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**State of Wisconsin**  
**Event Filing #2019-11**  
Dated November 6, 2019

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

**Issuer/Issue:** State of Wisconsin  
Environmental Improvement Fund Revenue Bonds  
Clean Water Revenue Bonds

**CUSIP Number:** 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, 2019 and June 30, 2018, and supplemental information for the year ended June 30, 2019, 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 31, 2019.

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 March 1, 2019), 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, 2019 and 2018

AND

SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2019

**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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's 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 30, 2019

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET POSITION  
As of June 30, 2019 and 2018

	2019	2018
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets		
Unrestricted cash and cash equivalents	\$ 391,819,983	\$ 271,060,477
Receivables		
Loans to local governments - current portion	189,823,942	184,811,079
Due from other funds	60,999	6,934,765
Due from other governmental entities	9,245,877	9,440,971
Accrued investment income	256,450	179,314
Other receivables	13,061	13,137
Prepaid items	16,895	16,908
Total Current Assets	591,237,207	472,456,651
Noncurrent Assets		
Loans to local governments	1,739,141,143	1,772,088,394
Advances to other funds	6,493,604	6,352,148
Prepaid items	66,141	83,027
Net pension asset	-	75,810
Total Noncurrent Assets	1,745,700,888	1,778,599,379
Total Assets	2,336,938,095	2,251,056,030
Deferred Outflows of Resources		
Pension related amounts	228,736	121,472
OPEB related amounts - health	2,200	2,400
OPEB related amounts - life	3,549	3,935
Unamortized charges	1,382,340	2,175,352
Total Deferred Outflows of Resources	1,616,825	2,303,159
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,338,554,920</b>	<b>\$ 2,253,359,189</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
Current Liabilities		
Accrued expenses	\$ 159,944	\$ 92,970
Accrued interest on bonds	1,024,521	991,187
Due to other funds	3,837,387	4,335,721
Due to other governmental entities	343,617	26,145
Compensated absences - current portion	146,309	157,293
Revenue obligation bonds - current maturities	18,125,000	84,080,000
Total Current Liabilities	23,636,778	89,683,316
Noncurrent Liabilities		
Net pension liability	96,484	-
OPEB liability - health	27,755	39,910
Net OPEB liability - life	25,050	34,162
Compensated absences	371,464	479,622
Revenue obligation bonds (including unamortized premium)	259,663,029	180,878,825
Total Noncurrent Liabilities	260,183,782	181,432,519
Total Liabilities	283,820,560	271,115,835
Deferred Inflows of Resources		
Pension related amounts	107,736	127,439
OPEB related amounts - health	15,984	5,961
OPEB related amounts - life	6,116	313
Total Deferred Inflows of Resources	129,836	133,713
Net Position		
Restricted for environmental improvement	2,033,732,686	1,966,194,187
Unrestricted	20,871,838	15,915,454
Total Net Position	2,054,604,524	1,982,109,641
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 2,338,554,920</b>	<b>\$ 2,253,359,189</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, 2019 and 2018

