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**State of Wisconsin**  
**Event Filing #2013-25**  
Dated December 12, 2013

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

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

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

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

Attached are (1) financial statements for the years ended June 30, 2013 and June 30, 2012, supplemental information for the year ended June 30, 2013, and independent auditor's report for the State of Wisconsin Environmental Improvement Fund, and (2) financial statements for the ended June 1, 2013 and independent auditor's report for the Leveraged Loan Portfolio.

The attached items will also be included in the State's Continuing Disclosure Annual Report, which is expected to be filed on or before December 27, 2013.

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

[www.doa.state.wi.us/capitalfinance](http://www.doa.state.wi.us/capitalfinance)

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing annual reports and Event Filings pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010), and is authorized to distribute this information publicly.

/s/ KEVIN D. TAYLOR

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**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2013 and 2012,  
SUPPLEMENTAL INFORMATION  
For the Year Ended June 30, 2013, and  
Independent Auditors' Report

**AND**

**LEVERAGED LOAN PORTFOLIO**

FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013, 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  
State of Wisconsin Environmental Improvement Fund  
Madison, Wisconsin

### **Report on the Financial Statements**

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 and for the years ended June 30, 2013, and 2012, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the State of Wisconsin Environmental Improvement Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### **Opinion**

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, 2013 and 2012, and the changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

As discussed in Note 1, the financial statements present only the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not present fairly the financial position of the State of Wisconsin, as of June 30, 2013, and 2012, and the changes in its financial position and, where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion are not modified with respect to this matter.

As discussed in Note 1, the State of Wisconsin Environmental Improvement Fund adopted the provisions of GASB Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion are not modified with respect to this matter.

### **Other Matters**

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Net Position By Program, Statement of Revenues, Expenses, and Changes in Net Position by Program, and the Statement of Cash Flows by Program as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Net Position By Program, Statement of Revenues, Expenses, and Changes in Net Position by Program, and the Statement of Cash Flows by Program as listed in the table of contents are fairly stated in all material respects, in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of Wisconsin Environmental Improvement Fund's basic financial statements. The "Other Information" listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013 on our consideration of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and compliance.

*Baker Tilly Vinchar Kraus, LLP*

Madison, Wisconsin  
November 25, 2013

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET POSITION  
As of June 30, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Current Assets		
Unrestricted cash and cash equivalents	\$ 401,622,626	\$ 326,057,452
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,594,162	47,741,449
Receivables		
Loans to local governments - current portion	160,570,515	152,558,621
Due from other funds	1,000	3,655
Due from other governmental entities	8,606,413	8,235,503
Accrued investment income	231,164	285,109
Prepaid items	21,380	21,305
Total Current Assets	616,647,260	534,903,094
Noncurrent Assets		
Restricted assets - cash equivalents	104,529,985	101,181,119
Investments - State of Wisconsin general obligation clean water bonds, at fair value	180,080,245	200,721,339
Loans to local governments	1,815,001,535	1,776,478,392
Advances to other funds	4,968,372	4,150,580
Prepaid items	167,462	184,349
Deferred debt expense	3,942,150	3,341,058
Capital Assets		
Equipment	20,357	20,357
Less: Accumulated depreciation	(20,357)	(18,549)
Total Capital Assets (Net of Accumulated Depreciation)	-	1,808
Total Noncurrent Assets	2,108,689,749	2,086,058,645
<b>TOTAL ASSETS</b>	<b>\$ 2,725,337,009</b>	<b>\$ 2,620,961,739</b>
<b>LIABILITIES AND NET POSITION</b>		
Current Liabilities		
Accrued expenses	\$ 25,646	\$ 69,255
Accrued interest on bonds	3,374,480	3,461,139
Due to other funds	470,170	1,234,276
Due to other governmental entities	255,221	20
Compensated absences - current portion	33,822	42,945
Revenue obligation bonds - current maturities	58,195,000	59,170,000
Total Current Liabilities	62,354,339	63,977,635
Noncurrent Liabilities		
Accrued expenses	29,086	30,240
Due to other governmental entities	705,500	927,365
Compensated absences	49,849	42,667
Revenue obligation bonds, net (including deferred charge)	815,160,406	814,480,284
Total Noncurrent Liabilities	815,944,841	815,480,556
Total Liabilities	878,299,180	879,458,191
Net Position		
Restricted for environmental improvement	1,838,967,064	1,727,658,455
Unrestricted	8,070,765	13,845,093
Total Net Position	1,847,037,829	1,741,503,548
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 2,725,337,009</b>	<b>\$ 2,620,961,739</b>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Years Ended June 30, 2013 and 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Loan interest	\$ 29,800,482	\$ 29,284,558
Interest income used as security for revenue bonds	21,401,425	21,251,166
Miscellaneous other	37,795	41,360
<b>Total Operating Revenues</b>	<b>51,239,702</b>	<b>50,577,084</b>
 <b>OPERATING EXPENSES</b>		
Interest	35,615,875	39,521,680
Salaries and benefits	3,742,837	3,776,581
Contractual services and other	2,049,445	2,007,346
Depreciation	1,808	3,617
<b>Total Operating Expenses</b>	<b>41,409,965</b>	<b>45,309,224</b>
 Operating Income	<b>9,829,737</b>	<b>5,267,860</b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	1,304,353	1,198,596
Investment income (loss) used as security for revenue bonds	(3,096,212)	30,969,648
Other revenues	209,517	-
Operating grants	108,857,445	66,216,993
Grants awarded	(10,235,932)	(14,125,085)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>97,039,171</b>	<b>84,260,152</b>
 <b>INCOME BEFORE TRANSFERS</b>	<b>106,868,908</b>	<b>89,528,012</b>
Transfers in	6,774,815	57,463,994
Transfers out	(8,109,442)	(37,327,583)
 <b>Increase in Net Position</b>	<b>105,534,281</b>	<b>109,664,423</b>
 TOTAL NET POSITION - Beginning of Year	<b>1,741,503,548</b>	<b>1,631,839,125</b>
 <b>TOTAL NET POSITION - END OF YEAR</b>	<b>\$ 1,847,037,829</b>	<b>\$ 1,741,503,548</b>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to employees for services	\$ (4,569,983)	\$ (3,551,326)
Payments to suppliers and other	(2,221,016)	(1,907,362)
Other operating revenues	37,795	41,360
Net Cash Flows From Operating Activities	(6,753,204)	(5,417,328)
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	108,636,097	66,456,390
Grants paid	(10,235,932)	(14,125,085)
Transfers in	6,774,815	57,463,994
Transfers out	(8,109,442)	(37,327,583)
Proceeds from issuance of long-term debt	230,295,000	-
Debt premium received	45,456,612	-
Debt issuance costs	(1,211,243)	-
Retirement of long-term debt	(59,170,000)	(58,170,000)
Refunded debt	(187,490,000)	-
Payment to escrow agent	(22,811,472)	-
Interest payments	(41,262,877)	(44,288,483)
Advances to other funds	(609,275)	(699,930)
Net Cash Flows From Noncapital Financing Activities	60,262,283	(30,690,697)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Origination of loans	(209,666,195)	(183,005,504)
Collection on loans	163,131,159	153,832,127
Interest received on loans	9,585,946	9,238,765
Arbitrage rebate	(596,702)	-
Purchase of investments	(126,606,562)	(109,958,612)
Liquidation of investments	138,445,919	105,397,215
Investment and interest income	51,111,396	50,488,957
Net Cash Flows From Investing Activities	25,404,961	25,992,948
 <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	78,914,040	(10,115,077)
 CASH AND CASH EQUIVALENTS - Beginning of Year	427,238,571	437,353,648
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 506,152,611</b>	<b>\$ 427,238,571</b>

