,500,000 | 3,560,717,870 | 3,658,239,191 |
| Federal and Other Inter-Governmental Revenues[(f)] ........ | 6,803,292,000 | 6,457,183,500 | 2,107,983,625 | 2,334,582,442 |
| Dedicated and Other Revenues[(g)] ................ | 4,151,603,000 | 4,698,803,200 | 1,436,766,515 | 1,633,434,976 |
| TOTAL............................ | $ 23,997,838,000 | $ 24,442,486,700 | $ 7,105,468,009 | $ 7,626,256,609 |

(a) The revenues in this table are presented on an agency recorded basis and not a budgetary basis. 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 2007-08 fiscal year, dated October 15, 2008.

(c) The projections in this table reflect the budget for the 2007-09 biennium (2007 Wisconsin Act 20), the projected General Fund revenues released by LFB on February 13, 2008 and the budget adjustment bill (2007 Wisconsin Act 226). The projections in this table do not reflect the updated projections of General Fund tax revenues, as released by DOR on November 20, 2008.

(d) The amounts shown are 2007-08 fiscal year revenues as recorded by all State agencies. There may be differences between the tax revenues shown in this table and those reported by the Department of Revenue from time to time in their monthly general purpose revenue collections report; the Department of Revenue report only includes general purpose revenues or taxes that are actually collected by the Department of Revenue.

(e) The amounts shown are 2008-09 general purpose revenues and program revenue taxes collected across all State agencies. There may be differences between the tax revenues shown in this table and those reported by the Department of Revenue from time to time in their monthly general purpose revenue collections report; the Department of Revenue report only includes general purpose revenues or taxes that are actually collected by the Department of Revenue.

(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 44). Replace with the following updated table:**

**GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[(a)]**
**(Agency Recorded Basis)**
**July 1, 2008 to October 31, 2008 compared with previous year**

| | Annual Fiscal Report Expenditures 2006–07 FY[(b)] | Appropriations 2007–08 FY[(c)] | Recorded Expenditures July 1, 2007 to October 31, 2007[(d)] | Recorded Expenditures July 1, 2008 to October 31, 2008[(e)] |
|---|---|---|---|---|
| Commerce | $ 240,689,000 | $ 294,718,400 | $ 72,672,779 | $ 78,366,398 |
| Education | 10,853,809,000 | 11,216,515,600 | 2,630,301,117 | 2,787,489,172 |
| Environmental Resources | 328,094,000 | 380,037,300 | 105,006,748 | 103,389,261 |
| Human Relations & Resources | 9,645,679,000 | 9,577,562,400 | 3,164,859,527 | 3,489,436,643 |
| General Executive | 802,326,000 | 963,061,100 | 335,187,022 | 343,808,363 |
| Judicial | 126,563,000 | 127,641,200 | 46,349,618 | 48,719,054 |
| Legislative | 65,047,000 | 70,324,700 | 17,604,852 | 16,373,934 |
| General Appropriations | 2,047,768,000 | 2,177,798,400 | 879,736,936 | 951,411,036 |
| TOTAL | $ 24,109,975,000 | $ 24,807,659,100 | $ 7,251,718,599 | $ 7,818,993,861 |

(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 2007-08 fiscal year, dated October 15, 2008.

(c) The estimates in this table reflect the budget for the 2007-09 biennium (2007 Wisconsin Act 20) and the budget adjustment bill (2007 Wisconsin Act 226).

(d) The amounts shown are 2007-08 fiscal year expenditures as recorded by all State agencies.

(e) The amounts shown are 2008-09 fiscal year expenditures as recorded by all State agencies.

**Source: Wisconsin Department of Administration**

**State Obligations; Prior Service Pension Liabilities and Other Post Employment Benefits** (Part II; Page 58). Add the following new section.

*January 1, 2007 Actuarial Valuation*

In August 2008, the State released a report presenting the results of an actuarial valuation (as of January 1, 2007) of the State of Wisconsin Retiree Health Program. It provides the information required to be disclosed, pursuant to the requirements of Statement No. 45 of the Governmental Accounting Standards Board (GASB). The report shows a total unfunded liability for other post employment benefits (OPEB) of $1.473 billion, consisting of a liability in the amount of $935 million for an implicit rate subsidy (previously referred to as implied subsidy of group health insurance) and a liability in the amount of $538 million for a Medicare Part D subsidy, which reflects future subsidy reimbursement payments from the federal government. A complete copy of the report has been filed with the NRMSIRs and is also available from the State at the addresses shown on pages B-1 and B-2 of this Official Statement.

**Part III—Introduction (Page 76).** Update with the following information:

On August 15, 2008, Standard & Poor's Rating Services upgraded its rating on the State's general obligations from "AA–" to "AA".

# APPENDIX C

## DEFINITIONS OF CERTAIN TERMS

The following definitions apply to capitalized terms used in this Official Statement. All defined terms from the General Resolution are available in the "GLOSSARY" from Part VI of the State of Wisconsin Continuing Disclosure Annual Report, dated December 21, 2007. See APPENDIX A.

