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**State of Wisconsin**  
**Event Filing #2018-15**  
Dated November 2, 2018

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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  
Clean Water 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 including independent auditors' report for the years ended June 30, 2018 and June 30, 2017, and supplemental information for the year ended June 30, 2018, 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, 2018.

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.us/capitalfinance](http://doa.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/ DAVID R. ERDMAN

David R. Erdman, Capital Finance Director  
State of Wisconsin Capital Finance Office  
Wisconsin Department of Administration  
101 East Wilson Street, FLR 10  
Madison, WI 53703  
Phone: (608) 267-0374  
Fax: (608) 266-7645  
E-mail: [DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
Website: [doa.wi.us/capitalfinance](http://doa.wi.us/capitalfinance)

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

AND

SUPPLEMENTAL INFORMATION

As of and for the Year Ended June 30, 2018

**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, 2018 and 2017, 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.

## **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, 2018 and 2017, and the changes in financial position and cash flows for the year 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, 2018 and 2017, 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.

As discussed in Note 1, the State of Wisconsin Environmental Improvement Fund adopted the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Adoption of these standards resulted in a restatement of net position as of the beginning of the year as discussed in Note 10. 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 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  
October 31, 2018

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET POSITION  
As of June 30, 2018 and 2017

	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets		
Unrestricted cash and cash equivalents	\$ 271,060,477	\$ 243,585,734
Receivables		
Loans to local governments - current portion	184,811,079	184,398,752
Due from other funds	6,934,765	213,665
Due from other governmental entities	9,440,971	19,576,253
Accrued investment income	179,314	76,956
Other	13,137	50,490
Prepaid items	16,908	16,908
Total Current Assets	472,456,651	447,918,758
Noncurrent Assets		
Loans to local governments	1,772,088,394	1,814,630,149
Advances to other funds	6,352,148	6,270,618
Prepaid items	83,027	99,914
Net pension assets	75,810	-
Total Noncurrent Assets	1,778,599,379	1,821,000,681
Total Assets	2,251,056,030	2,268,919,439
Deferred Outflows of Resources		
Pension related amounts	121,472	104,795
OPEB related amounts - health	2,400	-
OPEB related amounts - life	3,935	-
Unamortized charges	2,175,352	4,292,133
Total Deferred Outflows of Resources	2,303,159	4,396,928
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,253,359,189</b>	<b>\$ 2,273,316,367</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
Current Liabilities		
Accrued expenses	\$ 92,970	\$ 124,283
Accrued interest on bonds	991,187	1,093,008
Due to other funds	4,335,721	2,627,774
Due to other governmental entities	26,145	727
Compensated absences - current portion	157,293	142,836
Revenue obligation bonds - current maturities	84,080,000	90,550,000
Total Current Liabilities	89,683,316	94,538,628
Noncurrent Liabilities		
Accrued expenses	-	34,687
Net pension liability	-	11,134
Net OPEB liability - health	39,910	-
Net OPEB liability - life	34,162	-
Due to other governmental entities	-	552,308
Compensated absences	479,622	426,910
Revenue obligation bonds (including unamortized premium)	180,878,825	271,470,288
Total Noncurrent Liabilities	181,432,519	272,495,327
Total Liabilities	271,115,835	367,033,955
Deferred Inflows of Resources		
Pension related amounts	127,439	44,908
OPEB related amounts - health	5,961	-
OPEB related amounts - life	313	-
Total Deferred Inflows of Resources	133,713	44,908
Net Position		
Restricted for environmental improvement	1,966,194,187	1,898,511,439
Unrestricted	15,915,454	7,726,065
Total Net Position	1,982,109,641	1,906,237,504
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 2,253,359,189</b>	<b>\$ 2,273,316,367</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, 2018 and 2017