	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 9,829,737	\$ 5,267,860
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Amortization	(5,203,692)	(4,581,286)
Interest income classified as investing activity	(51,201,907)	(50,535,725)
Interest expense classified as noncapital financing activity	40,611,124	44,332,534
Noncash items in operating income		
Depreciation	1,808	3,617
Changes in assets and liabilities		
Due from other funds	68,345	1,040,816
Prepaid items	16,812	18,777
Compensated absences	(1,942)	-
Other post employment benefits	(1,154)	-
Accrued expenses	(43,609)	(71,663)
Accrued interest on bonds	(86,659)	(229,568)
Due to other funds	(997,289)	(452,952)
Due to other governmental entities	255,222	(209,738)
Total Adjustments	<u>(16,582,941)</u>	<u>(10,685,188)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ (6,753,204)</u></b>	<b><u>\$ (5,417,328)</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>		
Unrestricted cash and cash equivalents - statement of net position	\$ 401,622,626	\$ 326,057,452
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	45,594,162	47,741,449
Investments in State of Wisconsin general obligation clean water bonds	180,080,245	200,721,339
Restricted cash and cash equivalents - statement of net position	<u>104,529,985</u>	<u>101,181,119</u>
Total Cash and Investments	<u>731,827,018</u>	<u>675,701,359</u>
Less: Non-cash equivalents	<u>(225,674,407)</u>	<u>(248,462,788)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 506,152,611</u></b>	<b><u>\$ 427,238,571</u></b>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:</b>		
Net change in unrealized gains and losses	<u>\$ 10,978,164</u>	<u>\$ 23,284,518</u>

See accompanying notes to financial statements.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2013 and 2012

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

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

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

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

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

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. As of June 30, 2013 and 2012, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2013 and 2012, the total amount drawn on these loans was \$13,500,343. The Land Recycling Program loans are included in the Clean Water Fund Program – Direct Loan Portfolio for reporting purposes.

In June 2011, the GASB issued Statement No. 63 – *Financing Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for those elements, which are distinct from assets and liabilities. The Fund made the decision to implement this standard effective July 1, 2012.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

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**Net Operating Income/Loss**—The Fund incurred net operating income of \$9.8 million in 2013 and net operating income of \$5.3 million in 2012. Management anticipates the Fund will periodically incur net operating losses in some 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 \$108.9 million and \$66.2 million in 2013 and 2012, respectively, and are classified as operating grants. Transfers from the State of Wisconsin were approximately \$2.0 million and \$2.2 million in 2013 and 2012, 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 position.

**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, 2013 and 2012 and records the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

GASB Statement No. 31 (GASB No. 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The four forward delivery agreements with Wachovia Bank, NA ("Wachovia"); one forward delivery agreement with Westdeutsche Landesbank Girozentral ("WestLB") at June 30, 2012; 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, 2013, the fair value of the Fund's interest in these agreements was above the cost of the treasury securities owned by \$1,077,088. At June 30, 2012, the fair value was above the cost by \$1,239,624.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

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

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

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

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

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

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

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

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

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

**Net Position**—Net position are classified as either restricted or unrestricted based on the presence or absence of restrictions, including federal laws, the Cleanwater Act of 1987, resolutions, state statutes, and Title XIV of the 1996 Safe Drinking Water Act, as amended. When both restricted and unrestricted resources are available for use, restricted resources are used first, then unrestricted as they are needed.

**Revenue Recognition**—Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expense occurs and include \$108.9 million and \$66.2 million of EPA contributions in 2013 and 2012, respectively.

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

**Transfers In/(Out)**—Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received. Transfers out consist of items related to debt service.

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

**Claims and Judgments**—Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred. Refer to Note 13 on commitments and contingencies.

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

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Loans to local governments at June 30, 2013 and 2012 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 4.95% to 0% in 2013 and 5.8% to 0% in 2012. The weighted average interest rate was 2.526% and 2.509% at June 30, 2013 and 2012, 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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

### **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, 2013, all loans were performing in accordance with the contractual terms with the exception of one loan made to a village that has an outstanding balance at year end of \$3,619,621. The village has been making the required interest payments on the loan. The State is currently considering alternative options to improve the likelihood of full collection of principal and interest from the village.

Of the loans outstanding at June 30, 2013 and 2012, \$691,113,289 and \$653,087,969 (35% and 34%), 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 \$198,255,849 of new loans and \$12,026,289 of new grants during fiscal year 2013. For fiscal year 2012, these same programs entered into \$262,572,690 of new loans and \$22,364,480 of new grants. As of June 30, 2013, they had undisbursed commitments of \$207,218,046 relating to loans and \$3,656,125 relating to grants. For fiscal year 2012, they had undisbursed commitments of \$253,556,977 relating to loans and \$1,681,114 relating to grants. From July 1, 2013 to September 17, 2013, the Fund made additional loan disbursements of \$25,663,786 for financial assistance agreements that were outstanding prior to June 30, 2013. \$13,854,469 of additional loans were executed between July 1, 2013 and September 17, 2013. 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, 2013 and 2012, cash and cash equivalents consisted of the following:

	2013	2012
Local Government Investment Pool (“LGIP”), at fair value	\$ 498,554,696	\$ 419,640,661
Investments reported at cost:		
Repurchase Agreement with Bayerische Landesbank	7,597,910	7,597,910
Miscellaneous cash	5	-
	506,152,611	427,238,571
Less: Amounts classified as restricted assets (see Note 6)	(104,529,985)	(101,181,119)
Total Unrestricted Cash and Cash Equivalents	\$ 401,622,626	\$ 326,057,452

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 and liquidity while earning a competitive money market rate of return. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is not a Securities and Exchange Commission (“SEC”) registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2013, the current yield on the LGIP was 0.08%, compared to 0.16% as of June 30, 2012. The LGIP investment is stated at fair value.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 30, 2013 and 2012, the repurchase agreement had a market value of \$8,383,399 and \$8,660,818, respectively. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. The repurchase agreement provides for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

<u>As of June 30, 2013</u>	<u>Amount</u>	<u>Exposure to Custodial Credit Risk</u>	<u>Credit Risk</u>	<u>Interest Rate Risk</u>	<u>Interest Rate Highly Sensitive</u>	<u>Foreign Currency Rate</u>	<u>% of Portfolio</u>
LGIP	\$ 498,554,696	N/A	Not rated	N/A	N/A	N/A	68.2%
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.0
Treasury notes – Forward delivery	45,594,162	\$0	N/A	See Note 4	N/A	N/A	6.2
GO Bonds-WI	161,831,897	\$0	Aa2	5-1-31 final maturity	N/A	N/A	24.6
<u>As of June 30, 2012</u>	<u>Amount</u>	<u>Exposure to Custodial Credit Risk</u>	<u>Credit Risk</u>	<u>Interest Rate Risk</u>	<u>Interest Rate Highly Sensitive</u>	<u>Foreign Currency Rate</u>	<u>% of Portfolio</u>
LGIP	\$ 419,640,661	N/A	Not rated	97 days weighted average maturity	N/A	N/A	64.9%
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.2
Treasury notes – Forward delivery	47,741,449	\$0	N/A	See Note 4	N/A	N/A	7.4
GO Bonds-WI	171,494,827	\$0	Aa2	5-1-31 final maturity	N/A	N/A	26.5

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 \$104,529,985 and \$101,181,119 at June 30, 2013 and 2012, 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%.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

The Fund has entered into multiple 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 was with WestLB in 2012, and two are with JP Morgan and each provides for the delivery to, and purchase by, the Fund, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1993 Series 1, 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, and 2006 Series 2, and 2008 Series 1 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wachovia, WestLB, and JP Morgan are required to deliver United States Treasury securities (“Treasury securities”) to the Fund for purchase. The Treasury securities are held as investments by the Fund. The price paid by the Fund for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The WestLB agreement matured June 1, 2013. 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.