	2019	2018
<b>OPERATING REVENUES</b>		
Loan interest	\$ 30,211,460	\$ 31,652,517
Interest income used as security for revenue bonds	16,350,932	16,880,168
Miscellaneous other	207,691	45,578
Total Operating Revenues	46,770,083	48,578,263
 <b>OPERATING EXPENSES</b>		
Interest	9,051,652	9,542,846
Salaries and benefits	5,113,052	5,650,347
Contractual services and other	3,256,812	3,268,135
Total Operating Expenses	17,421,516	18,461,328
 Operating Income	29,348,567	30,116,935
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	7,991,148	3,392,026
Investment income used as security for revenue bonds	-	522,204
Intergovernmental grants	61,539,091	56,650,077
Grants awarded	(25,457,780)	(24,657,687)
Total Nonoperating Revenues (Expenses)	44,072,459	35,906,620
 <b>INCOME BEFORE TRANSFERS</b>	73,421,026	66,023,555
 Transfers in	7,080,717	17,880,141
Transfers out	(8,006,860)	(8,010,972)
 Increase in Net Position	72,494,883	75,892,724
 TOTAL NET POSITION - Beginning of Year (as restated for 2018)	1,982,109,641	1,906,216,917
 <b>TOTAL NET POSITION - END OF YEAR</b>	<b>\$2,054,604,524</b>	<b>\$ 1,982,109,641</b>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collection of loans	\$ 188,694,953	\$ 190,355,819
Interest received on loans	46,848,024	48,976,349
Origination of loans	(160,760,565)	(148,226,390)
Payments to employees for services	(6,552,132)	(4,117,409)
Payments to suppliers and other	(3,230,966)	(3,630,385)
Other operating revenues	207,691	45,577
Net Cash Flows From Operating Activities	65,207,005	83,403,561
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Intergovernmental grants received	62,518,517	66,341,694
Grants paid	(25,457,780)	(24,657,687)
Transfers in	13,914,313	11,046,545
Transfers out	(8,006,860)	(8,010,972)
Proceeds from issuance of long-term debt	104,466,409	-
Retirement of long-term debt	(84,080,000)	(90,550,000)
Interest payments	(15,193,783)	(13,276,430)
Other cash flows from noncapital financing activities	(522,324)	(81,531)
Net Cash Flows From Noncapital Financing Activities	47,638,492	(59,188,381)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Arbitrage rebate	105,935	(256,337)
Investment and interest income	7,808,074	3,515,900
Net Cash Flows From Investing Activities	7,914,009	3,259,563
<b>Net Increase in Cash and Cash Equivalents</b>	120,759,506	27,474,743
CASH AND CASH EQUIVALENTS - Beginning of Year	271,060,477	243,585,734
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 391,819,983</b>	<b>\$ 271,060,477</b>

	<u>2019</u>	<u>2018</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 29,348,567	\$ 30,116,935
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities		
Interest expense classified as noncapital financing activity	8,843,793	8,779,927
Changes in assets and liabilities		
Receivables	76	37,352
Loans to other governments	27,934,388	42,129,429
Due from other funds	(1,699,238)	(1,311,275)
Proportionate share of contributions	151,027	65,794
Prepaid items	16,900	16,886
Compensated absences	(119,143)	67,169
Other assets	(110,554)	(75,810)
Other post employment benefits	-	18,800
Accrued expenses	66,974	(42,446)
Accrued interest on bonds	284,631	443,664
Due to other funds	172,112	3,131,719
Due to other governmental entities	317,472	25,417
Total Adjustments	<u>35,858,438</u>	<u>53,286,626</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 65,207,005</u>	<u>\$ 83,403,561</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>		
Bond premium amortization	<u>\$ 7,557,205</u>	<u>\$ 6,511,463</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, 2019 and 2018

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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:

- > **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.
- > **Leveraged Loan Portfolio** – This portfolio was funded by proceeds of Clean Water Revenue Bonds and operating transfers from the State. Assets in this portfolio were used for loans for Wisconsin municipal wastewater projects that met 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 Note 6).
- > **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, 2019 and 2018, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2019 and 2018, 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, 2019 and 2018

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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, 2019, when available.

**Net Operating Income/Loss** – The Fund incurred net operating income of \$29.3 million and a net operating income of \$30.1 million in 2019 and 2018, respectively. However, 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 \$61.5 million and \$56.7 million in 2019 and 2018, respectively, and are classified as intergovernmental grants. Transfers from the State of Wisconsin were approximately \$7.1 million and \$17.9 million in 2019 and 2018, 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 Investment Fund ("SIF") and the Local Government Investment Pool ("LGIP") (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 7). 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, 2019 and 2018

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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 and Environmental Improvement Fund 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 and Environmental Improvement Fund Bond indenture specifies the use of bond proceeds, proceeds from loan repayments, and money in other accounts created under the bond indenture.

**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 Clean Water 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 \$61.5 million and \$56.7 million of EPA contributions in 2019 and 2018, respectively.