	2018	2017
<b>OPERATING REVENUES</b>		
Loan interest	\$ 31,652,517	\$ 34,498,166
Interest income used as security for revenue bonds	16,880,168	15,299,980
Miscellaneous other	45,578	22,131
Total Operating Revenues	48,578,263	49,820,277
<b>OPERATING EXPENSES</b>		
Interest	9,542,846	50,480,172
Salaries and benefits	5,650,347	5,145,146
Contractual services and other	3,268,135	3,296,912
Total Operating Expenses	18,461,328	58,922,230
Operating Income (loss)	30,116,935	(9,101,953)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	3,392,026	2,399,296
Investment income used as security for revenue bonds	522,204	1,654,203
Other revenues	-	5,448,000
Intergovernmental grants	56,650,077	56,723,191
Grants awarded	(24,657,687)	(15,166,572)
Total Nonoperating Revenues (Expenses)	35,906,620	51,058,118
<b>INCOME BEFORE TRANSFERS</b>	66,023,555	41,956,165
Transfers in	17,880,141	8,214,266
Transfers out	(8,010,972)	(25,213,157)
<b>INCOME BEFORE SPECIAL ITEM</b>	75,892,724	24,957,274
Special item - Forgiven Global Certificates	-	(169,364,452)
<b>Increase (Decrease) in Net Position</b>	75,892,724	(144,407,178)
TOTAL NET POSITION - Beginning of Year (as restated)	1,906,216,917	2,050,644,682
<b>TOTAL NET POSITION - END OF YEAR</b>	<b>\$1,982,109,641</b>	<b>\$ 1,906,237,504</b>

See accompanying notes to financial statements.



**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collection of loans	\$ 190,355,819	\$ 181,880,004
Interest received on loans	48,976,349	49,848,722
Origination of loans	(148,226,390)	(210,490,248)
Payments to employees for services	(4,117,409)	(6,365,325)
Payments to suppliers and other	(3,630,385)	(3,750,192)
Other operating revenues	45,577	22,131
Net Cash Flows From Operating Activities	<u>83,403,561</u>	<u>11,145,092</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Intergovernmental grants received	66,341,694	47,562,546
Grants paid	(24,657,687)	(15,166,572)
Transfers in	11,046,545	8,214,266
Transfers out	(8,010,972)	(25,213,157)
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	(90,550,000)	(54,105,000)
Payment to escrow agent	-	(608,841,405)
Interest payments	(13,276,430)	(32,919,096)
Advances to other funds	-	(33,336)
Other cash flows from noncapital financing activities	(81,531)	5,450,132
Net Cash Flows From Noncapital Financing Activities	<u>(59,188,381)</u>	<u>(356,978,484)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Arbitrage rebate	(256,337)	(569,322)
Liquidation of investments	-	12,069,803
Investment and interest income	3,515,900	10,442,610
Net Cash Flows From Investing Activities	<u>3,259,563</u>	<u>21,943,091</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	27,474,743	(323,890,301)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>243,585,734</u>	<u>567,476,035</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 271,060,477</u>	<u>\$ 243,585,734</u>

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 30,116,935	\$ (9,101,953)
Adjustments to Reconcile Operating Income (loss) to Net Cash Flows From Operating Activities		
Interest expense classified as noncapital financing activity	8,779,927	50,283,194
Changes in assets and liabilities		
Receivables	37,352	(50,490)
Loans to other governments	42,129,429	(28,610,244)
Due from other funds	(1,311,275)	(103,653)
Proportionate share of contributions	65,794	50,809
Prepaid items	16,886	16,891
Compensated absences	67,169	14,372
Other assets	(75,810)	-
Other post employment benefits	18,800	5,460
Accrued expenses	(42,446)	(77,343)
Accrued interest on bonds	443,664	50,575
Due to other funds	3,131,719	(1,330,027)
Due to other governmental entities	25,417	(2,499)
Total Adjustments	<u>53,286,626</u>	<u>20,247,045</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 83,403,561</u>	<u>\$ 11,145,092</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>		
Net change in unrealized gains and losses	<u>\$ -</u>	<u>\$ (5,660,028)</u>
Bond premium amortization	<u>\$ 6,511,463</u>	<u>\$ 1,409,486</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, 2018 and 2017

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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 economically or legally defeased and the municipal loans were sold to and purchased by the Direct Loan Portfolio (see Notes 6 and 7).
- > **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, 2018 and 2017, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2018 and 2017, 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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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

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**Implementation of Accounting Standards** – In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. This Statement established requirements for financial reporting and disclosures for governments that have defined benefit and defined contribution other postemployment benefit plans administered through a trust. GASB has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statements 45 and 57, both related to OPEB plan benefits. These standards were implemented July 1, 2017. Additional footnote disclosures related to these standards have not been included within this report as amounts are not material to these financial statements. For further information, see the State of Wisconsin's Comprehensive Annual Financial Report as of and for the year ended June 30, 2018.

