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**State of Wisconsin**  
**Event Filing #2017-19**  
Dated November 10, 2017

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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  
Environmental Improvement Fund Revenue Bonds

**CUSIP Numbers:** 97709T Prefix (All) 977092 Prefix (All)

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

Attached are the financial statements for the years ended June 30, 2017 and June 30, 2016, supplemental information for the year ended June 30, 2017, and independent auditor's report for the State of Wisconsin Environmental Improvement Fund.

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, 2017.

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:

[doa.wi.gov/capitalfinance](http://doa.wi.gov/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/ DAVID R. ERDMAN

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**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2017 and 2016

AND

SUPPLEMENTAL INFORMATION

As of and for the Year Ended June 30, 2017

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

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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, 2017 and 2016 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 an enterprise fund of the State of Wisconsin, as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

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, 2017 and 2016, and the changes in financial position, or cash flows for the years 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.

### ***Other Matters***

#### ***Required Supplementary Information***

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.

#### ***Supplementary 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 are fairly stated in all material respects, in relation to the financial statements as a whole.

#### ***Other Information***

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 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 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 6, 2017 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 the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
November 6, 2017

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET POSITION  
As of June 30, 2017 and 2016

	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets		
Unrestricted cash and cash equivalents	\$ 243,585,734	\$ 473,557,839
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	45,669,251
Receivables		
Loans to local governments - current portion	184,398,752	176,314,894
Due from other funds	213,665	111,248
Due from other governmental entities	19,576,253	10,637,631
Accrued investment income	76,956	190,009
Other	50,490	-
Prepaid items	16,908	16,912
Total Current Assets	447,918,758	706,497,784
Noncurrent Assets		
Restricted assets - cash equivalents	-	93,918,196
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	187,049,829
Loans to local governments	1,814,630,149	1,794,103,762
Advances to other funds	6,270,618	6,238,282
Prepaid items	99,914	116,802
Total Noncurrent Assets	1,821,000,681	2,081,426,871
Total Assets	2,268,919,439	2,787,924,655
Deferred Outflows of Resources		
Pension related amounts	104,795	174,945
Unamortized charges	4,292,133	30,433,129
Total Deferred Outflows of Resources	4,396,928	30,608,074
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,273,316,367</b>	<b>\$ 2,818,532,729</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
Current Liabilities		
Accrued expenses	\$ 124,283	\$ 220,052
Accrued interest on bonds	1,093,008	2,743,258
Due to other funds	2,627,774	3,960,037
Due to other governmental entities	727	3,226
Unearned revenue	-	171,448
Compensated absences - current portion	142,836	143,259
Revenue obligation bonds - current maturities	90,550,000	54,105,000
Total Current Liabilities	94,538,628	61,346,280
Noncurrent Liabilities		
Accrued expenses	34,687	29,225
Net pension liability	11,134	30,126
Due to other governmental entities	552,308	622,846
Compensated absences	426,910	412,116
Revenue obligation bonds (including unamortized premium)	271,470,288	705,383,205
Total Noncurrent Liabilities	272,495,327	706,477,518
Total Liabilities	367,033,955	767,823,798
Deferred Inflows of Resources		
Pension related amounts	44,908	64,249
Net Position		
Restricted for environmental improvement	1,898,511,439	2,035,171,238
Unrestricted	7,726,065	15,473,444
Total Net Position	1,906,237,504	2,050,644,682
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 2,273,316,367</b>	<b>\$ 2,818,532,729</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, 2017 and 2016

	2017	2016
<b>OPERATING REVENUES</b>		
Loan interest	\$ 34,498,166	\$ 34,343,107
Interest income used as security for revenue bonds	15,299,980	17,054,674
Miscellaneous other	22,131	25,416
<b>Total Operating Revenues</b>	<b>49,820,277</b>	<b>51,423,197</b>
 <b>OPERATING EXPENSES</b>		
Interest	50,480,172	29,538,619
Salaries and benefits	5,145,146	5,179,700
Contractual services and other	3,296,912	3,081,795
<b>Total Operating Expenses</b>	<b>58,922,230</b>	<b>37,800,114</b>
 Operating Income (loss)	<b>(9,101,953)</b>	<b>13,623,083</b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	2,399,296	1,792,399
Investment income used as security for revenue bonds	1,654,203	27,126,574
Other revenues	5,448,000	-
Intergovernmental grants	56,723,191	42,986,116
Grants awarded	(15,166,572)	(7,095,325)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>51,058,118</b>	<b>64,809,764</b>
 <b>INCOME BEFORE TRANSFERS</b>	<b>41,956,165</b>	<b>78,432,847</b>
Transfers in	8,214,266	3,123,935
Transfers out	(25,213,157)	(22,153,141)
 <b>INCOME (LOSS) BEFORE SPECIAL ITEM</b>	<b>24,957,274</b>	<b>59,403,641</b>
Special item - Forgiven Global Certificates	<b>(169,364,452)</b>	<b>-</b>
<b>Increase (Decrease) in Net Position</b>	<b>(144,407,178)</b>	<b>59,403,641</b>
 TOTAL NET POSITION - Beginning of Year	<b>2,050,644,682</b>	<b>1,991,241,041</b>
 <b>TOTAL NET POSITION - END OF YEAR</b>	<b>\$ 1,906,237,504</b>	<b>\$ 2,050,644,682</b>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collection of loans	\$ 181,880,004	\$ 180,499,126
Interest received on loans	49,848,722	51,776,085
Origination of loans	(210,490,248)	(112,052,909)
Payments to employees for services	(6,365,325)	(1,832,792)
Payments to suppliers and other	(3,750,192)	(3,533,714)
Other operating revenues	22,131	25,416
Net Cash Flows From Operating Activities	<u>11,145,092</u>	<u>114,881,212</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Intergovernmental grants received	47,562,546	40,457,398
Grants paid	(15,166,572)	(7,095,325)
Transfers in	8,214,266	3,123,935
Transfers out	(25,213,157)	(22,153,141)
Proceeds from issuance of long-term debt	290,575,000	50,849,745
Debt premium received	28,543,314	-
Debt issuance costs	(1,045,176)	-
Retirement of long-term debt	(54,105,000)	(63,180,000)
Payment to escrow agent	(608,841,405)	-
Interest payments	(32,919,096)	(32,031,579)
Advances to other funds	(33,336)	(15,133)
Other cash flows from noncapital financing activities	5,450,132	-
Net Cash Flows From Noncapital Financing Activities	<u>(356,978,484)</u>	<u>(30,044,100)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Arbitrage rebate	(569,322)	-
Liquidation of investments	12,069,803	8,291,809
Investment and interest income	10,442,610	10,162,398
Net Cash Flows From Investing Activities	<u>21,943,091</u>	<u>18,454,207</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(323,890,301)</b>	<b>103,291,319</b>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>567,476,035</u>	<u>464,184,716</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 243,585,734</u></b>	<b><u>\$ 567,476,035</u></b>