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, 2013, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,116,000	2.000%	\$ 6,992,011	5.58%	June 1, 2017	\$ 7,184,188
Series 1998-1 Agreement	7,401,000	2.000	7,292,215	5.01	June 1, 2018	7,471,919
Series 1999-1 Agreement	7,066,000	2.000	6,918,023	6.32	June 1, 2020	7,133,709
Series 2006-1 Agreement	6,560,000	0.250	6,421,714	4.56	June 1, 2027	6,565,484
Series 2006-2 Agreement	8,183,000	0.250	7,999,509	4.84	June 1, 2027	8,189,840
Series 2008-1 Agreement	10,030,000	2.000	9,927,034	4.10	June 1, 2028	10,126,110

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

### **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, 2012, are as follows:

	<u>Par Value of Treasuries</u>	<u>Coupon Rate of Treasuries</u>	<u>Cost of Treasuries</u>	<u>Agreement Interest Rate</u>	<u>Agreement Maturity Date</u>	<u>Agreement Market Value</u>
Series 1993-1 Agreement	\$ 2,241,000	N/A	\$ 2,183,992	5.22%	June 1, 2013	\$ 2,182,811
Series 1997-1 Agreement	7,067,000	3.375%	6,991,107	5.58	June 1, 2017	7,179,856
Series 1998-1 Agreement	7,351,000	3.375	7,292,253	5.01	June 1, 2018	7,468,391
Series 1999-1 Agreement	7,019,000	3.375	6,918,808	6.32	June 1, 2020	7,131,089
Series 2006-1 Agreement	6,552,000	0.500	6,421,894	4.56	June 1, 2027	6,628,906
Series 2006-2 Agreement	8,173,000	0.500	7,999,712	4.84	June 1, 2027	8,268,933
Series 2008-1 Agreement	9,962,000	3.375	9,926,843	4.10	June 1, 2028	10,121,087

### **NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

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

The following is a schedule of transfers between the loan portfolios and/or other funds at the State of Wisconsin:

<u>Transferred To</u>	<u>Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Direct Loan Portfolio	Proprietary Portfolio	\$ 7,646,356	State match
Proprietary Portfolio	Capital Improvement	4,728,780	Future debt service
Safe Drinking Water Loan Program	Capital Improvement	2,046,035	State match
Bond Security and Redemption	Direct Loan Portfolio	8,000,000	G.O. bond debt service
Debt Service Fund Program	Proprietary Portfolio	109,442	Personal services
Direct Loan Portfolio	Proprietary Portfolio	32,021	Investment pool allocation
Safe Drinking Water Loan Program	Proprietary Portfolio	11,381	Investment pool allocation
		<hr/>	
Subtotal		22,574,015	
Less: Eliminations		<u>(23,908,642)</u>	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Position		<u>\$ (1,334,627)</u>	

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

### **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, 2013 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 839,305,000	\$ 230,295,000	\$ 246,660,000*	\$ 822,940,000	\$ 58,195,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(6,564,571)	(16,468,310)	(1,744,498)	(21,288,383)	-
Premiums/discounts	40,909,855	45,456,612	14,662,678	71,703,789	-
<b>Totals</b>	<b>\$ 873,650,284</b>	<b>\$ 259,283,302</b>	<b>\$ 259,578,180</b>	<b>\$ 873,355,406</b>	<b>\$ 58,195,000</b>

\* Includes \$187,490,000 of refunded bonds.

Revenue bonds activity as of June 30, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 897,475,000	\$ -	\$ 58,170,000	\$ 839,305,000	\$ 59,170,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(8,166,795)	-	(1,602,224)	(6,564,571)	-
Premiums/discounts	47,643,197	-	6,733,342	40,909,855	-
<b>Totals</b>	<b>\$ 936,951,402</b>	<b>\$ -</b>	<b>\$ 63,301,118</b>	<b>\$ 873,650,284</b>	<b>\$ 59,170,000</b>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

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

Revenue obligation serial and term bonds as of June 30, 2013 and 2012 consisted of the following:

	2013	2012
<b>1998 Series 2:</b>		
Serial Bonds, no optional redemption, June 1, 2017	\$ 33,105,000	\$ 44,330,000
Unamortized premium on bonds	444,032	705,671
	33,549,032	45,035,671
<b>2002 Series 2:</b>		
Serial Bonds, no optional redemption, June 1, 2016	11,230,000	19,870,000
Unamortized premium on bonds	246,352	479,928
	11,476,352	20,349,928
<b>2004 Series 1:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	4,775,000	72,410,000
Unamortized premium on bonds	60,967	1,196,817
	4,835,967	73,606,817
<b>2004 Series 2:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	65,535,000	78,620,000
Unamortized premium on bonds	1,975,642	2,869,677
	67,510,642	81,489,677
<b>2006 Series 1:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	10,220,000	66,635,000
Unamortized premium on bonds	219,411	2,904,699
	10,439,411	69,539,699
<b>2006 Series 2:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	8,310,000	83,290,000
Unamortized premium on bonds	134,855	2,194,022
	8,444,855	85,484,022
<b>2008 Series 1:</b>		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	83,725,000	87,260,000
Unamortized premium on bonds	3,990,042	4,625,919
	87,715,042	91,885,919
<b>2008 Series 2:</b>		
Serial Bonds, no optional redemption, June 1, 2018	27,335,000	27,335,000
Unamortized premium on bonds	1,597,323	1,956,422
	28,932,323	29,291,422

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

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<i>REVENUE OBLIGATION BONDS</i> (cont.)	2013	2012
2008 Series 3:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	\$ 79,325,000	\$ 82,790,000
Unamortized premium on bonds	1,267,453	1,505,204
	80,592,453	84,295,204
2010 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	59,795,000	63,660,000
Unamortized premium on bonds	3,921,215	4,471,128
	63,716,215	68,131,128
2010 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	14,070,000	14,070,000
Unamortized premium on bonds	1,468,303	1,653,514
	15,538,303	15,723,514
2010 Series 3:		
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	49,690,000	49,690,000
	49,690,000	49,690,000
2010 Series 4:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	108,770,000	112,585,000
Unamortized premium on bonds	10,079,380	11,362,037
	118,849,380	123,947,037
2010 Series 5:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	36,760,000	36,760,000
Unamortized premium on bonds	4,432,530	4,984,817
	41,192,530	41,744,817
2012 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2033	55,000,000	-
Unamortized premium on bonds	8,482,588	-
	63,482,588	-
2012 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2024	92,450,000	-
Unamortized premium on bonds	17,746,597	-
	110,196,597	-

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

#### REVENUE OBLIGATION BONDS (cont.)

	2013	2012
2013 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2027	\$ 82,845,000	\$ -
Unamortized premium on bonds	15,637,099	-
	98,482,099	-
 Total of All Series	 894,643,789	 880,214,855
 Unamortized deferred charge related to debt defeasance (Note 7)	 (21,288,383)	 (6,564,571)
 Revenue Obligation Bonds, Net of Deferred Charge	 \$ 873,355,406	 \$ 873,650,284

The original issue discount or premium at issuance and the interest rates at June 30, 2013, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
2002 Series 2	(7,344,000)	3.00 – 5.50%
2004 Series 1	(6,632,300)	4.00 – 5.00%
2004 Series 2	(11,408,668)	3.25 – 5.25%
2006 Series 1	(4,951,135)	3.50 – 5.00%
2006 Series 2	(4,359,628)	4.00 – 5.00%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%
2008 Series 3	(2,764,120)	3.00 – 5.50%
2010 Series 1	(5,917,653)	3.00 – 5.00%
2010 Series 2	(2,065,947)	5.00%
2010 Series 3	-	3.957% - 5.441%*
2010 Series 4	(13,528,717)	3.00 – 5.00%
2010 Series 5	(5,845,742)	5.00%
2012 Series 1	(9,195,497)	2.00 – 5.00%
2012 Series 2	(20,160,489)	3.96 – 5.00%
2013 Series 1	(16,100,626)	4.50 – 5.00%