**Net Operating Income/Loss** – The Fund incurred net operating income of \$30.1 million and a net operating loss of \$9.1 in 2018 and 2017, 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 \$56.7 million in 2018 and 2017, respectively, and are classified as intergovernmental grants. Transfers from the State of Wisconsin were approximately \$17.9 million and \$8.2 million in 2018 and 2017, 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). The Fund has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the internal Revenue Code; the amount that must be rebated ("estimated arbitrage") to the U.S. Treasury is recorded as a reduction of investment income (see Note 8). Investment transactions are recorded on the trade date.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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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 6).

**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 \$56.7 million of EPA contributions in 2018 and 2017, respectively.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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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 primarily of capital contributions from the State of Wisconsin and are recognized as the contributions are received. Transfers out consist primarily 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, 2018 and 2017 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 2018 and 2017. The weighted average interest rate was 2.547% and 2.559% at June 30, 2018 and 2017, 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, 2018 and 2017, all loan repayments were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2018 and 2017, \$511,935,585 and \$558,783,122 (26% and 28%), 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 \$170,259,033 of new loans and \$30,500,736 of new grants during fiscal year 2018. For fiscal year 2017, these same programs entered into \$114,315,408 of new loans and \$38,285,883 of new grants. As of June 30, 2018, they had undisbursed commitments of \$134,417,083 relating to loans and \$32,248,983 relating to grants. For fiscal year 2017, they had undisbursed commitments of \$120,155,336 relating to loans and \$26,948,248 relating to grants. From July 1, 2018 to August 10, 2018, the Fund made additional loan disbursements of \$3,699,047 for financial assistance agreements that were outstanding prior to June 30, 2018. \$15,364,599 of additional loans were executed between July 1, 2018 and August 10, 2018. 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 5).

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2018 and 2017, cash and cash equivalents consisted of the following:

	2018	2017
Money market mutual funds	\$ 147,387,805	\$ 131,941,799
Local Government Investment Pool (“LGIP”)	123,646,098	111,617,714
Cash held by custodian	25,846	25,846
Miscellaneous cash	728	375
Total Unrestricted Cash and Cash Equivalents	\$ 271,060,477	\$ 243,585,734

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, 2018, the current yield on the LGIP was 1.88%, compared to 0.77% as of June 30, 2017. The LGIP investment is stated at fair value.

As of June 30, 2018	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 123,646,098	N/A	Not rated	N/A	N/A	N/A	45.6%
Money market mutual funds	147,387,805	N/A	AAA	Weighted avg. maturity 60 days or less	Within 397 days	N/A	54.4
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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### **NOTE 4 – 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, 2018 and 2017:

Transferred To	Transferred From	June 30, 2018 Amount	June 30, 2017 Amount	Principal Purpose
Proprietary Portfolio	Capital Improvement	\$ 5,612,682	\$ 5,315,066	Future debt service
Safe Drinking Water Loan Program	Capital Improvement	5,433,863	2,899,200	State match
Proprietary Portfolio	Capital Improvement	6,833,596	-	State match
Bond Security and Redemption	Direct Loan Portfolio	8,000,000	8,000,000	G.O. bond debt service
Debt Service Fund Program	Proprietary Portfolio	10,972	11,600	Personal services
Debt Service Fund Program	Leveraged Loan Portfolio	-	17,201,557	Excess subsidy return
Direct Loan Portfolio	Leveraged Loan Portfolio	-	47,665,457	Defeasance of Clean Water Revenue bonds
Subtotal		25,891,113	81,092,880	
Less: Eliminations		-	(47,665,457)	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Position		<u>\$ 25,891,113</u>	<u>\$ 33,427,423</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.

### **NOTE 5 – REVENUE OBLIGATION BONDS**

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

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



# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

## NOTE 5 – REVENUE OBLIGATION BONDS (cont.)

### REVENUE OBLIGATION BONDS (cont.)

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

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

Environmental Improvement Fund Revenue Bonds activity as of June 30, 2018 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 328,435,000	\$ -	\$ 90,550,000	\$ 237,885,000	\$ 84,080,000
Add:					
Unamortized premiums	33,585,288	-	6,511,463	27,073,825	-
Totals	<u>\$ 362,020,288</u>	<u>\$ -</u>	<u>\$ 97,061,463</u>	<u>\$ 264,958,825</u>	<u>\$ 84,080,000</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 40,135,000	\$ 290,575,000	\$ 2,275,000	\$ 328,435,000	\$ 90,550,000
Add:					
Unamortized premiums	6,451,460	28,543,314	1,409,486	33,585,288	-
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, 2018 and 2017