	<u>2017</u>	<u>2016</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (9,101,953)	\$ 13,623,083
Adjustments to Reconcile Operating Income (loss) to Net Cash Flows From Operating Activities		
Interest expense classified as noncapital financing activity	50,283,194	28,968,085
Changes in assets and liabilities		
Receivables	(50,490)	-
Loans to other governments	(28,610,244)	68,446,219
Due from other funds	(103,653)	(377,091)
Proportionate share of contributions	50,809	(63,111)
Prepaid items	16,891	20,156
Compensated absences	14,372	469,575
Other assets	-	81,886
Other post employment benefits	5,460	400
Accrued expenses	(77,343)	100,463
Accrued interest on bonds	50,575	378,302
Due to other funds	(1,330,027)	3,453,922
Due to other governmental entities	(2,499)	(220,677)
Total Adjustments	<u>20,247,045</u>	<u>101,258,129</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 11,145,092</u>	<u>\$ 114,881,212</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>		
Unrestricted cash and cash equivalents - statement of net position	\$ 243,585,734	\$ 473,557,839
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	-	45,669,251
Investments in State of Wisconsin general obligation clean water bonds	-	187,049,829
Restricted cash and cash equivalents - statement of net position	-	93,918,196
Total Cash and Investments	<u>243,585,734</u>	<u>800,195,115</u>
Less: Noncash equivalents	-	<u>(232,719,080)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 243,585,734</u>	<u>\$ 567,476,035</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>		
Net change in unrealized gains and losses	<u>\$ (5,660,028)</u>	<u>\$ 18,729,948</u>
Bond premium amortization	<u>\$ 1,409,486</u>	<u>\$ 22,841,572</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, 2017 and 2016

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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 Clean Water Revenue 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. During fiscal 2017, all of the Clean Water Revenue Bonds were defeased and the municipal loans were sold to and purchased by the Direct Loan Portfolio (see Notes 6 and 9).
- > **Direct Loan Portfolio** – This portfolio is funded by the U.S. Environmental Protection Agency (the “EPA”) grants and proceeds from the issuance of Environmental Improvement Fund Revenue Bonds (i.e., a minimum 20% match of EPA capitalization grant). Repayments from loans in this portfolio and proceeds from the issuance of Environmental Improvement Fund Revenue Bonds (i.e., in addition to the amount needed for match requirements of EPA capitalization grants) are 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, 2017 and 2016, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2017 and 2016, 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 February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented July 1, 2015.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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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 loss of \$9.1 million and net operating income of \$13.6 million in 2017 and 2016, respectively. Management anticipates the Fund will periodically incur net operating losses. 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 \$56.7 million and \$43.0 million in 2017 and 2016, respectively, and are classified as intergovernmental grants. Transfers from the State of Wisconsin were approximately \$8.2 million and \$3.1 million in 2017 and 2016, 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).

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.

**United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements**—The Fund held United States Treasury Notes as investments at June 30, 2016 and recorded the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4). During the most recent fiscal year under audit the Fund used these investments for the redemption of the outstanding Clean Water Bonds.

Accounting standards require that investments in participating interest-earning investment contracts be reported at fair value. The four forward delivery agreements with Wells Fargo (formerly Wachovia) and two forward delivery agreements with JP Morgan Chase Bank described in Note 4 would be considered participating investment contracts under current accounting standards. 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, 2017, the fair value of the Fund's interest in these agreements was \$0. At June 30, 2016, the fair value of the Fund's interest in these agreements was above the cost of the treasury securities owned by \$935,503.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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

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**Comparative Data** – Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

**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 Outflows of Resources** – A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

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 deferred outflow of resources.

**Cash Equivalents** – The Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

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.

**Deferred Inflows of Resources** – A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

**Net Position** – Net position is 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 \$56.7 million and \$43.0 million of EPA contributions in 2017 and 2016, respectively.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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

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**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 12 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, 2017 and 2016 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 0% to 4.95% in both 2017 and 2016. The weighted average interest rate was 2.559% and 2.468% at June 30, 2017 and 2016, respectively. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment.

In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary. At June 30, 2017 and 2016, all loan repayments were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2017 and 2016, \$558,783,122 and \$600,582,530 (28% and 30%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program, Safe Drinking Water Loan Program, and Land Recycling Loan Program entered into \$114,315,408 of new loans and \$38,285,883 of new grants during fiscal year 2017. For fiscal year 2016, these same programs entered into \$230,887,026 of new loans and \$9,499,885 of new grants. As of June 30, 2017, they had undisbursed commitments of \$120,155,336 relating to loans and \$26,948,248 relating to grants. For fiscal year 2016, they had undisbursed commitments of \$226,576,537 relating to loans and \$3,705,271 relating to grants. From July 1, 2017 to August 9, 2017, the Fund made additional loan disbursements of \$14,637,328 for financial assistance agreements that were outstanding prior to June 30, 2017. \$0 of additional loans were executed between July 1, 2017 and August 9, 2017. 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).