\* - The effect of the interest rate subsidy on the 2010 Series 3 revenue bonds through June 1, 2025 is \$7,109,653. The amount due in the next fiscal year is \$831,375.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

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

Principal maturities of the bonds, net of advance refundings, as of June 30, 2013, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2014	\$ 58,195,000	\$ 40,493,758	\$ 98,688,758
2015	58,400,000	37,532,446	95,932,446
2016	59,935,000	34,657,283	94,592,283
2017	60,775,000	31,729,096	92,504,096
2018	60,510,000	28,824,553	89,334,553
2019-2023	262,370,000	103,269,259	365,639,259
2024-2028	194,865,000	43,589,776	238,454,776
2029-2033	67,890,000	7,607,749	75,497,749
Totals	<u>\$ 822,940,000</u>	<u>\$ 327,703,920</u>	<u>\$ 1,150,643,920</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2013 and 2012, the total assets of the Leveraged Loan Portfolio were \$1,120,430,841 and \$1,138,671,764, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

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

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay \$822.9 million in revenue bonds issued between 1998-2013. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require 55% of revenues. The total principal and interest remaining to be paid on the bonds is \$1,150,643,920. Principal and interest paid for the current year and total net revenues were \$100.4 million and \$105.2 million, respectively.

#### **RESTRICTED ASSETS**

Among other restrictions under the revenue obligation bond agreements are provisions that require a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net position consist of substantially all of the Bayerische Landesbank investment (Note 3) and \$96.9 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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### NOTE 7 – ADVANCE REFUNDING

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In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of \$104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2013, and 2012, there was \$34,030,000 and \$45,410,000, respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2002, the Fund defeased a portion of its 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 bonds through the issuance of \$85,575,000 of 2002 Series 2 Refunding Bonds. The proceeds from the 2002 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2013 and 2012, there was \$14,300,000 and \$23,860,000, 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, 2013 and 2012, there was \$66,630,000 and \$80,045,000, respectively, of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

In 2008, the Fund defeased a portion of its 1998 Series 1 and 2001 Series 1 bonds through the issuance of \$27,335,000 of 2008 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2013 and 2012, there was \$28,100,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2010, the Fund defeased a portion of its 2001 Series 1 bonds through the issuance of \$14,070,000 of 2010 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2013 and 2012, there was \$14,990,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

In 2010, the Fund defeased a portion of its 2002 Series 1 bonds through the issuance of \$36,760,000 of 2010 Series 5 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2013 and 2012, there was \$39,510,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

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In 2012, the Fund defeased a portion of its 2004 Series 1 and 2006 Series 2 bonds through the issuance of \$92,450,000 of 2012 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, 2013, there was \$101,245,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2012 advance refunding was \$139,996,663 from 2012 through 2024. The cash flow requirements on the 2012, Series 2 refunding bonds are \$127,759,427 from 2013 through 2024. 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 \$10,690,707.

In 2013, the Fund defeased a portion of its 2006 Series 1 and 2006 Series 2 bonds through the issuance of \$82,845,000 of 2013 Series 1 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, 2013, there was \$86,245,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2013 advance refunding was \$130,895,350 from 2013 through 2027. The cash flow requirements on the 2013, Series 1 refunding bonds are \$121,981,220 from 2013 through 2027. 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 \$7,659,999.

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### **NOTE 8 – GLOBAL CERTIFICATES**

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In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for \$116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program ("Global Certificate"). The estimated market value and weighted average coupon interest rate of the Global Certificate at both June 30, 2013 and 2012 were \$57,592,556 and 0.00% and \$67,586,909 and 0.00%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In February 2007, two additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for \$13,148,554 and \$6,851,446 (par value). The estimated market value and weighted average coupon interest rates of the Global Certificates at June 30, 2013 were \$12,448,041 and 5.46% and \$8,186,755 and 5.76%, respectively. The estimated market value and weighted average coupon interest rates of the Global Certificates at June 30, 2012 were \$13,936,495 and 5.45% and \$9,026,892 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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

In June 2008, two State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program (“Global Certificate”) for \$16,600,000 and \$10,300,000 (par value). The estimated market values of the Global Certificates at June 30, 2013 were \$21,217,394 and \$10,300,000. The weighted average coupon interest rate for the \$16,600,000 Global Certificate at June 30, 2013 was 6.16%. The estimated market values of the Global Certificates at June 30, 2012 were \$23,181,929 and \$10,300,000. The weighted average coupon interest rate for the \$16,600,000 Global Certificate at June 30, 2012 was 6.16%. The Bonds are registered in the name of the Fund and held by an independent trustee.

In January 2009, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$17,700,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2013 and 2012 were \$21,844,739 and 5.78% and \$23,373,035 and 5.78%, respectively. The Bond is registered in the name of the Fund and held by an independent trustee.

In April 2010, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$15,243,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2013 and 2012 were \$17,816,818 and 5.47% and \$19,761,495 and 5.47%, respectively. The Bond is registered in the name of the Fund and held by an independent trustee.

In December 2010, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$15,000,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2013 and 2012 were \$18,367,917 and 5.96% and \$20,477,407 and 5.96%, respectively.

In April 2012, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$12,300,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2013 and 2012 were \$12,306,025 and 2.89%, and \$13,077,177 and 2.89%, respectively.

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

Years Ending June 30,	2013	2012
2014	\$ 5,885,021	\$ 9,662,930
2015	6,863,280	5,885,021
2016	7,791,289	6,863,280
2017	11,225,350	7,791,289
2018	12,724,630	11,225,350
2019-2023	47,215,237	47,870,315
2024-2028	40,173,090	50,042,642
2029-2031	29,954,000	32,154,000
Totals	\$ 161,831,897	\$ 171,494,827

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

### 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, 2013 and 2012:

	2013	2012
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 680,935	\$ 550,660
Repurchase Agreement with Bayerische Landesbank	493,864	493,864
United States Treasury Notes	2,384,631	2,413,341
State of Wisconsin General Obligation Bonds	5,206,500	5,289,534
Federal Interest on Build America Bonds	795,211	831,375
Total Interest	9,561,141	9,578,774
Changes in Realized and Unrealized Gains (Losses)		
United States Treasury Notes	-	(9,506)
State of Wisconsin General Obligation Bonds	(10,978,164)	23,284,518
Total Changes in Unrealized Gains (Losses)	(10,978,164)	23,275,012
Total Interest and Changes in Unrealized Gains (Losses)	(1,417,023)	32,853,786
Change in Estimated Rebateable Arbitrage Liability	(374,836)	(685,542)
TOTAL INVESTMENT INCOME (LOSS)	\$ (1,791,859)	\$ 32,168,244

### 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 \$36.1 million for federal fiscal year 2013. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2013 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 2013 and a grant to Wisconsin of approximately \$14.5 million is expected for federal fiscal year 2013.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2013 and 2012

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### NOTE 10 – OPERATING GRANTS AND HARDSHIP GRANTS (cont.)

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**EPA Operating Grants for Drinking Water Projects** (cont.)—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 2013 and 2012, the Fund awarded hardship grants of \$0 for both years. At June 30, 2013 and 2012, the Fund was committed to award \$3,656,125 and \$1,681,114, respectively, of additional hardship grants. At June 30, 2013 and 2012, the Fund had projected additional hardship grants of \$3,896,200 and \$7,099,413, respectively.

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### NOTE 11 – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

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The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Application of these standards may restate portions of these financial statements.

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### NOTE 12 – COMMITMENTS AND CONTINGENCIES

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Occasionally the EIF is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the state legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the EIF's financial position or results of operations.