## NOTE 5 – REVENUE OBLIGATION BONDS (cont.)

### REVENUE OBLIGATION BONDS (cont.)

Environmental Improvement Fund revenue obligation serial and term bonds as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
2015 Series A:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2030	\$ 35,470,000	\$ 37,860,000
Unamortized premium on bonds	4,625,788	5,496,768
	40,095,788	43,356,768
2017 Series A:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2035	202,415,000	218,705,000
Unamortized premium on bonds	22,448,037	28,088,520
	224,863,037	246,793,520
2017 Series B:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	-	71,870,000
	-	71,870,000
Total Environmental Improvement Fund Revenue Series	\$ 264,958,825	\$ 362,020,288

The original premium at issuance and the interest rates for Environmental Improvement Fund Revenue Bonds outstanding at June 30, 2018, was the following:

Series	Original Issue (Premium)	Interest Rates
2015 Series A	\$ (7,039,669)	3.00 – 5.00%
2017 Series A	(28,546,314)	3.00 – 5.00%
2017 Series B	-	1.30%

Principal and interest due on the Environmental Improvement Fund Revenue Bonds as of June 30, 2018, are as follows:

Years Ending June 30,	Principal	Interest	Totals
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	9,690,000	6,320,500	16,010,500
2024-2028	50,365,000	24,299,750	74,664,750
2029-2033	47,625,000	11,418,000	59,043,000
2034-2035	18,730,000	1,416,250	20,146,250
Totals	\$ 237,885,000	\$ 77,042,500	\$ 314,927,500

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

## NOTE 5 – REVENUE OBLIGATION BONDS (cont.)

### REVENUE OBLIGATION BONDS (cont.)

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	<u>\$ 328,435,000</u>	<u>\$ 90,318,930</u>	<u>\$ 418,753,930</u>

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	\$ 237.8 M	2015 - 2017	2035	14%	\$ 314.93 M	\$ 103.8 M	\$ 129 M

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

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## NOTE 5 – REVENUE OBLIGATION BONDS (cont.)

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### *ADVANCE REFUNDINGS*

In the prior year under audit, the Fund legally defeased the following Clean Water Revenue Bonds:

<u>Series</u>	<u>Amounts</u>
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	<u>120,890,000</u>
Total	<u>\$ 537,905,000</u>

In addition, \$45,080,000 of 2010 Series 3 Clean Water Revenue Bonds were economically defeased in 2017.

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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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### NOTE 6 – DEBT REFUNDING

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#### *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, 2018, \$646,670,000 of bonds outstanding are considered defeased. At June 30, 2017, \$820,665,000 of bonds outstanding are considered defeased. The bonds are callable as follows:

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

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### NOTE 7 – SPECIAL ITEM

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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. 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.

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 under the prior year.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 8 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2018 and 2017:

	2018	2017
Interest		
State of Wisconsin Investment Board Local Government		
Investment Pool	\$ 2,901,387	\$ 2,054,934
United States Treasury Notes	-	2,089,894
State of Wisconsin General Obligation Bonds	-	5,293,473
Federal Interest on Build America Bonds	716,872	774,010
Total Interest	3,618,259	10,212,311
Changes in Realized and Unrealized Gains (Losses)		
State of Wisconsin General Obligation Bonds	-	(5,660,028)
Total Interest and Changes in Unrealized Gains	3,618,259	4,552,283
Change in Estimated Rebateable Arbitrage Liability	295,971	(498,784)
TOTAL INVESTMENT INCOME	\$ 3,914,230	\$ 4,053,499

### NOTE 9 – OPERATING GRANTS AND HARDSHIP ASSISTANCE

***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 \$43.4 million for federal fiscal year 2018. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2018 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 2018 and a grant to Wisconsin of approximately \$18.9 million is expected for federal fiscal year 2018.

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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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### NOTE 9 – OPERATING GRANTS AND HARDSHIP ASSISTANCE (cont.)

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**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, 2018 and 2017, the Fund was committed to award \$0 of additional hardship grants. At June 30, 2018 and 2017, the Fund had projected additional hardship grants of \$0 for both years. In addition to hardship grants, the Fund was committed to award \$30,500,736 and \$32,285,883, respectively, of reduced interest rate loans. At June 30, 2018 and 2017, the Fund had projected additional reduced interest rate loans of \$18,909,734 and \$15,157,970, respectively.