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2017 and 2016, cash and cash equivalents consisted of the following:

	2017	2016
Money market mutual funds	\$ 131,941,799	\$ 142,900,034
Local Government Investment Pool (“LGIP”), at fair value	111,617,714	424,575,519
Cash held by custodian	25,846	-
Miscellaneous cash	375	482
	243,585,734	567,476,035
Less: Amounts classified as restricted assets (see Note 6)	-	(93,918,196)
Total Unrestricted Cash and Cash Equivalents	\$ 243,585,734	\$ 473,557,839

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, 2017, the current yield on the LGIP was 0.77%, compared to 0.42% as of June 30, 2016. The LGIP investment is stated at fair value.

As of June 30, 2017	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 111,617,714	N/A	Not rated	N/A	N/A	N/A	45.8%
Money market mutual funds	131,941,799	N/A	AAA	Weighted avg. maturity 60 days or less	Within 397 days	N/A	54.2

  

As of June 30, 2016	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 424,575,519	N/A	Not rated	N/A	N/A	N/A	53.1%
Treasury notes – Forward delivery	45,669,251	\$0	N/A	See Note 4	N/A	N/A	5.6
GO Bonds-WI	187,049,829	\$0	Aa2	5-1-33 final maturity	N/A	N/A	23.4
Money market mutual funds	142,900,034	N/A	AAA	Weighted avg. maturity 60 days or less	Within 397 days	N/A	17.9

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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

The Environmental Improvement Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- > State of WI General Obligation Bonds – The fair value calculation used a present value approach and utilized known market spreads.

Investment Type	June 30, 2016			Total
	Level 1	Level 2	Level 3	
State of WI General Obligation Bonds	<u>\$ -</u>	<u>\$ 187,049,829</u>	<u>\$ -</u>	<u>\$ 187,049,829</u>

### **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 Clean Water Revenue Bonds (see Note 6). Four of the agreements are with Wells Fargo (formerly Wachovia) 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 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, 2006 Series 2, and 2008 Series 1 Clean Water Revenue Bonds.

Every six months during the term of the agreements, Wells Fargo 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 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.

By GASB definition, these securities are classified as having no exposure to custodial credit risk. As of June 30, 2017, the Forward Delivery Agreements had no value as they were terminated during the year due to and used for the redemption of Clean Water Revenue Bonds.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

### 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, 2016, 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	\$ 7,169,000	0.500%	\$ 6,992,075	5.58%	June 1, 2017	\$ 7,174,601
Series 1998-1 Agreement	7,456,000	0.500	7,292,832	5.01	June 1, 2018	7,461,825
Series 1999-1 Agreement	7,119,000	0.500	6,918,903	6.32	June 1, 2020	7,124,562
Series 2006-1 Agreement	6,539,000	0.875	6,422,000	4.56	June 1, 2027	6,554,070
Series 2006-2 Agreement	8,158,000	0.875	8,000,000	4.84	June 1, 2027	8,178,802
Series 2008-1 Agreement	10,105,000	0.500	9,927,500	4.10	June 1, 2028	10,112,895

### 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 at June 30, 2017 and 2016:

Transferred To	Transferred From	June 30, 2017 Amount	June 30, 2016 Amount	Principal Purpose
Proprietary Portfolio	Capital Improvement	\$ 5,315,066	\$ 59,335	Future debt service
Safe Drinking Water Loan Program	Capital Improvement	2,899,200	3,064,600	State match
Bond Security and Redemption Debt Service Fund Program	Direct Loan Portfolio	8,000,000	8,000,000	G.O. bond debt service
Debt Service Fund Program	Proprietary Portfolio	11,600	9,148	Personal services
Debt Service Fund Program	Leveraged Loan Portfolio	17,201,557	14,143,993	Excess subsidy return
Direct Loan Portfolio	Leveraged Loan Portfolio	47,665,457	-	Defeasance of Clean Water Revenue bonds
Subtotal		81,092,880	25,277,076	
Less: Eliminations		(47,665,457)	(6,247,870)	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Position		<u>\$ 33,427,423</u>	<u>\$ 19,029,206</u>	

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## 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.

Clean Water Revenue Bonds activity as of June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 634,815,000	\$ -	\$ 634,815,000	\$ -	\$ -
Add:					
Unamortized premiums	<u>78,086,745</u>	<u>-</u>	<u>78,086,745</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 712,901,745</u>	<u>\$ -</u>	<u>\$ 712,901,745</u>	<u>\$ -</u>	<u>\$ -</u>

Clean Water Revenue Bonds activity as of June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 706,345,000	\$ 254,125,000	\$ 325,655,000	\$ 634,815,000	\$ 51,830,000
Add:					
Unamortized premiums	<u>52,370,909</u>	<u>47,969,199</u>	<u>22,253,363</u>	<u>78,086,745</u>	<u>-</u>
Totals	<u>\$ 758,715,909</u>	<u>\$ 302,094,199</u>	<u>\$ 347,908,363</u>	<u>\$ 712,901,745</u>	<u>\$ 51,830,000</u>

Environmental Improvement Fund Revenue Bonds activity as of June 30, 2017 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 40,135,000	\$ 290,575,000	\$ 2,275,000	\$ 328,435,000	\$ 90,550,000
Add:					
Unamortized premiums	<u>6,451,460</u>	<u>28,543,314</u>	<u>1,409,486</u>	<u>33,585,288</u>	<u>-</u>
Totals	<u>\$ 46,586,460</u>	<u>\$ 319,118,314</u>	<u>\$ 3,684,486</u>	<u>\$ 362,020,288</u>	<u>\$ 90,550,000</u>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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