**SUPPLEMENTAL INFORMATION**

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2013

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>ASSETS</b>			
<b>Current Assets</b>			
Unrestricted cash and cash equivalents	\$ 303,697,013	\$ 6,161,710	\$ (6,467,379)
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	29,140	45,565,022
Receivables			
Loans to local governments - current portion	74,526,425	1,163,367	66,069,554
Due from other funds	1,000	1,165,005	-
Due from other governmental entities	3,776,643	41,756	3,363,697
Accrued investment income	-	-	231,164
Prepaid items	-	4,492	16,888
Total Current Assets	<u>382,001,081</u>	<u>8,565,470</u>	<u>108,778,946</u>
<b>Noncurrent Assets</b>			
Restricted assets - cash equivalents	-	-	104,529,985
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	-	180,080,245
Loans to local governments	850,439,640	8,921,316	722,932,053
Advances to other funds	4,968,372	-	-
Prepaid items	-	-	167,462
Deferred debt expense	-	-	3,942,150
Capital Assets			
Equipment	-	9,507	-
Less: Accumulated depreciation	-	(9,507)	-
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>	<u>-</u>	<u>-</u>
Total Noncurrent Assets	<u>855,408,012</u>	<u>8,921,316</u>	<u>1,011,651,895</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,237,409,093</u>	<u>\$ 17,486,786</u>	<u>\$ 1,120,430,841</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 98,231,282	\$ -	\$ 401,622,626
-	-	45,594,162
18,811,169	-	160,570,515
-	(1,165,005)	1,000
1,424,317	-	8,606,413
-	-	231,164
-	-	21,380
<u>118,466,768</u>	<u>(1,165,005)</u>	<u>616,647,260</u>
-	-	104,529,985
-	-	180,080,245
232,708,526	-	1,815,001,535
-	-	4,968,372
-	-	167,462
-	-	3,942,150
10,850	-	20,357
<u>(10,850)</u>	<u>-</u>	<u>(20,357)</u>
-	-	-
<u>232,708,526</u>	<u>-</u>	<u>2,108,689,749</u>
<u>\$ 351,175,294</u>	<u>\$ (1,165,005)</u>	<u>\$ 2,725,337,009</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2013

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>LIABILITIES AND NET POSITION</b>			
Current Liabilities			
Accrued expenses	\$ -	\$ 25,646	\$ -
Accrued interest on bonds	-	-	3,374,480
Due to other funds	155,339	82,064	1,165,005
Due to other governmental entities	-	-	-
Compensated absences - current portion	-	33,822	-
Revenue obligation bonds - current maturities	-	-	58,195,000
Total Current Liabilities	<u>155,339</u>	<u>141,532</u>	<u>62,734,485</u>
Noncurrent Liabilities			
Accrued expenses	-	29,086	-
Due to other governmental entities	-	-	705,500
Compensated absences	-	49,849	-
Revenue obligation bonds, net (including deferred charge)	-	-	815,160,406
Total Noncurrent Liabilities	<u>-</u>	<u>78,935</u>	<u>815,865,906</u>
Total Liabilities	<u>155,339</u>	<u>220,467</u>	<u>878,600,391</u>
Net Position			
Restricted for environmental improvement	1,237,253,754	9,195,554	241,830,450
Unrestricted	-	8,070,765	-
Total Net Position	<u>1,237,253,754</u>	<u>17,266,319</u>	<u>241,830,450</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,237,409,093</u>	<u>\$ 17,486,786</u>	<u>\$ 1,120,430,841</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ -	\$ -	\$ 25,646
-	-	3,374,480
232,767	(1,165,005)	470,170
255,221	-	255,221
-	-	33,822
-	-	58,195,000
<u>487,988</u>	<u>(1,165,005)</u>	<u>62,354,339</u>
-	-	29,086
-	-	705,500
-	-	49,849
-	-	815,160,406
-	-	815,944,841
<u>487,988</u>	<u>(1,165,005)</u>	<u>878,299,180</u>
350,687,306	-	1,838,967,064
-	-	8,070,765
<u>350,687,306</u>	<u>-</u>	<u>1,847,037,829</u>
<u>\$ 351,175,294</u>	<u>\$ (1,165,005)</u>	<u>\$ 2,725,337,009</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY PROGRAM  
For the Year Ended June 30, 2013

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>OPERATING REVENUES</b>			
Loan interest	\$ 23,748,122	\$ 285,171	\$ -
Interest income used as security for revenue bonds	-	-	21,401,425
Miscellaneous other	-	37,795	-
Total Operating Revenues	<u>23,748,122</u>	<u>322,966</u>	<u>21,401,425</u>
<b>OPERATING EXPENSES</b>			
Interest	-	-	35,615,875
Salaries and benefits	1,351,541	198,358	793,432
Contractual services and other	100,916	92,959	473,445
Depreciation	-	-	-
Total Operating Expenses	<u>1,452,457</u>	<u>291,317</u>	<u>36,882,752</u>
Operating Income (Loss)	<u>22,295,665</u>	<u>31,649</u>	<u>(15,481,327)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	365,764	12,078	795,211
Investment income (loss) used as security for revenue bonds	-	-	(3,096,212)
Other revenues	-	-	209,517
Operating grants	82,379,408	-	-
Grants awarded	<u>(3,297,392)</u>	<u>(184,656)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>79,447,780</u>	<u>(172,578)</u>	<u>(2,091,484)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	101,743,445	(140,929)	(17,572,811)
Transfers in	7,678,377	4,728,780	-
Transfers out	<u>(8,000,000)</u>	<u>(7,799,200)</u>	<u>-</u>
<b>Change in Net Position</b>	101,421,822	(3,211,349)	(17,572,811)
TOTAL NET POSITION - Beginning of Year	<u>1,135,831,932</u>	<u>20,477,668</u>	<u>259,403,261</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,237,253,754</u>	<u>\$ 17,266,319</u>	<u>\$ 241,830,450</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 5,767,189	\$ -	\$ 29,800,482
-	-	21,401,425
-	-	37,795
<u>5,767,189</u>	<u>-</u>	<u>51,239,702</u>
-	-	35,615,875
1,399,506	-	3,742,837
1,382,125	-	2,049,445
1,808	-	1,808
<u>2,783,439</u>	<u>-</u>	<u>41,409,965</u>
<u>2,983,750</u>	<u>-</u>	<u>9,829,737</u>
131,300	-	1,304,353
-	-	(3,096,212)
-	-	209,517
26,478,037	-	108,857,445
(6,753,884)	-	(10,235,932)
<u>19,855,453</u>	<u>-</u>	<u>97,039,171</u>
22,839,203	-	106,868,908
2,057,416	(7,689,758)	6,774,815
<u>-</u>	<u>7,689,758</u>	<u>(8,109,442)</u>
24,896,619	-	105,534,281
<u>325,790,687</u>	<u>-</u>	<u>1,741,503,548</u>
<u>\$ 350,687,306</u>	<u>\$ -</u>	<u>\$ 1,847,037,829</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2013