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### NOTE 10 – RESTATEMENT

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Net position has been restated as a result of the implementation of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires the measurement and recognition of certain liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to Other Postemployment Benefits (OPEB's) and their plans. These items had not previously been recorded. The detail of this restatement is as follows:

Net Position – June 30, 2017 (as reported)	\$ 1,906,237,504
Less: Net OPEB liability restatement	<u>(20,587)</u>
Net Position – June 30, 2017 (as restated)	<u>\$ 1,906,216,917</u>

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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 the following:

- > 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*
- > Statement No. 88, *Certain Disclosures Related to Debt, including Debt Borrowings and Direct Placements*
- > Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

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## **NOTE 11 – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS (cont.)**

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- > Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*

When they become effective, 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 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 13 – 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.

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## **NOTE 14 – SUBSEQUENT EVENTS**

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On September 13, 2018, the Fund issued 2018 Series A Environmental Improvement Fund Revenue Bonds in the amount of \$92,080,000 with an interest rate of 5% to make pledged loans.



**SUPPLEMENTAL INFORMATION**

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2018

	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	\$ 147,238,175	\$ (1,529,665)	\$ 559,098
Receivables			
Loans to local governments - current portion	158,119,374	1,215,802	-
Due from other funds	30,302	10,259,325	-
Due from other governmental entities	7,214,636	55,629	-
Accrued investment income	-	-	-
Other receivables	4,686	6,375	-
Prepaid items	-	21	16,887
Total Current Assets	<u>312,607,173</u>	<u>10,007,487</u>	<u>575,985</u>
<b>Noncurrent Assets</b>			
Loans to local governments	1,476,146,714	13,341,952	-
Advances to other funds	6,352,148	-	-
Prepaid items	-	-	83,027
Net pension asset	-	75,810	-
Total Noncurrent Assets	<u>1,482,498,862</u>	<u>13,417,762</u>	<u>83,027</u>
<b>Total Assets</b>	<u>1,795,106,035</u>	<u>23,425,249</u>	<u>659,012</u>
<b>Deferred Outflows of Resources</b>			
Pension related amounts	-	121,472	-
OPEB related amounts - health	-	2,400	-
OPEB related amounts - life	-	3,935	-
Unamortized charges	2,175,352	-	-
Total Deferred Outflows of Resources	<u>2,175,352</u>	<u>127,807</u>	<u>-</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 1,797,281,387</u>	<u>\$ 23,553,056</u>	<u>\$ 659,012</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 124,792,869	\$ -	\$ 271,060,477
25,475,903	-	184,811,079
41,569	(3,396,431)	6,934,765
2,170,706	-	9,440,971
179,314	-	179,314
2,076	-	13,137
-	-	16,908
<u>152,662,437</u>	<u>(3,396,431)</u>	<u>472,456,651</u>
282,599,728	-	1,772,088,394
-	-	6,352,148
-	-	83,027
-	-	75,810
<u>282,599,728</u>	<u>-</u>	<u>1,778,599,379</u>
<u>435,262,165</u>	<u>(3,396,431)</u>	<u>2,251,056,030</u>
-	-	121,472
-	-	2,400
-	-	3,935
-	-	2,175,352
<u>-</u>	<u>-</u>	<u>2,303,159</u>
<u>\$ 435,262,165</u>	<u>\$ (3,396,431)</u>	<u>\$ 2,253,359,189</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2018