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

Clean Water revenue obligation serial and term bonds as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
1998 Series 2:		
Serial Bonds, no optional redemption, June 1, 2017	\$ -	\$ 5,665,000
Unamortized premium on bonds	-	32,959
	-	5,697,959
2008 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018 (refunded July 15, 2015)	-	8,855,000
Unamortized premium on bonds	-	181,865
	-	9,036,865
2008 Series 2:		
Serial Bonds, no optional redemption, June 1, 2018	-	21,965,000
Unamortized premium on bonds	-	451,100
	-	22,416,100
2008 Series 3:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018 (refunded July 15, 2015)	-	13,685,000
Unamortized premium on bonds	-	107,003
	-	13,792,003
2010 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	-	14,070,000
Unamortized premium on bonds	-	874,962
	-	14,944,962
2010 Series 3:		
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	-	49,690,000

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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

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

	2017	2016
2010 Series 4:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031 (refunded April 12, 2016)	\$ -	\$ 19,250,000
Unamortized premium on bonds	-	1,048,837
	-	20,298,837
2010 Series 5:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	-	36,760,000
Unamortized premium on bonds	-	2,675,141
	-	39,435,141
2012 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2033	-	49,035,000
Unamortized premium on bonds	-	6,259,189
	-	55,294,189
2012 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2024	-	83,220,000
Unamortized premium on bonds	-	9,952,628
	-	93,172,628
2013 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2027	-	78,495,000
Unamortized premium on bonds	-	10,482,746
	-	88,977,746
2015 Series 1:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2028	-	133,235,000
Unamortized premium on bonds	-	20,656,447
	-	153,891,447
2016 Series 1:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2031	-	120,890,000
Unamortized premium on bonds	-	25,363,868
	-	146,253,868
Total of Clean Water Revenue Series	\$ -	\$ 712,901,745

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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

### REVENUE OBLIGATION BONDS (cont.)

Environmental Improvement Fund revenue obligation serial and term bonds as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
2015 Series A:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2030	\$ 37,860,000	\$ 40,135,000
Unamortized premium on bonds	5,496,768	6,451,460
	43,356,768	46,586,460
2017 Series A:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2035	218,705,000	-
Unamortized premium on bonds	28,088,520	-
	246,793,520	-
2017 Series B:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	71,870,000	-
Total Environmental Improvement Fund Revenue Series	362,020,288	46,586,460
Total of All Series	\$ 362,020,288	\$ 759,488,205

The original premium at issuance and the interest rates for Clean Water Revenue Bonds outstanding at June 30, 2016, were the following:

Series	Original Issue (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
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 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%
2015 Series 1	(23,504,408)	3.75 – 5.00%
2016 Series 1	(24,464,791)	2.00 – 5.00%

\* - The effect of the interest rate subsidy on the 2010 Series 3 Revenue Bonds through June 1, 2025 is \$3,784,152.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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

### REVENUE OBLIGATION BONDS (cont.)

The original premium at issuance and the interest rates for Environmental Improvement Fund Revenue Bonds outstanding at June 30, 2017, was the following:

Series	Original Issue (Premium)	Interest Rates
2015 Series A	\$ (7,039,669)	3.00 – 5.00%
2017 Series A	(28,543,314)	3.00 – 5.00%
2017 Series B	-	1.30%

Principal and interest due on the Clean Water Revenue Bonds, net of advance refundings, as of June 30, 2016, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2017	\$ 51,830,000	\$ 30,912,345	\$ 82,742,345
2018	60,615,000	28,455,053	89,070,053
2019	55,425,000	25,481,914	80,906,914
2020	54,895,000	22,763,614	77,658,614
2021	51,080,000	20,068,834	71,148,834
2022-2026	230,620,000	64,961,311	295,581,311
2027-2031	124,200,000	18,055,812	142,255,812
2032-2033	6,150,000	410,750	6,560,750
Totals	\$ 634,815,000	\$ 211,109,633	\$ 845,924,633

Principal and interest due on the Environmental Improvement Fund Revenue Bonds as of June 30, 2017, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2018	\$ 90,550,000	\$ 13,276,430	\$ 103,826,430
2019	84,080,000	11,894,250	95,974,250
2020	9,375,000	7,690,250	17,065,250
2021	8,790,000	7,221,500	16,011,500
2022	9,230,000	6,782,000	16,012,000
2023-2027	49,490,000	26,774,250	76,264,250
2028-2032	49,490,000	13,892,500	63,382,500
2033-2035	27,430,000	2,787,750	30,217,750
Totals	\$ 328,435,000	\$ 90,318,930	\$ 418,753,930

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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

### REVENUE OBLIGATION BONDS (cont.)

Principal and interest due on the Environmental Improvement Fund Revenue Bonds as of June 30, 2016, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2017	\$ 2,275,000	\$ 2,006,750	\$ 4,281,750
2018	2,390,000	1,893,000	4,283,000
2019	2,510,000	1,773,500	4,283,500
2020	2,640,000	1,648,000	4,288,000
2021	2,770,000	1,516,000	4,286,000
2022-2026	12,150,000	5,427,500	17,577,500
2027-2030	15,400,000	1,971,750	17,371,750
Totals	<u>\$ 40,135,000</u>	<u>\$ 16,236,500</u>	<u>\$ 56,371,500</u>

The Clean Water Revenue Bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2016, the total assets of the Leveraged Loan Portfolio was \$923,853,799. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Clean Water Revenue Bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Clean Water 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.

Clean Water Revenue 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. Environmental Improvement Fund Revenue Bonds are payable only from revenues derived from 1) pledged loan amounts, 2) amounts in the Loan Fund, Reserve Fund (if any), and 3) all other pledged receipts.