**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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

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

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**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 11 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, 2019 and 2018 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 and Safe Drinking Water 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 2019 and 2018. The weighted average interest rate was 1.752% and 2.547% at June 30, 2019 and 2018, 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, 2019 and 2018, all loan repayments were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2019 and 2018, \$474,304,593 and \$511,935,585 (25% and 26%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program and Safe Drinking Water Loan Program entered into \$165,651,797 of new loans and \$16,693,824 of new grants during fiscal year 2019. For fiscal year 2018, these same programs entered into \$170,259,033 of new loans and \$30,500,736 of new grants. As of June 30, 2019, they had undisbursed commitments of \$127,836,967 relating to loans and \$23,393,203 relating to grants. For fiscal year 2018, they had undisbursed commitments of \$134,417,083 relating to loans and \$32,248,983 relating to grants.

From July 1, 2019 to August 28, 2019, the Fund executed four new financial assistance agreements with loans that totaled \$31,981,318. Between July 1, 2019 and August 28, 2019, disbursements against these loans totaled \$4,664,514. 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).

Additionally, principal forgiveness, awarded through the Clean Water Fund Program and Safe Drinking Water Loan Program, is an additional subsidy in the form of a grant, to assist municipalities that would experience significant hardship raising the revenue necessary to finance needed infrastructure projects. From July 1, 2018 through June 30, 2019, these programs entered into financial assistance agreements that included principal forgiveness grants of \$10,894,787.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

### NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2019 and 2018, cash and cash equivalents consisted of the following:

	2019	2018	Associated Risks
Money market mutual funds	\$ 260,555,644	\$ 147,387,805	N/A
State Investment Fund (“SIF”)	129,983,000	123,087,000	Custodial credit risk, credit risk, concentration of credit risk, interest rate risk
Local Government Investment Pool (“LGIP”)	1,254,594	559,098	Credit risk
Cash held by custodian	25,846	25,846	N/A
Miscellaneous cash	899	728	N/A
<b>Total Unrestricted Cash and Cash Equivalents</b>	<b><u>\$ 391,819,983</u></b>	<b><u>\$ 271,060,477</u></b>	

The SIF functions as the State of Wisconsin’s cash management fund by “pooling” the idle cash balances of all State funds and other public institutions. In the State of Wisconsin’s Comprehensive Annual Financial Report (“CAFR”), the SIF is not reported as a separate fund; rather, each State fund’s share in the “pool” is reported on the balance sheet as “Cash and Cash Equivalents”, including amounts reported in the Environmental Improvement Fund. SIF pool shares are bought and redeemed at \$1.00. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares. Wisconsin Statute 25.17 enumerate the various types of securities in which the SIF can be invested. Concentration of credit risk is the risk of loss attributed to the magnitude of an organization’s investment in a single issuer. At June 30, 2019 and 2018, the SIF made up 33% and 45% of the Fund’s total portfolio, respectively. For further information on the specific associated risks for SIF, see the State of Wisconsin’s CAFR as of and for the year ended June 30, 2019, when available.

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, 2019, the current yield on the LGIP was 2.42%, compared to 1.88% as of June 30, 2018. The LGIP investment is stated at fair value and its credit risk is not rated.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

### **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, 2019 and 2018:

Transferred To	Transferred From	June 30, 2019 Amount	June 30, 2018 Amount	Principal Purpose
Proprietary Portfolio	Capital Improvement	\$ 3,294,517	\$ 5,612,682	Future debt service
Safe Drinking Water Loan Program	Capital Improvement	3,786,200	5,433,863	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	6,860	10,972	Personnel services
Subtotal		15,087,577	25,891,113	
Less: Eliminations		-	-	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Position		<u>\$ 15,087,577</u>	<u>\$ 25,891,113</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.

Environmental Improvement Fund Revenue Bonds activity as of June 30, 2019 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 237,885,000	\$ 92,080,000	\$ 84,080,000	\$ 245,885,000	\$ 18,125,000
Add: Unamortized premiums	27,073,825	12,386,409	7,557,205	31,903,029	-
Totals	<u>\$ 264,958,825</u>	<u>\$ 104,466,409</u>	<u>\$ 91,637,205</u>	<u>\$ 277,788,029</u>	<u>\$ 18,125,000</u>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2019 and 2018