**2008 Series 3 Bonds** means the State of Wisconsin Clean Water Revenue Bonds, 2008 Series 3, expected to be issued on December 11, 2008.

**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.

**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 Wisconsin Statutes to authorize and direct the issuance of Bonds.

**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.

**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 Pledged Loan or Proprietary Loan. This type of loan is not funded with Bond proceeds.

**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, Wisconsin 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 Commission on March 7, 1991, as amended by resolutions adopted by the Commission on July 30, 2003 and June 28, 2006, 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.

**Leveraged Loan or Pledged 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. This type of loan is funded from the Loan Fund, including from Bond proceeds.

**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 different total Contribution Amounts, then the highest 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.

**Municipal Obligations** means the bonds, notes, or other evidences 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 Pledged Loan (also referred to as a Leveraged 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, or 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.

**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 (concerning 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 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. This type of loan is funded from the Loan Fund and with Bond proceeds.

**Pledged Loan Repayments or Leveraged Loan Repayments** means any payment on a Pledged 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 Pledged 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 Pledged Loan or Municipal Obligations, and any amounts paid with respect to such Pledged Loan or Municipal Obligation on account of (1) acceleration of the due date of such Pledged Loan or such Municipal Obligation, (2) the sale or other disposition of such Pledged Loan or the Municipal Obligations and other collateral securing such Pledged Loan, (3) the receipt of proceeds of any insurance or guaranty of such Pledged Loan or Municipal Obligations or any Credit Facility applicable to such Pledged 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 Pledged Loan or Municipal Obligations, but specifically excluding Fees and Charges.

**Pledged Receipts** means:

(1) all Pledged 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, as a result of the designation of an individual Loan as one to which the State's "moral obligation" applies),

(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 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.

**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 Pledged Loan. This financial assistance or type of loan is not funded with Bond proceeds.

**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 preceding a payment date or, if such day shall not be a Business Day, the immediately preceding Business Day. The Series Resolution for the 2008 Series 3 Bonds provides that, for the 2008 Series 3 Bonds, **Record Date** means the close of business on the 15th day (whether or not a business day) of the calendar month next preceding the interest payment date.

**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 Commission authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution, as adopted from time to time. The Series Resolution for the 2008 Series 3 Bonds was adopted on November 12, 2008.

**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.

**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 on 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, with respect to any Interest Payment Date, the amount by which Aggregate Debt Service payable during the Period (as such term is used in the definition of Subsidy Fund Requirement) ending on such Interest Payment Date 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 the 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 Firstar 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 on deposit in the Loan Credit Reserve Fund, based on Schedules reviewed by no fewer 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 required to be available 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 November 1, 2008, the total amount available of $98 million in the Loan Credit Reserve Fund exceeded the amount required on such date, which was approximately $95 million. See "SECURITY; Loan Credit Reserve Fund" in the body of this Official Statement.

No information is provided in this Official Statement about any rating assigned to an obligor or guarantor of any investment agreement or forward delivery agreement held on deposit in the Loan Credit Reserve Fund.

### Current Schedules

The Bonds are currently rated AA+ by Fitch Ratings (**Fitch**), Aa1 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 Pledged Loan will be assigned to one of six credit categories, which are explained below. Any assignment of a Pledged 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 on deposit in the Loan Credit Reserve Fund with respect to a particular Pledged Loan and any amounts disbursed under that Pledged Loan differ, depending on the Municipality. The Municipality having the largest total outstanding balance of Pledged Loans in a credit category 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 Pledged Loan or Pledged Loans to that Borrower over the four-year period in which such debt service payments are the greatest. For any Pledged Loan to a Municipality 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 Pledged Loans over the four-year period in which such debt service payments are the greatest times the factor, described below, assigned to Pledged Loans of the applicable credit category.

Pledged 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 rating for the Municipal Obligation and is used solely for purposes of analyzing the credit quality of the Bonds. The intercept power is described under "LOANS; Statutory Powers" in Part VI of the State of Wisconsin Continuing Disclosure Annual Report, dated December 21, 2007 **(2007 Annual Report)**. See APPENDIX A. 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 Pledged Loans may be assigned by Fitch currently include the following:

> "AAA" Credit Quality Category. A Pledged 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 Pledged 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 Pledged 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 Pledged 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. A Pledged Loan is currently assigned to this category if (1) its related Municipal Obligation is not rated by Fitch or is 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 Pledged Loan, whether or not the entire amount has been disbursed.
>
> Not Rated; Interceptable State Aid Factor Less Than 2.0. A Pledged Loan is currently assigned to this category if (1) its related Municipal Obligation is not rated by Fitch or is 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 Pledged 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.

| Category | Factor |
|---|---|
| "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 Pledged 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 Pledged 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 Municipalities receiving Pledged Loans. 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, 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. Factors upon which the Bonds' rating is based may change in the future. The State 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 has further agreed 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 on deposit in the Loan Credit Reserve Fund is the product of the average annual debt service of the outstanding, disbursed Pledged Loans times a factor of 120%, and is based on an evaluation of the Pledged Loans shown in "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Pledged Loans" in Part VI of the 2007 Annual Report. See APPENDIX A. A different factor may be applied if loan portfolio credit characteristics change.