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay outstanding revenue bonds. 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. Specifics of these requirements are as follows:

Type of Revenue Bonds	Outstanding	Issuance Dates	Maturity Through	Percentage of Revenues to Pay Principal and Interest	Principal and Interest Outstanding	Principal and Interest Paid In Current Year	Total Net Revenues
Environmental Improvement Fund	\$ 328.4 M	2015 - 2017	2035	19%	\$ 418.75 M	\$ 4.28 M	\$ 122 M

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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

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### *ADVANCE REFUNDINGS*

In 2017, the Fund legally defeased the following Clean Water Revenue Bonds:

Series	Amounts
2008-1	\$ 4,540,000
2008-2	11,260,000
2008-3	8,450,000
2010-2	14,070,000
2010-4	14,770,000
2010-5	36,760,000
2012-1	46,930,000
2012-2	73,915,000
2013-1	74,815,000
2015-1	131,505,000
2016-1	120,890,000
Total	<u>\$ 537,905,000</u>

In addition, \$45,080,000 of 2010 Series 3 Clean Water Revenue Bonds were economically defeased.

These advance refundings were from the issuance of \$218,705,000 of 2017 Series A Environmental Improvement Fund Revenue Bonds, of which \$88,115,000 was used for the defeasance, with an average coupon rate of 4.87% and refunded bonds with an average coupon rate of 4.97%. The second issuance was for \$71,870,000 of 2017 Series B (Taxable) Environmental Improvement Fund Revenue Bonds with an average coupon rate of 1.30% and refunded bonds with an average coupon rate of 4.88%. The proceeds, along with \$488,887,709 of funds on hand, were used to purchase the 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, 2017, there was \$537,905,000 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 2017 advance refunding was \$759,659,242 from 2017 through 2033. The cash flow requirements on the 2017 Series A refunding bonds are \$96,148,365 from 2017 through 2035 and the cash flow requirements on the 2017 Series B refunding bonds are \$72,791,333 from 2017 through 2018. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$4,906,529 for the 2017 Series A refunding bonds and \$84,820,684 for the 2017 Series B refunding bonds.

### *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 at June 30, 2016 consist of \$93.9 million of the LGIP balance held as a credit reserve. This amount is 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, 2017 and 2016

### NOTE 7 – DEBT REFUNDING

#### *PRIOR-YEAR DEFEASANCE OF DEBT*

In prior years, the Fund defeased certain Clean Water Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2017, \$820,665,000 of bonds outstanding are considered defeased. At June 30, 2016, \$237,680,000 of bonds outstanding are considered defeased. The bonds are callable as follows:

<u>Call Date</u>	<u>Amount as of June 30, 2017</u>	<u>Amount as of June 30, 2016</u>
6/1/2018	\$ 173,995,000	\$ 113,380,000
6/1/2019	55,425,000	-
6/1/2020	234,215,000	124,300,000
6/1/2021	29,125,000	-
6/1/2022	76,140,000	-
6/1/2023	85,900,000	-
6/1/2024	165,865,000	-

### NOTE 8 – GLOBAL CERTIFICATE AND STATE OF WISCONSIN GENERAL OBLIGATION BONDS

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for a State of Wisconsin General Obligation Bond as part of the Clean Water Program ("Global Certificate"). Subsequent to the Global Certificate, additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program with the purpose to provide sufficient revenue to make all payments on debt service on the Clean Water Revenue Bonds. In connection with the refunding of all outstanding Clean Water Revenue Bonds, the value of the Global Certificate and State of Wisconsin General Obligation bonds is \$0 as of June 30, 2017.

The details of the investments as of June 30, 2016 are as follows:

<u>Series</u>	<u>Par Value</u>	<u>Weighted Average Coupon Interest Rate</u>	<u>Market Value</u>
2004	\$ 52,867,890	0.00%	\$ 49,590,988
2007A	8,129,971	5.54	9,860,266
2007B	6,851,446	5.76	9,238,820
2008A	10,300,000	Less than 1%	10,300,000
2008B	16,600,000	6.16	23,465,906
2009A	15,500,000	5.90	19,327,406
2010A	15,243,000	5.47	20,611,113
2010B	15,000,000	5.96	21,416,898
2012A	11,100,000	3.10	12,375,611
2014A	9,300,000	3.56	10,862,821
Totals	<u>\$ 160,892,307</u>		<u>\$ 187,049,829</u>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

## **NOTE 8 – GLOBAL CERTIFICATE AND STATE OF WISCONSIN GENERAL OBLIGATION BONDS (cont.)**

The Global Certificate and bonds listed above are all registered in the name of the Fund and held by an independent trustee.

Par value of the principal maturities of the Global Certificate and State of Wisconsin General Obligation bonds as of June 30 excluding the 2008A issue which does not have a repayment schedule are as follows:

Years Ending June 30,	2017	2016
2017	\$ -	\$ 12,025,350
2018	-	13,424,630
2019	-	11,522,163
2020	-	10,887,904
2021	-	8,723,476
2022-2026	-	43,317,960
2027-2031	-	46,990,824
2032-2033	-	3,700,000
	\$ -	\$ 150,592,307
Totals	\$ -	\$ 150,592,307

On June 6, 2017, the Global Certificate and the State of Wisconsin General Obligation Bonds were no longer required under the Clean Water Fund Program because all of the outstanding Clean Water Revenue Bonds were either legally or economically defeased. See Note 9.