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to employees for services	\$ (1,214,660)	\$ (1,250,797)	\$ (837,711)
Payments to suppliers and other	(82,956)	(96,304)	(881,512)
Other operating revenues	-	37,795	-
Net Cash Flows From Operating Activities	<u>(1,297,616)</u>	<u>(1,309,306)</u>	<u>(1,719,223)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating grants received	82,379,672	-	-
Grants paid	(3,297,456)	(184,592)	-
Transfers in	7,678,377	4,728,780	-
Transfers out	(8,000,000)	(7,799,200)	-
Proceeds from issuance of long-term debt	-	-	230,295,000
Debt premium received	-	-	45,456,612
Debt issuance costs	-	-	(1,211,243)
Retirement of long-term debt	-	-	(59,170,000)
Refunded debt	-	-	(187,490,000)
Payment to escrow agent	-	-	(22,811,472)
Interest payments	-	-	(41,262,877)
Advances to other funds	(818,792)	-	209,517
Net Cash Flows From Noncapital Financing Activities	<u>77,941,801</u>	<u>(3,255,012)</u>	<u>(35,984,463)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Origination of loans	(109,604,612)	(584,289)	(74,055,462)
Collection on loans	76,577,828	1,639,983	67,021,546
Interest received on loans	365,764	27,394	9,061,488
Arbitrage rebate	-	-	(596,702)
Purchase of investments	-	-	(126,606,562)
Liquidation of investments	-	-	138,445,919
Investment and interest income	23,682,148	289,204	21,384,375
Net Cash Flows From Investing Activities	<u>(8,978,872)</u>	<u>1,372,292</u>	<u>34,654,602</u>
Net Increase (Decrease) in Cash and Cash Equivalents	67,665,313	(3,192,026)	(3,049,084)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>236,031,700</u>	<u>9,353,736</u>	<u>101,111,690</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 303,697,013</u>	<u>\$ 6,161,710</u>	<u>\$ 98,062,606</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ (1,266,815)	\$ -	\$ (4,569,983)
(1,160,244)	-	(2,221,016)
-	-	37,795
<u>(2,427,059)</u>	<u>-</u>	<u>(6,753,204)</u>
26,256,425	-	108,636,097
(6,753,884)	-	(10,235,932)
2,057,416	(7,689,758)	6,774,815
-	7,689,758	(8,109,442)
-	-	230,295,000
-	-	45,456,612
-	-	(1,211,243)
-	-	(59,170,000)
-	-	(187,490,000)
-	-	(22,811,472)
-	-	(41,262,877)
-	-	(609,275)
<u>21,559,957</u>	<u>-</u>	<u>60,262,283</u>
(25,421,832)	-	(209,666,195)
17,891,802	-	163,131,159
131,300	-	9,585,946
-	-	(596,702)
-	-	(126,606,562)
-	-	138,445,919
<u>5,755,669</u>	<u>-</u>	<u>51,111,396</u>
<u>(1,643,061)</u>	<u>-</u>	<u>25,404,961</u>
17,489,837	-	78,914,040
<u>80,741,445</u>	<u>-</u>	<u>427,238,571</u>
<u>\$ 98,231,282</u>	<u>\$ -</u>	<u>\$ 506,152,611</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2013

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income	\$ 22,295,665	\$ 31,649	\$ (15,481,327)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Amortization	-	-	(5,203,692)
Interest income classified as investing activity	(23,748,122)	(285,171)	(21,401,425)
Interest expense classified as noncapital financing activity	-	109,442	40,501,682
Noncash items in operating income			
Depreciation	-	-	-
Changes in assets and liabilities:			
Due from other funds	-	68,345	-
Prepaid items	-	(75)	16,887
Compensated absences	-	(1,942)	-
Other postemployment benefits	-	(1,154)	-
Accrued expenses	(474)	6,242	-
Accrued interest on bonds	-	-	(86,659)
Due to other funds	155,315	(1,236,642)	(64,689)
Due to other governmental entities	-	-	-
Total Adjustments	<u>(23,593,281)</u>	<u>(1,340,955)</u>	<u>13,762,104</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (1,297,616)</u>	<u>\$ (1,309,306)</u>	<u>\$ (1,719,223)</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>			
Unrestricted cash and cash equivalents - statement of net position	\$ 303,697,013	\$ 6,161,710	\$ (6,467,379)
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	-	29,140	45,565,022
Investments in State of Wisconsin general obligation clean water bonds	-	-	180,080,245
Restricted cash and cash equivalents - statement of net position	-	-	104,529,985
Total Cash and Investments	<u>303,697,013</u>	<u>6,190,850</u>	<u>323,707,873</u>
Less: Non-cash equivalents	-	(29,140)	(225,645,267)
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 303,697,013</u>	<u>\$ 6,161,710</u>	<u>\$ 98,062,606</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:</b>			
Net change in unrealized gains and losses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,978,164</u>

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Safe Drinking Water Loan Program	Totals
<u>\$ 2,983,750</u>	<u>\$ 9,829,737</u>
-	(5,203,692)
(5,767,189)	(51,201,907)
-	40,611,124
1,808	1,808
-	68,345
-	16,812
-	(1,942)
-	(1,154)
(49,377)	(43,609)
-	(86,659)
148,727	(997,289)
<u>255,222</u>	<u>255,222</u>
<u>(5,410,809)</u>	<u>(16,582,941)</u>
<u>\$ (2,427,059)</u>	<u>\$ (6,753,204)</u>
 <u>\$ 98,231,282</u>	 <u>\$ 401,622,626</u>
-	45,594,162
-	180,080,245
-	104,529,985
<u>98,231,282</u>	<u>731,827,018</u>
-	(225,674,407)
<u>\$ 98,231,282</u>	<u>\$ 506,152,611</u>
 <u>\$ -</u>	 <u>\$ 10,978,164</u>

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)  
For the Years Ended June 30, 2013 and 2012

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

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*

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  
State of Wisconsin Environmental Improvement Fund  
Madison, Wisconsin

We have audited, 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, the financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Wisconsin Environmental Improvement Fund's basic financial statements, and have issued our report thereon dated November 25, 2013.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the State of Wisconsin Environmental Improvement Fund's financial statements are free from 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*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Vinchow Krause, LLP*

Madison, Wisconsin  
November 25, 2013



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

As of and for the Year Ended June 1, 2013 and  
Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT

To the Secretary of the Department of Administration and the Secretary  
of the Department of Natural Resources of the State of Wisconsin  
Leveraged Loan Portfolio  
Madison, Wisconsin

### **Report on the Financial Statements**

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 and for the year ended June 1, 2013, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Leveraged Loan Portfolio's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Leveraged Loan Portfolio's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leveraged Loan Portfolio as of June 1, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements present only the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not present fairly the financial position of the State of Wisconsin, as of June 1, 2013, and the changes in its financial position and, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the Leveraged Loan Portfolio adopted the provisions of GASB Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective June 2, 2012. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Leveraged Loan Portfolio's financial statements. The "Other Information" listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Baker Tilly Vinchow Krause, LLP*

Madison, Wisconsin  
November 25, 2013

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF NET POSITION  
As of June 1, 2013

<b>ASSETS</b>	
Current Assets	
Unrestricted cash and cash equivalents	\$ 76,347,867
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,565,022
Receivables	
Loans to local governments - current portion	66,069,554
Accrued interest receivable	614,227
Due from other governmental entities	1,710,354
Prepaid items	16,887
Total Current Assets	190,323,911
Noncurrent Assets	
Restricted assets - cash equivalents	104,529,985
Investments - State of Wisconsin general obligation clean water bonds, at fair value	183,822,652
Loans to local governments	719,171,713
Prepaid items	168,869
Deferred debt expense	3,978,151
Total Noncurrent Assets	1,011,671,370
<b>TOTAL ASSETS</b>	<b>\$ 1,201,995,281</b>
<b>LIABILITIES AND NET POSITION</b>	
Current Liabilities	
Due to other funds	\$ 1,067,921
Accrued interest payable	20,489,305
Revenue obligation bonds - current maturities	117,365,000
Total Current Liabilities	138,922,226
Noncurrent Liabilities	
Due to other governmental entities	681,105
Revenue obligation bonds, net (including deferred charge)	815,695,618
Total Noncurrent Liabilities	816,376,723
Total Liabilities	955,298,949
Net Position	
Restricted for environmental improvement	246,696,332
Total Net Position	246,696,332
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,201,995,281</b>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Year Ended June 1, 2013

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<b>OPERATING REVENUES</b>	
Interest income used as security for revenue bonds	\$ 21,393,044
Total Operating Revenues	<u>21,393,044</u>
<b>OPERATING EXPENSES</b>	
Interest	35,835,758
Salaries and benefits	797,121
Contractual services and other	<u>475,146</u>
Total Operating Expenses	<u>37,108,025</u>
Operating Loss	<u>(15,714,981)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income (loss) used as security for revenue bonds	(1,007,962)
Other revenues	<u>209,517</u>
Total Nonoperating Revenues (Expenses)	<u>(798,445)</u>
<b>CHANGE IN NET POSITION</b>	(16,513,426)
TOTAL NET POSITION - Beginning of Year	<u>263,209,758</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 246,696,332</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF CASH FLOWS  
For the Year Ended June 1, 2013