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

### REVENUE OBLIGATION BONDS (cont.)

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	-
<b>Totals</b>	<b>\$ 362,020,288</b>	<b>\$ -</b>	<b>\$ 97,061,463</b>	<b>\$ 264,958,825</b>	<b>\$ 84,080,000</b>

Environmental Improvement Fund revenue obligation serial and term bonds as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
2015 Series A:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2030	\$ 32,960,000	\$ 35,470,000
Unamortized premium on bonds	3,838,380	4,625,788
	<u>36,798,380</u>	<u>40,095,788</u>
2017 Series A:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2035	120,845,000	202,415,000
Unamortized premium on bonds	17,194,830	22,448,037
	<u>138,039,830</u>	<u>224,863,037</u>
2018 Series A:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2026	92,080,000	-
Unamortized premium on bonds	10,869,819	-
	<u>102,949,819</u>	<u>-</u>
<b>Total Environmental Improvement Fund Revenue Series</b>	<b>\$ 277,788,029</b>	<b>\$ 264,958,825</b>

The original premium at issuance and the interest rates for Environmental Improvement Fund Revenue Bonds outstanding at June 30, 2019 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%
2018 Series A	(12,386,409)	5.00%

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2019 and 2018

## 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, 2019, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2020	\$ 18,125,000	\$ 12,294,250	\$ 30,419,250
2021	21,040,000	11,388,000	32,428,000
2022	22,095,000	10,336,000	32,431,000
2023	23,200,000	9,231,250	32,431,250
2024	24,360,000	8,071,250	32,431,250
2025-2029	81,810,000	24,089,500	105,899,500
2030-2034	45,660,000	9,036,750	54,696,750
2035	9,595,000	479,750	10,074,750
Totals	<u>\$ 245,885,000</u>	<u>\$ 84,926,750</u>	<u>\$ 330,811,750</u>

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	<u>\$ 237,885,000</u>	<u>\$ 77,042,500</u>	<u>\$ 314,927,500</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	\$ 245.9 M	2015 - 2018	2035	15%	\$ 330.81 M	\$ 95.9 M	\$ 135.7 M

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2019 and 2018

## NOTE 6 – 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, 2019, \$591,245,000 of bonds outstanding are considered defeased. At June 30, 2018, \$646,670,000 of bonds outstanding are considered defeased. The bonds are callable as follows:

Call Date	Amount as of June 30, 2019	Amount as of June 30, 2018
6/1/2019	\$ -	\$ 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

## NOTE 7 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Environmental Improvement Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2019 and 2018:

	2019	2018
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 7,231,046	\$ 2,901,387
Federal Interest on Build America Bonds	654,166	716,872
Total Interest	7,885,212	3,618,259
Change in Estimated Rebatable Arbitrage Liability	105,936	295,971
TOTAL INVESTMENT INCOME	\$ 7,991,148	\$ 3,914,230

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2019 and 2018

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## NOTE 8 – 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 \$43 million for federal fiscal year 2019. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2019 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 2019 and a grant to Wisconsin of approximately \$18.8 million is expected for federal fiscal year 2019.

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 is currently in the form of reduced interest rates (as low as 0%), and prior to statutory changes that were effective September 23, 2017 was in the form of reduced interest rates (as low as 0%) or grants, for wastewater projects subject to limitations prescribed by the statute. At June 30, 2019 and 2018, the Fund was committed to award \$5,799,037 and \$0 of additional hardship grants, respectively. At June 30, 2019 and 2018, the Fund had projected additional hardship grants of \$0 and \$5,799,037, respectively. In addition to hardship grants, the Fund was committed to award \$2,467,185 and \$0, respectively, of reduced interest rate loans. At June 30, 2019 and 2018, the Fund had projected additional reduced interest rate loans of \$0 and \$0, respectively.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

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### NOTE 9 – RESTATEMENT IN PRIOR YEAR

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In the prior year, net position was 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 10 – 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. 87, *Leases*
- > Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*
- > Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*
- > Statement No. 91, *Conduit Debt Obligations*

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

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### NOTE 11 – COMMITMENTS AND CONTINGENCIES

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Occasionally the 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.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2019 and 2018

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## **NOTE 12 – 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 13 – SUBSEQUENT EVENTS**

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On August 7, 2019, the State of Wisconsin Building Commission approved a Supplemental Resolution relating to State of Wisconsin Environmental Improvement Fund Revenue Bonds (Safe Drinking Water Loan Program). This Supplemental Resolution provides for the use of previously issued revenue bond proceeds to be transferred to the Safe Drinking Water State Match Loan Account and the Safe Drinking Water Leveraged Loan Account.