## **NOTE 9 – SPECIAL ITEM**

The State of Wisconsin has issued to the Environmental Improvement Fund (“Fund”) general obligation bonds (“Subsidy Bonds”) from time to time to provide the necessary subsidy and other support for the State’s Clean Water Revenue Bonds issued under the Clean Water Bond General Resolution adopted by the State of Wisconsin’s Building Commission on March 7, 1991, as amended by resolutions adopted by the Commission on July 30, 2003 and June 28, 2006. These Subsidy Bonds have been reported in the Fund’s financial statements as an investment in the State of Wisconsin General Obligation Bonds (see Note 8). The purpose of the issuance of the Subsidy Bonds to the Fund, as specifically authorized by Section 18.06(9) of the Wisconsin Statutes, was to satisfy the General Resolution’s “Subsidy Fund Requirement” and its “Loan Credit Reserve Fund Requirement.” The Subsidy Fund Requirement is stated as the amount necessary, together with certain other projected revenues, including scheduled payments on clean water fund loans to Wisconsin municipalities, to provide sufficient revenues to make all payments of debt service on the Revenue Bonds. The Loan Credit Reserve Requirement is established based on various criteria relating to the Clean Water Fund Program Loans held under the General Resolution.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

### **NOTE 9 – SPECIAL ITEM (cont.)**

On June 6, 2017, all of the Clean Water Revenue Bonds were legally defeased, with the exception of \$45,080,000 in Clean Water Revenue Bonds 2010 Series 3 which were economically defeased. As part of this refunding, all of the loans made from Clean Water Revenue Bond Proceeds were released from the lien of the General Resolution, and sold to and purchased by the Direct Loan Portfolio. Therefore, the Loan Credit Reserve Fund requirement is now zero, and the Subsidy Bonds previously held in the Loan Credit Reserve Fund are likewise no longer required.

As a consequence, none of the Subsidy Bonds continue to be required under the terms of the General Resolution. The Fund, as registered owner of the Subsidy Bonds, surrendered the Subsidy Bonds for cancellation. The market value of the Subsidy Bonds on June 6, 2017 was \$169,364,452 and is reported as a special item in the Leveraged Loan Portfolio.

### **NOTE 10 – 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, 2017 and 2016:

	2017	2016
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 2,054,934	\$ 1,176,419
United States Treasury Notes	2,089,894	2,280,105
State of Wisconsin General Obligation Bonds	5,293,473	5,908,737
Federal Interest on Build America Bonds	774,010	872,026
Total Interest	10,212,311	10,237,287
Changes in Realized and Unrealized Gains (Losses)		
State of Wisconsin General Obligation Bonds	(5,660,028)	18,729,948
Total Interest and Changes in Unrealized Gains	4,552,283	28,967,235
Change in Estimated Rebutable Arbitrage Liability	(498,784)	(48,262)
TOTAL INVESTMENT INCOME	\$ 4,053,499	\$ 28,918,973

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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## **NOTE 11 – OPERATING GRANTS AND HARDSHIP ASSISTANCE**

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***EPA Operating Grants for Wastewater Projects***—The Federal Water Quality Act of 1987 (the “Water Quality Act”) established a joint Federal and State program with the EPA to assist in providing financial assistance to municipalities within the states for governmentally owned wastewater treatment projects. Under the terms of the EPA grant, the State was required (1) to establish the Clean Water Fund Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmental owned wastewater treatment projects in a number of ways, provided that such assistance is not in the form of a grant. Reauthorization of the Water Quality Act of 1987 is expected to result in the allocation of capitalization grants to Wisconsin of approximately \$35.8 million for federal fiscal year 2017. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2017 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 2017 and a grant to Wisconsin of approximately \$14.4 million is expected for federal fiscal year 2017.

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 Assistance***—Wisconsin statutes require that the Fund provide financial hardship assistance 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 for wastewater projects subject to limitations prescribed by the statute. At both June 30, 2017 and 2016, the Fund was committed to award \$0 of additional hardship grants. At June 30, 2017 and 2016, the Fund had projected additional hardship grants of \$0 for both years. In addition to hardship grants, the Fund was committed to award \$32,285,883 and \$9,499,885, respectively, of reduced interest rate loans. At June 30, 2017 and 2016, the Fund had projected additional reduced interest rate loans of \$15,157,970 and \$15,187,392, respectively.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2017 and 2016

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## **NOTE 12 – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS**

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The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > Statement No. 81, *Irrevocable Split-Interest Agreements*
- > Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*
- > Statement No. 83, *Certain Asset Retirement Obligations*
- > Statement No. 84, *Fiduciary Activities*
- > Statement No. 85, *Omnibus 2017*
- > Statement No. 86, *Certain Debt Extinguishment Issues*
- > Statement No. 87, *Leases*

When they become effective, application of these standards may restate portions of these financial statements.

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## **NOTE 13 – COMMITMENTS AND CONTINGENCIES**

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Occasionally the Fund 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 Fund's financial position or results of operations.

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## **NOTE 14 – RISK MANAGEMENT**

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The State of Wisconsin's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, risks are managed internally through self-insurance accounted for in an internal service fund. No separate policies exist for the Fund itself.