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Accrued expenses	\$ 3,773	\$ 22,271	\$ -
Accrued interest on bonds	991,187	-	-
Due to other funds	4,816,485	894,774	-
Due to other governmental entities	-	-	-
Compensated absences - current portion	-	157,293	-
Revenue obligation bonds - current maturities	84,080,000	-	-
<b>Total Current Liabilities</b>	<u>89,891,445</u>	<u>1,074,338</u>	<u>-</u>
<b>Noncurrent Liabilities</b>			
Net OPEB liability - health	-	39,910	-
Net OPEB liability - life	-	34,162	-
Compensated absences	-	479,622	-
Revenue obligation bonds (including unamortized premium)	180,878,825	-	-
<b>Total Noncurrent Liabilities</b>	<u>180,878,825</u>	<u>553,694</u>	<u>-</u>
<b>Total Liabilities</b>	<u>270,770,270</u>	<u>1,628,032</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>			
Pension related amounts	-	127,439	-
OPEB related amounts - health	-	5,961	-
OPEB related amounts - life	-	313	-
<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>133,713</u>	<u>-</u>
<b>Net Position</b>			
Restricted for environmental improvement	1,526,511,117	5,875,857	659,012
Unrestricted	-	15,915,454	-
<b>Total Net Position</b>	<u>1,526,511,117</u>	<u>21,791,311</u>	<u>659,012</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 1,797,281,387</u>	<u>\$ 23,553,056</u>	<u>\$ 659,012</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 66,926	\$ -	\$ 92,970
-	-	991,187
2,020,893	(3,396,431)	4,335,721
26,145	-	26,145
-	-	157,293
-	-	84,080,000
<u>2,113,964</u>	<u>(3,396,431)</u>	<u>89,683,316</u>
-	-	39,910
-	-	34,162
-	-	479,622
-	-	180,878,825
-	-	181,432,519
<u>2,113,964</u>	<u>(3,396,431)</u>	<u>271,115,835</u>
-	-	127,439
-	-	5,961
-	-	313
-	-	133,713
433,148,201	-	1,966,194,187
-	-	15,915,454
<u>433,148,201</u>	<u>-</u>	<u>1,982,109,641</u>
<u>\$ 435,262,165</u>	<u>\$ (3,396,431)</u>	<u>\$ 2,253,359,189</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY PROGRAM  
For the Year Ended June 30, 2018

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>OPERATING REVENUES</b>			
Loan interest	\$ 25,301,899	\$ 202,857	\$ -
Interest income used as security for revenue bonds	16,880,168	-	-
Miscellaneous other	26,274	19,304	-
Total Operating Revenues	<u>42,208,341</u>	<u>222,161</u>	<u>-</u>
<b>OPERATING EXPENSES</b>			
Interest	9,467,376	-	75,470
Salaries and benefits	3,189,853	398,200	-
Contractual services and other	668,436	112,390	46,487
Total Operating Expenses	<u>13,325,665</u>	<u>510,590</u>	<u>121,957</u>
Operating Income (Loss)	<u>28,882,676</u>	<u>(288,429)</u>	<u>(121,957)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	1,481,002	53,529	495,454
Investment income used as security for revenue bonds	522,204	-	-
Intergovernmental grants	42,169,573	-	-
Grants awarded	(10,191,794)	(5,785,692)	-
Total Nonoperating Revenues (Expenses)	<u>33,980,985</u>	<u>(5,732,163)</u>	<u>495,454</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	62,863,661	(6,020,592)	373,497
Transfers in	40,200,523	12,446,278	-
Transfers out	(48,200,523)	(10,972)	-
<b>Change in Net Position</b>	54,863,661	6,414,714	373,497
TOTAL NET POSITION - Beginning of Year (as restated)	<u>1,471,647,456</u>	<u>15,376,597</u>	<u>285,515</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,526,511,117</u>	<u>\$ 21,791,311</u>	<u>\$ 659,012</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 6,147,761	\$ -	\$ 31,652,517
-	-	16,880,168
-	-	45,578
<u>6,147,761</u>	<u>-</u>	<u>48,578,263</u>
-	-	9,542,846
2,062,294	-	5,650,347
2,440,822	-	3,268,135
<u>4,503,116</u>	<u>-</u>	<u>18,461,328</u>
<u>1,644,645</u>	<u>-</u>	<u>30,116,935</u>
1,362,041	-	3,392,026
-	-	522,204
14,480,504	-	56,650,077
<u>(8,680,201)</u>	<u>-</u>	<u>(24,657,687)</u>
<u>7,162,344</u>	<u>-</u>	<u>35,906,620</u>
8,806,989	-	66,023,555
15,419,610	(50,186,270)	17,880,141
<u>(9,985,747)</u>	<u>50,186,270</u>	<u>(8,010,972)</u>
14,240,852	-	75,892,724
<u>418,907,349</u>	<u>-</u>	<u>1,906,216,917</u>
<u>\$ 433,148,201</u>	<u>\$ -</u>	<u>\$ 1,982,109,641</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2018