On October 16, 2019, the State of Wisconsin Building Commission approved an Authorizing Resolution for not to exceed \$80,000,000 in State of Wisconsin Environmental Improvement Fund Revenue Bonds.

**SUPPLEMENTARY INFORMATION**

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2019

	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	\$ 260,004,701	\$ 3,887,186	\$ 1,254,594
Receivables			
Loans to local governments - current portion	161,772,816	1,281,578	-
Due from other funds	161,487	5,020,904	-
Due from other governmental entities	6,581,773	41,356	-
Accrued investment income	-	256,450	-
Other receivables	5,502	5,366	-
Prepaid items	-	8	16,887
Total Current Assets	<u>428,526,279</u>	<u>10,492,848</u>	<u>1,271,481</u>
<b>Noncurrent Assets</b>			
Loans to local governments	1,431,788,904	12,777,579	-
Advances to other funds	6,493,604	-	-
Prepaid items	-	-	66,141
Total Noncurrent Assets	<u>1,438,282,508</u>	<u>12,777,579</u>	<u>66,141</u>
 Total Assets	 <u>1,866,808,787</u>	 <u>23,270,427</u>	 <u>1,337,622</u>
<b>Deferred Outflows of Resources</b>			
Pension related amounts	-	228,736	-
OPEB related amounts - health	-	2,200	-
OPEB related amounts - life	-	3,549	-
Unamortized charges	1,382,340	-	-
Total Deferred Outflows of Resources	<u>1,382,340</u>	<u>234,485</u>	<u>-</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 1,868,191,127</u>	 <u>\$ 23,504,912</u>	 <u>\$ 1,337,622</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 126,673,502	\$ -	\$ 391,819,983
26,769,548	-	189,823,942
14,447	(5,135,839)	60,999
2,622,748	-	9,245,877
-	-	256,450
2,193	-	13,061
-	-	16,895
<u>156,082,438</u>	<u>(5,135,839)</u>	<u>591,237,207</u>
294,574,660	-	1,739,141,143
-	-	6,493,604
-	-	66,141
<u>294,574,660</u>	<u>-</u>	<u>1,745,700,888</u>
<u>450,657,098</u>	<u>(5,135,839)</u>	<u>2,336,938,095</u>
-	-	228,736
-	-	2,200
-	-	3,549
-	-	1,382,340
<u>-</u>	<u>-</u>	<u>1,616,825</u>
<u>\$ 450,657,098</u>	<u>\$ (5,135,839)</u>	<u>\$ 2,338,554,920</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2019