**SUPPLEMENTAL INFORMATION**

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Current Assets</b>			
Unrestricted cash and cash equivalents	\$ 128,710,363	\$ 8,467,928	\$ 169,714
Receivables			
Loans to local governments - current portion	156,539,367	853,628	-
Due from other funds	6,006	1,746,973	-
Due from other governmental entities	10,013,244	28,004	-
Accrued investment income	-	76,956	-
Other receivables	16,764	11,885	-
Prepaid items	-	21	16,887
Total Current Assets	<u>295,285,744</u>	<u>11,185,395</u>	<u>186,601</u>
<b>Noncurrent Assets</b>			
Loans to local governments	1,531,702,843	5,280,178	-
Advances to other funds	6,270,618	-	-
Prepaid items	-	-	99,914
Total Noncurrent Assets	<u>1,537,973,461</u>	<u>5,280,178</u>	<u>99,914</u>
 Total Assets	 <u>1,833,259,205</u>	 <u>16,465,573</u>	 <u>286,515</u>
<b>Deferred Outflows of Resources</b>			
Pension related amounts	-	104,795	-
Unamortized charges	4,292,133	-	-
Total Deferred Outflows of Resources	<u>4,292,133</u>	<u>104,795</u>	<u>-</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 1,837,551,338</u>	 <u>\$ 16,570,368</u>	 <u>\$ 286,515</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 106,237,729	\$ -	\$ 243,585,734
27,005,757	-	184,398,752
433,346	(1,972,660)	213,665
9,535,005	-	19,576,253
-	-	76,956
21,841	-	50,490
-	-	16,908
<u>143,233,678</u>	<u>(1,972,660)</u>	<u>447,918,758</u>
277,647,128	-	1,814,630,149
-	-	6,270,618
-	-	99,914
<u>277,647,128</u>	<u>-</u>	<u>1,821,000,681</u>
<u>420,880,806</u>	<u>(1,972,660)</u>	<u>2,268,919,439</u>
-	-	104,795
-	-	4,292,133
-	-	4,396,928
<u>\$ 420,880,806</u>	<u>\$ (1,972,660)</u>	<u>\$ 2,273,316,367</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Accrued expenses	\$ 463	\$ 26,021	\$ 1,000
Accrued interest on bonds	1,093,008	-	-
Due to other funds	2,237,815	486,688	-
Due to other governmental entities	-	-	-
Compensated absences - current portion	-	142,836	-
Revenue obligation bonds - current maturities	90,550,000	-	-
<b>Total Current Liabilities</b>	<u>93,881,286</u>	<u>655,545</u>	<u>1,000</u>
<b>Noncurrent Liabilities</b>			
Accrued expenses	-	34,687	-
Net pension liability	-	11,134	-
Due to other governmental entities	552,308	-	-
Compensated absences	-	426,910	-
Revenue obligation bonds (including unamortized premium)	271,470,288	-	-
<b>Total Noncurrent Liabilities</b>	<u>272,022,596</u>	<u>472,731</u>	<u>-</u>
<b>Total Liabilities</b>	<u>365,903,882</u>	<u>1,128,276</u>	<u>1,000</u>
<b>Deferred Inflows of Resources</b>			
Pension related amounts	-	44,908	-
<b>Net Position</b>			
Restricted for environmental improvement	1,471,647,456	7,671,119	285,515
Unrestricted	-	7,726,065	-
<b>Total Net Position</b>	<u>1,471,647,456</u>	<u>15,397,184</u>	<u>285,515</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 1,837,551,338</u>	<u>\$ 16,570,368</u>	<u>\$ 286,515</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 96,799	\$ -	\$ 124,283
-	-	1,093,008
1,875,931	(1,972,660)	2,627,774
727	-	727
-	-	142,836
-	-	90,550,000
<u>1,973,457</u>	<u>(1,972,660)</u>	<u>94,538,628</u>
-	-	34,687
-	-	11,134
-	-	552,308
-	-	426,910
-	-	271,470,288
-	-	<u>272,495,327</u>
<u>1,973,457</u>	<u>(1,972,660)</u>	<u>367,033,955</u>
-	-	44,908
418,907,349	-	1,898,511,439
-	-	7,726,065
<u>418,907,349</u>	-	<u>1,906,237,504</u>
<u>\$ 420,880,806</u>	<u>\$ (1,972,660)</u>	<u>\$ 2,273,316,367</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY PROGRAM  
For the Year Ended June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>OPERATING REVENUES</b>			
Loan interest	\$ 28,323,260	\$ 191,628	\$ -
Interest income used as security for revenue bonds	2,275,608	-	13,024,372
Miscellaneous other	-	22,131	-
Total Operating Revenues	<u>30,598,868</u>	<u>213,759</u>	<u>13,024,372</u>
<b>OPERATING EXPENSES</b>			
Interest	28,272,222	-	22,207,950
Salaries and benefits	2,371,409	736,779	-
Contractual services and other	565,628	106,363	191,356
Total Operating Expenses	<u>31,209,259</u>	<u>843,142</u>	<u>22,399,306</u>
Operating Income (Loss)	<u>(610,391)</u>	<u>(629,383)</u>	<u>(9,374,934)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	992,167	38,960	774,011
Investment income used as security for revenue bonds	70,538	-	1,583,665
Other revenues	-	-	5,448,000
Intergovernmental grants	39,561,483	-	-
Grants awarded	(7,058,253)	(5,300,893)	-
Total Nonoperating Revenues (Expenses)	<u>33,565,935</u>	<u>(5,261,933)</u>	<u>7,805,676</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	32,955,544	(5,891,316)	(1,569,258)
Transfers in	47,665,457	5,315,066	-
Transfers out	<u>(8,000,000)</u>	<u>(11,600)</u>	<u>(64,867,014)</u>
<b>INCOME (LOSS) BEFORE SPECIAL ITEM</b>	72,621,001	(587,850)	(66,436,272)
Special item - Forgiven Global Certificates	-	-	<u>(169,364,452)</u>
<b>Change in Net Position</b>	72,621,001	(587,850)	(235,800,724)
TOTAL NET POSITION - Beginning of Year	<u>1,399,026,455</u>	<u>15,985,034</u>	<u>236,086,239</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,471,647,456</u>	<u>\$ 15,397,184</u>	<u>\$ 285,515</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 5,983,278	\$ -	\$ 34,498,166
-	-	15,299,980
-	-	22,131
<u>5,983,278</u>	<u>-</u>	<u>49,820,277</u>
-	-	50,480,172
2,036,958	-	5,145,146
<u>2,433,565</u>	<u>-</u>	<u>3,296,912</u>
<u>4,470,523</u>	<u>-</u>	<u>58,922,230</u>
<u>1,512,755</u>	<u>-</u>	<u>(9,101,953)</u>
594,158	-	2,399,296
-	-	1,654,203
-	-	5,448,000
17,161,708	-	56,723,191
<u>(2,807,426)</u>	<u>-</u>	<u>(15,166,572)</u>
<u>14,948,440</u>	<u>-</u>	<u>51,058,118</u>
16,461,195	-	41,956,165
2,899,200	(47,665,457)	8,214,266
<u>-</u>	<u>47,665,457</u>	<u>(25,213,157)</u>
19,360,395	-	24,957,274
<u>-</u>	<u>-</u>	<u>(169,364,452)</u>
19,360,395	-	(144,407,178)
<u>399,546,954</u>	<u>-</u>	<u>2,050,644,682</u>
<u>\$ 418,907,349</u>	<u>\$ -</u>	<u>\$ 1,906,237,504</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection of loans	\$ 91,849,663	\$ 926,137	\$ 63,431,270
Interest received on loans	28,111,949	194,032	15,578,500
Origination of loans	(163,532,203)	-	-
Payments to employees for services	(2,299,109)	(610,651)	(1,125,440)
Payments to suppliers and other	(280,155)	(168,813)	(797,551)
Other operating revenues	-	22,131	-
Net Cash Flows From Operating Activities	<u>(46,149,855)</u>	<u>362,836</u>	<u>77,086,779</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental grants received	36,851,221	-	-
Grants paid	(7,058,253)	(5,300,893)	-
Transfers in	47,665,457	5,315,066	-
Transfers out	(8,000,000)	(11,600)	(64,867,014)
Proceeds from issuance of long-term debt	290,575,000	-	-
Debt premium received	28,543,314	-	-
Debt issuance costs	(1,045,176)	-	-
Retirement of long-term debt	(2,275,000)	-	(51,830,000)
Residual amount provided from defeasance of clean water revenue bonds	37,478,946	-	(37,478,946)
Payment to escrow agent	(608,841,405)	-	-
Interest payments	(2,006,750)	-	(30,912,346)
Advances to other funds	(33,336)	-	-
Other cash flows from noncapital financing activities	-	-	5,450,132
Net Cash Flows From Noncapital Financing Activities	<u>(188,145,982)</u>	<u>2,573</u>	<u>(179,638,174)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Arbitrage rebate	-	-	(569,322)
Liquidation of investments	-	-	12,069,803
Investment and interest income	992,166	81,177	8,775,109
Net Cash Flows From Investing Activities	<u>992,166</u>	<u>81,177</u>	<u>20,275,590</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(233,303,671)	446,586	(82,275,805)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>362,014,034</u>	<u>8,021,342</u>	<u>82,445,519</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 128,710,363</u>	<u>\$ 8,467,928</u>	<u>\$ 169,714</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 25,672,934	\$ -	\$ 181,880,004
5,964,241	-	49,848,722
(46,958,045)	-	(210,490,248)
(2,330,125)	-	(6,365,325)
(2,503,673)	-	(3,750,192)
-	-	22,131
<u>(20,154,668)</u>	<u>-</u>	<u>11,145,092</u>
10,711,325	-	47,562,546
(2,807,426)	-	(15,166,572)
2,899,200	(47,665,457)	8,214,266
-	47,665,457	(25,213,157)
-	-	290,575,000
-	-	28,543,314
-	-	(1,045,176)
-	-	(54,105,000)
-	-	-
-	-	(608,841,405)
-	-	(32,919,096)
-	-	(33,336)
-	-	5,450,132
<u>10,803,099</u>	<u>-</u>	<u>(356,978,484)</u>
-	-	(569,322)
-	-	12,069,803
594,158	-	10,442,610
<u>594,158</u>	<u>-</u>	<u>21,943,091</u>
(8,757,411)	-	(323,890,301)
<u>114,995,140</u>	<u>-</u>	<u>567,476,035</u>
<u>\$ 106,237,729</u>	<u>\$ -</u>	<u>\$ 243,585,734</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2017