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Payments to employees for services	\$ (2,494,590)
Payments to suppliers and other	<u>(1,260,440)</u>
Net Cash Flows From Operating Activities	<u>(3,755,030)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Proceeds from issuance of long-term debt	230,295,000
Debt premium received	45,456,612
Debt issuance costs	(1,211,243)
Refunded debt	(187,490,000)
Payment to escrow agent	(22,811,472)
Interest payments	(20,773,592)
Other cash flows from noncapital financing activities	<u>209,517</u>
Net Cash Flows From Noncapital Financing Activities	<u>43,674,822</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Origination of loans	(74,194,214)
Collection on loans	67,021,546
Interest and dividends received on loans	8,518,262
Arbitrage rebate	(596,701)
Purchase of investments	(81,056,975)
Liquidation of investments	92,892,609
Investment and interest income	<u>21,384,375</u>
Net Cash Flows From Investing Activities	<u>33,968,902</u>

**Net Increase in Cash and Cash Equivalents** 73,888,694

CASH AND CASH EQUIVALENTS - Beginning of Year 106,989,158

**CASH AND CASH EQUIVALENTS - END OF YEAR** \$ 180,877,852

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

Operating Loss \$ (15,714,981)

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

Amortization 5,481,909  
Interest income classified as investing activity (21,393,044)  
Interest expense classified as noncapital financing activity 29,965,305  
Changes in assets and liabilities:  
    Prepaid items 16,887  
    Due to other funds (2,111,106)  
    Total Adjustments 11,959,951

**NET CASH FLOWS USED BY OPERATING ACTIVITIES** \$ (3,755,030)

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

Unrestricted cash and cash equivalents - statement of net position \$ 76,347,867  
Investments in United States Treasury Notes, purchased in connection with  
    forward delivery agreements 45,565,022  
Investments in State of Wisconsin general obligation clean water bonds 183,822,652  
Restricted cash and cash equivalents - statement of net position 104,529,985  
    Total Cash and Investments 410,265,526

Less: Non-cash equivalents (229,387,674)

**CASH AND CASH EQUIVALENTS - END OF YEAR** \$ 180,877,852

**NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:**

Net change in unrealized gains and losses \$ 9,765,615

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 1, 2013

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

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

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

In June 2011, the GASB issued Statement No. 63 – *Financing Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for those elements, which are distinct from assets and liabilities.

The Portfolio made the decision to implement this standard effective June 2, 2012.

**Net Operating Loss**—The Portfolio incurred an operating loss of \$15.7 million in 2013. 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. The loss in 2013 was funded by a use of net position rather than a transfer from the State. 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 position.

**United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements**—The Portfolio holds United States Treasury Notes as investments at June 1, 2013 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 three forward delivery agreements with Wachovia Bank, NA (“Wachovia”); one forward delivery agreement with Westdeutsche Landesbank Girozentral (“WestLB”); and two forward delivery agreements with JP Morgan Chase Bank (JP Morgan) described in Note 4 would be considered participating investment contracts under GASB No. 31. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 1, 2013, the fair value of the Fund’s interest in these agreements exceeded the cost of the treasury securities owned by approximately \$1,103,424.

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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

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

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

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

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

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

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

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

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

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

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

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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

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**Claims and Judgments**—Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred. Refer to Note 12 on commitments and contingencies.

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## NOTE 2 – FINANCIAL ASSISTANCE COMMITMENTS TO LOCAL GOVERNMENTS

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Leveraged loans to local governments at June 1, 2013, 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 2013. The weighted average interest rate was 2.614% at June 1, 2013. 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, 2013, \$298,635,672 (38%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio entered into \$2,421,204 of new loans during the 12 month period ending June 1, 2013. As of June 1, 2013, the Portfolio had undisbursed loan commitments totaling \$86,460,277. From June 1, 2013 to September 17, 2013, the Portfolio made additional loan disbursements of \$2,512,638 for financial assistance agreements that were outstanding prior to June 1, 2013. There were no additional leverage loans executed between June 1, 2013 and September 18, 2013. These funding commitments are generally met through the proceeds from the issuance of additional Clean Water revenue bonds and investment earnings thereon (Note 6). Financial assistance in the form of grants is not provided in the Leverage Portfolio. The management of the EIF may elect to switch the target funding portfolio for a loan from Leverage to another loan portfolio based on various business or program needs.

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## NOTE 3 – CASH AND CASH EQUIVALENTS

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As of June 1, 2013, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	\$ 171,098,437
Cash held by custodian	2,181,505
Investments reported at cost:	
Repurchase Agreement with Bayerische Landesbank	7,597,910
	<u>180,877,852</u>
Less: Amounts classified as restricted assets (see Note 6)	<u>(104,529,985)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ 76,347,867</u>

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

### 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 and liquidity while earning a competitive money market rate of return. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is not a SEC registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 1, 2013, the current yield on the LGIP was 0.09%. The LGIP investment is stated at fair value.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 1, 2013, the repurchase agreement had a market value of \$8,375,280. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. The repurchase agreement provides 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	\$ 171,098,437	N/A	Not rated	N/A	N/A	N/A	41.7%
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.9
Treasury notes – Forward delivery	47,746,527	\$0	N/A	See Note 4	N/A	N/A	11.6
GO Bonds-WI	183,822,652	\$0	Aa2	5-1-31 final maturity	N/A	N/A	44.8

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

Restricted assets of \$104,529,985 represent amounts legally restricted by the Clean Water Revenue Bonds. The amount restricted is the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

### 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 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.

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, 2013, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,116,000	2.000%	\$ 6,992,011	5.58%	June 1, 2017	\$ 7,183,553
Series 1998-1 Agreement	7,401,000	2.000	7,292,215	5.01	June 1, 2018	7,471,259
Series 1999-1 Agreement	7,066,000	2.000	6,918,023	6.32	June 1, 2020	7,133,078
Series 2006-1 Agreement	6,560,000	0.250	6,421,714	4.56	June 1, 2027	6,565,491
Series 2006-2 Agreement	8,183,000	0.250	7,999,509	4.84	June 1, 2027	8,189,849
Series 2008-1 Agreement	10,030,000	2.000	9,927,034	4.10	June 1, 2028	10,125,216

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

### **NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

The following is a schedule of interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Proprietary Portfolio	Leveraged Loan Portfolio	\$ 1,067,921
Total Due to Other Funds – Statement of Net Position		<u>\$ 1,067,921</u>

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

### **NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS**

#### ***REVENUE OBLIGATION BONDS***

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 839,305,000	\$ 230,295,000	\$ 187,490,000*	\$ 882,110,000	\$ 117,365,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(6,681,681)	(16,468,310)	(1,561,560)	(21,588,431)	-
Premiums/discounts	<u>41,415,986</u>	<u>45,456,612</u>	<u>14,333,549</u>	<u>72,539,049</u>	-
Totals	<u>\$ 874,039,305</u>	<u>\$ 259,283,302</u>	<u>\$ 200,261,989</u>	<u>\$ 933,060,618</u>	<u>\$ 117,365,000</u>

\* Includes \$187,490,000 of refunded bonds.