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection of loans	\$ 160,571,059	\$ 917,936	\$ -
Interest received on loans	42,640,361	175,232	-
Origination of loans	(106,594,937)	(9,341,884)	-
Payments to employees for services	(1,135,109)	(1,333,367)	-
Payments to suppliers and other	(840,865)	(381,316)	(106,070)
Other operating revenues	26,273	19,304	-
Net Cash Flows From Operating Activities	<u>94,666,782</u>	<u>(9,944,095)</u>	<u>(106,070)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental grants received	44,509,887	-	-
Grants paid	(10,191,794)	(5,785,692)	-
Transfers in	40,200,523	5,612,682	-
Transfers out	(48,200,523)	(10,972)	-
Retirement of long-term debt	(90,550,000)	-	-
Interest payments	(13,276,430)	-	-
Other cash flows from noncapital financing activities	(81,531)	-	-
Net Cash Flows From Noncapital Financing Activities	<u>(77,589,868)</u>	<u>(183,982)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Arbitrage rebate	(30,104)	-	(226,233)
Investment and interest income	1,481,002	130,484	721,687
Net Cash Flows From Investing Activities	<u>1,450,898</u>	<u>130,484</u>	<u>495,454</u>
Net Increase (Decrease) in Cash and Cash Equivalents	18,527,812	(9,997,593)	389,384
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>128,710,363</u>	<u>8,467,928</u>	<u>169,714</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 147,238,175</u>	<u>\$ (1,529,665)</u>	<u>\$ 559,098</u>



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Safe Drinking Water Loan Program		
	Eliminations	Totals
\$ 28,866,824	\$ -	\$ 190,355,819
6,160,756	-	48,976,349
(32,289,569)	-	(148,226,390)
(1,648,933)	-	(4,117,409)
(2,302,134)	-	(3,630,385)
-	-	45,577
<u>(1,213,056)</u>	<u>-</u>	<u>83,403,561</u>
21,831,807	-	66,341,694
(8,680,201)	-	(24,657,687)
15,419,610	(50,186,270)	11,046,545
(9,985,747)	50,186,270	(8,010,972)
-	-	(90,550,000)
-	-	(13,276,430)
-	-	(81,531)
<u>18,585,469</u>	<u>-</u>	<u>(59,188,381)</u>
-	-	(256,337)
<u>1,182,727</u>	<u>-</u>	<u>3,515,900</u>
<u>1,182,727</u>	<u>-</u>	<u>3,259,563</u>
18,555,140	-	27,474,743
<u>106,237,729</u>	<u>-</u>	<u>243,585,734</u>
<u>\$ 124,792,869</u>	<u>\$ -</u>	<u>\$ 271,060,477</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2018

	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)	\$ 28,882,676	\$ (288,429)	\$ (121,957)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities			
Interest expense classified as noncapital financing activity	8,779,927	-	-
Changes in assets and liabilities:			
Receivables	12,078	5,508	-
Loans to other governments	53,976,122	(8,423,947)	-
Due from other funds	(24,295)	(1,678,756)	-
Proportionate share of contributions	-	65,794	-
Prepaid items	-	(1)	16,887
Compensated absences	-	67,169	-
Other assets	-	(75,810)	-
Other postemployment benefits	-	18,800	-
Accrued expenses	3,311	(14,885)	(1,000)
Accrued interest on bonds	458,293	(27,625)	-
Due to other funds	2,578,670	408,087	-
Due to other governmental entities	-	-	-
Total Adjustments	<u>65,784,106</u>	<u>(9,655,666)</u>	<u>15,887</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 94,666,782</u>	<u>\$ (9,944,095)</u>	<u>\$ (106,070)</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>			
Bond premium amortization	<u>\$ 6,511,463</u>	<u>\$ -</u>	<u>\$ -</u>

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Safe Drinking Water Loan Program	Totals
<u>\$ 1,644,645</u>	<u>\$ 30,116,935</u>
-	8,779,927
19,766	37,352
(3,422,746)	42,129,429
391,776	(1,311,275)
-	65,794
-	16,886
-	67,169
-	(75,810)
-	18,800
(29,872)	(42,446)
12,996	443,664
144,962	3,131,719
25,417	25,417
<u>(2,857,701)</u>	<u>53,286,626</u>
<u>\$ (1,213,056)</u>	<u>\$ 83,403,561</u>
<u>\$ -</u>	<u>\$ 6,511,463</u>

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)  
For the Years Ended June 30, 2018 and 2017

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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, 2018, 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 October 31, 2018.

***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.

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  
October 31, 2018