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (610,391)	\$ (629,383)	\$ (9,374,934)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities			
Interest expense classified as noncapital financing activity	28,132,479	-	22,150,715
Changes in assets and liabilities:			
Receivables	(16,764)	(11,885)	-
Loans to other governments	(71,682,540)	926,137	63,431,270
Due from other funds	2,030	321,125	-
Proportionate share of contributions	-	50,809	-
Prepaid items	-	4	16,887
Compensated absences	-	14,372	-
Other postemployment benefits	-	5,460	-
Accrued expenses	5,319	(15,509)	(134,565)
Accrued interest on bonds	(2,486,920)	2,404	2,554,128
Due to other funds	506,932	(300,698)	(1,556,722)
Due to other governmental entities	-	-	-
Total Adjustments	<u>(45,539,464)</u>	<u>992,219</u>	<u>86,461,713</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (46,149,855)</u>	<u>\$ 362,836</u>	<u>\$ 77,086,779</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>			
Net change in unrealized gains and losses	\$ -	\$ -	\$ (5,660,028)
Bond premium amortization	<u>\$ 1,409,486</u>	<u>\$ -</u>	<u>\$ -</u>

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Safe Drinking Water Loan Program	Totals
<u>\$ 1,512,755</u>	<u>\$ (9,101,953)</u>
-	50,283,194
(21,841)	(50,490)
(21,285,111)	(28,610,244)
(426,808)	(103,653)
-	50,809
-	16,891
-	14,372
-	5,460
67,412	(77,343)
(19,037)	50,575
20,461	(1,330,027)
(2,499)	(2,499)
<u>(21,667,423)</u>	<u>20,247,045</u>
<u>\$ (20,154,668)</u>	<u>\$ 11,145,092</u>
<u>\$ -</u>	<u>\$ (5,660,028)</u>
<u>\$ -</u>	<u>\$ 1,409,486</u>

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)  
For the Years Ended June 30, 2017 and 2016

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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, 2017, and the related notes to the financial statements, which collectively comprise the State of Wisconsin Environmental Improvement Fund's financial statements, and have issued our report thereon dated November 6, 2017.

***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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control. 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 Virchow Krause, LLP*

Madison, Wisconsin  
November 6, 2017