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Accrued expenses	\$ 19,827	\$ 26,225	\$ 11,496
Accrued interest on bonds	1,024,521	-	-
Due to other funds	5,339,809	773,836	-
Due to other governmental entities	-	-	-
Compensated absences - current portion	-	146,309	-
Revenue obligation bonds - current maturities	18,125,000	-	-
<b>Total Current Liabilities</b>	<u>24,509,157</u>	<u>946,370</u>	<u>11,496</u>
<b>Noncurrent Liabilities</b>			
Net pension liability	-	96,484	-
OPEB liability - health	-	27,755	-
Net OPEB liability - life	-	25,050	-
Compensated absences	-	371,464	-
Revenue obligation bonds (including unamortized premium)	259,663,029	-	-
<b>Total Noncurrent Liabilities</b>	<u>259,663,029</u>	<u>520,753</u>	<u>-</u>
<b>Total Liabilities</b>	<u>284,172,186</u>	<u>1,467,123</u>	<u>11,496</u>
<b>Deferred Inflows of Resources</b>			
Pension related amounts	-	107,736	-
OPEB related amounts - health	-	15,984	-
OPEB related amounts - life	-	6,116	-
<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>129,836</u>	<u>-</u>
<b>Net Position</b>			
Restricted for environmental improvement	1,584,018,941	1,036,115	1,326,126
Unrestricted	-	20,871,838	-
<b>Total Net Position</b>	<u>1,584,018,941</u>	<u>21,907,953</u>	<u>1,326,126</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 1,868,191,127</u>	<u>\$ 23,504,912</u>	<u>\$ 1,337,622</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 102,396	\$ -	\$ 159,944
-	-	1,024,521
2,859,581	(5,135,839)	3,837,387
343,617	-	343,617
-	-	146,309
-	-	18,125,000
<u>3,305,594</u>	<u>(5,135,839)</u>	<u>23,636,778</u>
-	-	96,484
-	-	27,755
-	-	25,050
-	-	371,464
-	-	259,663,029
-	-	260,183,782
<u>3,305,594</u>	<u>(5,135,839)</u>	<u>283,820,560</u>
-	-	107,736
-	-	15,984
-	-	6,116
-	-	129,836
447,351,504	-	2,033,732,686
-	-	20,871,838
<u>447,351,504</u>	-	<u>2,054,604,524</u>
<u>\$ 450,657,098</u>	<u>\$ (5,135,839)</u>	<u>\$ 2,338,554,920</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY PROGRAM  
For the Year Ended June 30, 2019

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>OPERATING REVENUES</b>			
Loan interest	\$ 23,828,048	\$ 263,806	\$ -
Interest income used as security for revenue bonds	16,350,932	-	-
Miscellaneous other	181,519	26,172	-
Total Operating Revenues	<u>40,360,499</u>	<u>289,978</u>	<u>-</u>
<b>OPERATING EXPENSES</b>			
Interest	9,051,652	-	-
Salaries and benefits	2,720,856	206,691	-
Contractual services and other	565,103	108,129	111,883
Total Operating Expenses	<u>12,337,611</u>	<u>314,820</u>	<u>111,883</u>
Operating Income (Loss)	<u>28,022,888</u>	<u>(24,842)</u>	<u>(111,883)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	4,556,865	38,208	778,997
Intergovernmental grants	43,051,430	-	-
Grants awarded	(10,123,359)	(3,184,381)	-
Total Nonoperating Revenues (Expenses)	<u>37,484,936</u>	<u>(3,146,173)</u>	<u>778,997</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	65,507,824	(3,171,015)	667,114
Transfers in	41,048,842	3,294,517	-
Transfers out	(49,048,842)	(6,860)	-
<b>Change in Net Position</b>	57,507,824	116,642	667,114
TOTAL NET POSITION - Beginning of Year	<u>1,526,511,117</u>	<u>21,791,311</u>	<u>659,012</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,584,018,941</u>	<u>\$ 21,907,953</u>	<u>\$ 1,326,126</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 6,119,606	\$ -	\$ 30,211,460
-	-	16,350,932
-	-	207,691
<u>6,119,606</u>	<u>-</u>	<u>46,770,083</u>
-	-	9,051,652
2,185,505	-	5,113,052
2,471,697	-	3,256,812
<u>4,657,202</u>	<u>-</u>	<u>17,421,516</u>
<u>1,462,404</u>	<u>-</u>	<u>29,348,567</u>
2,617,078	-	7,991,148
18,487,661	-	61,539,091
(12,150,040)	-	(25,457,780)
<u>8,954,699</u>	<u>-</u>	<u>44,072,459</u>
10,417,103	-	73,421,026
17,616,880	(54,879,522)	7,080,717
<u>(13,830,680)</u>	<u>54,879,522</u>	<u>(8,006,860)</u>
14,203,303	-	72,494,883
<u>433,148,201</u>	<u>-</u>	<u>1,982,109,641</u>
<u>\$ 447,351,504</u>	<u>\$ -</u>	<u>\$ 2,054,604,524</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2019