*Standard & Poor's Ratings Services*

Based on certain credit characteristics, each Pledged 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 Pledged 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.

| Category | Factor |
|---|---|
| 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 |

Pledged 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 "LOANS; Statutory Powers" in Part VI of the 2007 Annual Report). See APPENDIX A. 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.

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

Medium Investment Grade Rating. A Pledged 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 Pledged Loan to be assigned to this category, regardless of whether or not the Municipal Obligation is rated, in the event the State designates the Pledged Loan as one to which the State "moral obligation" applies. The State "moral obligation" is described in "LOANS; Statutory Powers" in Part VI of the 2007 Annual Report. See APPENDIX A.

Lower Investment Grade Rating. A Pledged 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 Pledged Loan is assigned to this category if (1) the Municipal Obligation 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 Pledged Loan is assigned to this category if (1) the Municipal Obligation 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 Pledged 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 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 has further agreed 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 has agreed 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 further 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

# EXPECTED FORM OF BOND COUNSEL OPINION

*Upon delivery of the Bonds, it is expected that Foley & Lardner LLP will deliver a legal opinion in substantially the following form:*

(Letterhead of Foley & Lardner LLP)
**$92,210,000**
**State of Wisconsin**
**Clean Water Revenue Bonds, 2008 Series 3**

We have served as bond counsel in connection with the issuance by the State of Wisconsin **(State)** of its $92,210,000 Clean Water Revenue Bonds, 2008 Series 3, dated the date hereof **(Bonds)**. The Bonds are authorized by Sections 281.58 and 281.59, Wisconsin Statutes **(Act)** (and in particular, Section 281.59 (4), Wisconsin Statutes) and Subchapter II of Chapter 18, Wisconsin Statutes, and are being issued pursuant to a resolution **(General Resolution)** adopted by the State of Wisconsin Building Commission **(Commission)** on March 7, 1991, as amended by resolutions adopted by the Commission on July 30, 2003 and June 28, 2006, and as supplemented by a resolution **(Series Resolution)** adopted by the Commission on November 12, 2008.

Under the General Resolution, the Commission has also established various funds and accounts and designated U.S. Bank National Association, as trustee **(Trustee)**, to be the custodian of the funds and accounts. The Commission has pledged certain revenues received pursuant to the Act to secure the payment of the principal of, premium, if any, and interest on the Bonds, any other bonds heretofore or hereafter issued under the General Resolution, and certain other parity obligations. The Commission has directed the Trustee to deposit the amounts into the funds and accounts in the order and amounts provided in the General Resolution. The Bonds are payable solely from cash and securities held by the Trustee from time to time in the redemption fund created under the General Resolution.

We examined the law, a certified copy of the proceedings relating to the issuance of the Bonds, and certifications of public officials and others. As to questions of fact material to our opinion, we relied upon those certified proceedings and certifications without independently undertaking to verify them.

Based upon this examination, it is our opinion that, under existing law:

1. The General Resolution and the Series Resolution have been duly and lawfully adopted by the Commission, are in full force and effect, and are valid and binding upon the State and enforceable in accordance with their respective terms. The Series Resolution has been adopted in accordance with the provisions of the General Resolution and is authorized or permitted by the General Resolution.

2. The General Resolution creates the valid pledge that it purports to create of the "Pledged Receipts," as defined in the General Resolution, and of the moneys and securities held in the funds and accounts pledged under the General Resolution.

3. The Bonds are legal, valid, and binding special obligations of the State as provided in the General Resolution, payable and enforceable in accordance with their terms and the terms of the General Resolution and entitled to the benefits of the General Resolution and of the Act. The Bonds have been duly and validly authorized and issued in accordance with law, including the Act as amended to the date of this letter, and in accordance with the General Resolution.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes. It also is not an item of tax preference for purposes of the federal alternative minimum tax

imposed on all taxpayers. For the purpose of computing the alternative minimum tax imposed on certain corporations, however, interest on the Bonds is taken into account in determining adjusted current earnings. The State must comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied after the Bonds are issued for interest on the Bonds to be, or continue to be, excluded from gross income for federal income tax purposes. The State has agreed to do so. A failure to comply may cause interest on the Bonds to be included in gross income for federal income tax purposes, in some cases retroactively to the date the Bonds were issued. This letter expresses no opinion as to other federal tax law consequences concerning the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or an equitable proceeding). This letter expresses no opinion as to the availability of any particular form of judicial relief.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement), and we express no opinion relating thereto (except only the matters set forth as our opinion in the Official Statement).

This letter speaks as of its date. We assume no duty to change this letter to reflect any facts or circumstances that later come to our attention or any changes in law. In serving as bond counsel, we have established an attorney-client relationship solely with the State.

Very truly yours,

FOLEY & LARDNER LLP