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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

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

Revenue obligation serial and term bonds as of June 1, 2013 consisted of the following:

	<u>2013</u>
1998 Series 2:	
Serial Bonds, no optional redemption, June 1, 2017	\$ 44,330,000
Unamortized premium on bonds	461,770
	<u>44,791,770</u>
2002 Series 2:	
Serial Bonds, no optional redemption, June 1, 2016	19,870,000
Unamortized premium on bonds	256,895
	<u>20,126,895</u>
2004 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	9,365,000
Unamortized premium on bonds	66,456
	<u>9,431,456</u>
2004 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	78,620,000
Unamortized premium on bonds	2,035,177
	<u>80,655,177</u>
2006 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	13,310,000
Unamortized premium on bonds	228,711
	<u>13,538,711</u>
2006 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	12,170,000
Unamortized premium on bonds	142,636
	<u>12,312,636</u>
2008 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	87,260,000
Unamortized premium on bonds	4,038,564
	<u>91,298,564</u>

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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

<i>REVENUE OBLIGATION BONDS</i> (cont.)	<u>2013</u>
2008 Series 2:	
Serial Bonds, no optional redemption, June 1, 2018	\$ 27,335,000
Unamortized premium on bonds	1,627,935
	<u>28,962,935</u>
2008 Series 3:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	82,790,000
Unamortized premium on bonds	1,288,289
	<u>84,078,289</u>
2010 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	63,660,000
Unamortized premium on bonds	3,962,026
	<u>67,622,026</u>
2010 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	14,070,000
Unamortized premium on bonds	1,484,076
	<u>15,554,076</u>
2010 Series 3:	
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	<u>49,690,000</u>
2010 Series 4:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	112,585,000
Unamortized premium on bonds	10,178,766
	<u>122,763,766</u>
2010 Series 5:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	36,760,000
Unamortized premium on bonds	4,479,459
	<u>41,239,459</u>
2012 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2033	55,000,000
Unamortized premium on bonds	8,545,832
	<u>63,545,832</u>
2012 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2024	92,450,000
Unamortized premium on bonds	17,965,083
	<u>110,415,083</u>

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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

### REVENUE OBLIGATION BONDS (cont.)

	2013
2013 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2027	\$ 82,845,000
Unamortized premium on bonds	15,777,374
	98,622,374
Total of All Series	954,649,049
Unamortized deferred charge related to debt defeasance (Note 7)	(21,588,431)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 933,060,618

The original issue discount or premium at issuance and the interest rates at June 1, 2013, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
2002 Series 2	(7,344,000)	3.00 – 5.50%
2004 Series 1	(6,632,300)	4.00 – 5.00%
2004 Series 2	(11,408,668)	3.25 – 5.25%
2006 Series 1	(4,951,135)	3.50 – 5.00%
2006 Series 2	(4,359,628)	4.00 – 5.00%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%
2008 Series 3	(2,764,120)	3.00 – 5.00%
2010 Series 1	(5,917,653)	3.00 – 5.00%
2010 Series 2	(2,065,947)	5.00%
2010 Series 3	-	3.957% - 5.441%
2010 Series 4	(13,528,717)	3.00 – 5.00%
2010 Series 5	(5,845,742)	5.00%
2012 Series 1	(9,195,497)	2.00 – 5.00%
2012 Series 2	(20,160,489)	3.96 – 5.00%
2013 Series 1	(16,100,626)	4.50 – 5.00%

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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

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

Principal maturities of the bonds, net of advance refundings, as of June 1, 2013, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 117,365,000	\$ 60,983,063	\$ 178,348,063
2015	58,400,000	37,532,446	95,932,446
2016	59,935,000	34,657,283	94,592,283
2017	60,775,000	31,729,096	92,504,096
2018	60,510,000	28,824,553	89,334,553
2019-2023	262,370,000	103,269,259	365,639,259
2024-2028	194,865,000	43,589,776	238,454,776
2029-2033	67,890,000	7,607,749	75,497,749
Totals	<u>\$ 882,110,000</u>	<u>\$ 348,193,225</u>	<u>\$ 1,230,303,225</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2013, the total assets of the Leveraged Loan Portfolio were \$1,201,995,281. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

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

### *RESTRICTED ASSETS*

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheets consist of substantially all of the Bayerische Landesbank investment (Note 3) and \$96.9 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

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## NOTE 7 – ADVANCE REFUNDING

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In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of \$104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2013, there was \$34,030,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

### NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 1, 2013

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

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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, 2013, there was \$14,300,000 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, 2013, there was \$66,630,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

In 2008, the Fund defeased a portion of its 1998 Series 1 and 2001 Series 1 bonds through the issuance of \$27,335,000 of 2008 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2013, there was \$28,100,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

In 2010, the Fund defeased a portion of its 2001 Series 1 bonds through the issuance of \$14,070,000 of 2010 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2013, there was \$14,990,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

In 2010, the Fund defeased a portion of its 2002 Series 1 bonds through the issuance of \$36,760,000 of 2010 Series 5 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2013, there was \$39,510,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

In 2012, the Fund defeased a portion of its 2004 Series 1 and 2006 Series 2 bonds through the issuance of \$92,450,000 of 2012 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, 2013, there was \$101,245,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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

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The cash flow requirements on the refunded bonds prior to the 2012 advance refunding was \$139,996,663 from 2012 through 2024. The cash flow requirements on the 2012, Series 2 refunding bonds are \$127,759,427 from 2013 through 2027. 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 \$10,690,707.

In 2013, the Fund defeased a portion of its 2006 Series 1 and 2006 Series 2 bonds through the issuance of \$82,845,000 of 2013 Series 1 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, 2013, there was \$86,245,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2013 advance refunding was \$130,895,350 from 2013 through 2027. The cash flow requirements on the 2013, Series 1 refunding bonds are \$121,981,220 from 2013 through 2027. 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 \$7,659,999.

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### NOTE 8 – GLOBAL CERTIFICATES

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In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for \$116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program ("Global Certificate"). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2013 is \$58,517,755 and 0.00%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In February 2007, two additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for \$13,148,554 and \$6,851,446 (par value). The estimated market value and weighted average coupon interest rates of the Global Certificates at June 1, 2013 were \$12,645,201 and 5.48% and \$8,455,729 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In June 2008, two State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for \$16,600,000 and \$10,300,000 (par value). The estimated market values of the Global Certificates at June 1, 2013 were \$21,869,142 and \$10,300,000. The weighted average coupon interest rate for the \$16,600,000 Global Certificate at June 1, 2013 was 6.16%. The Bonds are registered in the name of the Fund and held by an independent trustee.

In January 2009, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for \$17,700,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2013 were \$22,282,956 and 5.78%, respectively.

In April 2010, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for \$15,243,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2013 were \$18,320,492 and 5.47%, respectively. The Bond is registered in the name of the Portfolio and held by an independent trustee.

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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

In December 2010, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$15,000,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2013, were \$18,867,960 and 5.96%, respectively.

In April 2012, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program (“Global Certificate”) for \$12,300,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2013 were \$12,563,417 and 2.89%, respectively.

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

Years Ending June 1,	2013
2014	\$ 5,885,021
2015	6,863,280
2016	7,791,289
2017	11,225,350
2018	12,724,630
2019-2023	47,215,237
2024-2028	40,173,090
2029-2031	29,954,000
Totals	\$ 161,831,897

### 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, 2013:

Interest	
State of Wisconsin Investment Board Local Government Investment Pool	\$ 242,794
Repurchase Agreement with Bayerische Landesbank	493,864
United States Treasury Notes	2,394,120
State of Wisconsin General Obligation Bonds	5,206,500
Federal Interest on Build America Bonds	795,211
Total Interest	9,132,489
Changes in Realized and Unrealized Gains (Losses)	
State of Wisconsin General Obligation Bonds	(9,765,615)
Total Interest and Changes in Unrealized Gains (Losses)	(633,126)
Change in Estimated Rebtable Arbitrage Liability	(374,836)
TOTAL INVESTMENT INCOME (LOSS)	\$ (1,007,962)

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2013

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## **NOTE 10 – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS**

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The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*; Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Application of these standards may restate portions of these financial statements.

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## **NOTE 11 – COMMITMENTS AND CONTINGENCIES**

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Occasionally the EIF is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the state legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the EIF's financial position or results of operations.

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)  
For the Year Ended June 1, 2013

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