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection of loans	\$ 160,969,318	\$ 1,215,802	\$ -
Interest received on loans	40,484,942	278,080	-
Origination of loans	(120,402,955)	(717,205)	-
Payments to employees for services	(2,530,834)	(1,509,983)	-
Payments to suppliers and other	(418,603)	(594,644)	(83,500)
Other operating revenues	181,519	26,172	-
Net Cash Flows From Operating Activities	<u>78,283,387</u>	<u>(1,301,778)</u>	<u>(83,500)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental grants received	43,379,331	-	-
Grants paid	(10,123,359)	(3,184,381)	-
Transfers in	41,048,842	10,128,113	-
Transfers out	(49,048,842)	(6,860)	-
Proceeds from issuance of long-term debt	104,466,409	-	-
Retirement of long-term debt	(84,080,000)	-	-
Interest payments	(15,193,783)	-	-
Other cash flows from noncapital financing activities	(522,324)	-	-
Net Cash Flows From Noncapital Financing Activities	<u>29,926,274</u>	<u>6,936,872</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Arbitrage rebate	-	-	105,935
Investment and interest income	4,556,865	(218,243)	673,061
Net Cash Flows From Investing Activities	<u>4,556,865</u>	<u>(218,243)</u>	<u>778,996</u>
Net Increase in Cash and Cash Equivalents	112,766,526	5,416,851	695,496
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>147,238,175</u>	<u>(1,529,665)</u>	<u>559,098</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 260,004,701</u>	<u>\$ 3,887,186</u>	<u>\$ 1,254,594</u>

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Safe Drinking Water Loan Program		
	Eliminations	Totals
\$ 26,509,833	\$ -	\$ 188,694,953
6,085,002	-	46,848,024
(39,640,405)	-	(160,760,565)
(2,511,315)	-	(6,552,132)
(2,134,219)	-	(3,230,966)
-	-	207,691
<u>(11,691,104)</u>	<u>-</u>	<u>65,207,005</u>
19,139,186	-	62,518,517
(12,150,040)	-	(25,457,780)
17,616,880	(54,879,522)	13,914,313
(13,830,680)	54,879,522	(8,006,860)
-	-	104,466,409
-	-	(84,080,000)
-	-	(15,193,783)
-	-	(522,324)
<u>10,775,346</u>	<u>-</u>	<u>47,638,492</u>
-	-	105,935
<u>2,796,391</u>	<u>-</u>	<u>7,808,074</u>
<u>2,796,391</u>	<u>-</u>	<u>7,914,009</u>
1,880,633	-	120,759,506
<u>124,792,869</u>	<u>-</u>	<u>271,060,477</u>
<u>\$ 126,673,502</u>	<u>\$ -</u>	<u>\$ 391,819,983</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2019

	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)	\$ 28,022,888	\$ (24,842)	\$ (111,883)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities			
Interest expense classified as noncapital financing activity	8,843,793	-	-
Changes in assets and liabilities:			
Receivables	(816)	1,009	-
Loans to other governments	40,704,368	498,597	-
Due from other funds	(131,186)	(1,595,175)	-
Proportionate share of contributions	-	151,027	-
Prepaid items	-	13	16,887
Compensated absences	-	(119,143)	-
Other assets	-	(110,554)	-
Accrued expenses	16,054	3,954	11,496
Accrued interest on bonds	304,962	14,274	-
Due to other funds	523,324	(120,938)	-
Due to other governmental entities	-	-	-
Total Adjustments	<u>50,260,499</u>	<u>(1,276,936)</u>	<u>28,383</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 78,283,387</u>	<u>\$ (1,301,778)</u>	<u>\$ (83,500)</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>			
Bond premium amortization	<u>\$ 7,557,205</u>	<u>\$ -</u>	<u>\$ -</u>

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Safe Drinking Water Loan Program	Totals
\$ 1,462,404	\$ 29,348,567
-	8,843,793
(117)	76
(13,268,577)	27,934,388
27,123	(1,699,238)
-	151,027
-	16,900
-	(119,143)
-	(110,554)
35,470	66,974
(34,605)	284,631
(230,274)	172,112
317,472	317,472
<u>(13,153,508)</u>	<u>35,858,438</u>
\$ (11,691,104)	\$ 65,207,005
<u>\$ -</u>	<u>\$ 7,557,205</u>

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)  
For the Years Ended June 30, 2019 and 2018

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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, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019.

***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 30, 2019