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**State of Wisconsin**  
**Event Filing #2015-25**  
Dated November 4, 2014

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

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

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

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

Attached are (1) financial statements for the years ended June 30, 2015 and June 30, 2014, supplemental information for the year ended June 30, 2015, and independent auditor's report for the State of Wisconsin Environmental Improvement Fund, and (2) financial statements for the year ended June 1, 2015 and independent auditor's report for the Leveraged Loan Portfolio.

The attached items will also be included in the State's Continuing Disclosure Annual Report, which is expected to be filed on or before December 27, 2015.

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

[doa.wi.gov/capitalfinance](http://doa.wi.gov/capitalfinance)

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

/s/ DAVID R. ERDMAN

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**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2015 and 2014

AND

SUPPLEMENTAL INFORMATION

As of and for the Year Ended June 30, 2015

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT	1 – 3
FINANCIAL STATEMENTS	
Statements of Net Position – As of June 30, 2015 and 2014	4
Statements of Revenues, Expenses, and Changes in Net Position – For the Years Ended June 30, 2015 and 2014	5
Statements of Cash Flows – For the Years Ended June 30, 2015 and 2014	6 – 7
Notes to Financial Statements	8 – 25
SUPPLEMENTAL INFORMATION	
Statement of Net Position by Program – As of June 30, 2015	26 – 29
Statement of Revenues, Expenses, and Changes in Net Position by Program – For the Year Ended June 30, 2015	30 – 31
Statement of Cash Flows by Program – For the Year Ended June 30, 2015	32 – 35
OTHER INFORMATION (UNAUDITED)	36
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	37 – 38

## 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, 2015, and 2014, and the related notes to the financial statements, as listed in the table of contents.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement Fund, an enterprise of the State of Wisconsin, as of June 30, 2015 and 2014, 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 Matters***

As discussed in Note 1, the financial statements present only the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin, as of June 30, 2015, and 2014, 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. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* effective July 1, 2014. Adoption of these standards resulted in a restatement to net position as of the beginning of the year as discussed in Note 11. 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.

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

*Other 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 23, 2015 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 Vinchow Krause, LLP*

Madison, Wisconsin  
October 23, 2015

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET POSITION  
As of June 30, 2015 and 2014

	2015	2014
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets		
Unrestricted cash and cash equivalents	\$ 365,403,382	\$ 375,033,225
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,594,883	45,554,347
Receivables		
Loans to local governments - current portion	177,337,982	168,949,259
Due from other funds	2,849	661,007
Due from other governmental entities	8,805,800	8,929,850
Accrued investment income	190,009	231,164
Prepaid items	20,181	21,949
Total Current Assets	597,355,086	599,380,801
Noncurrent Assets		
Restricted assets - cash equivalents	98,781,334	102,561,070
Investments - State of Wisconsin general obligation clean water bonds, at fair value	176,611,170	188,914,802
Loans to local governments	1,861,526,894	1,840,695,634
Advances to other funds	6,222,149	6,216,596
Prepaid items	133,688	150,575
Net pension assets	81,885	-
Capital Assets		
Equipment	-	20,357
Less: Accumulated depreciation	-	(20,357)
Total Noncurrent Assets	2,143,357,120	2,138,538,677
Total Assets	2,740,712,206	2,737,919,478
Deferred Outflows of Resources		
Changes related to net pension asset	48,406	-
Unamortized charges	14,411,933	17,726,016
Total Deferred Outflows of Resources	14,460,339	17,726,016
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,755,172,545</b>	<b>\$ 2,755,645,494</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
Current Liabilities		
Accrued expenses	\$ 149,714	\$ 83,447
Accrued interest on bonds	2,888,107	3,127,704
Due to other funds	1,263,841	1,311,367
Due to other governmental entities	223,903	225,682
Compensated absences - current portion	57,440	39,141
Revenue obligation bonds - current maturities	59,935,000	58,400,000
Total Current Liabilities	64,518,005	63,187,341
Noncurrent Liabilities		
Accrued expenses	28,826	30,304
Due to other governmental entities	574,584	987,721
Compensated absences	28,359	46,567
Revenue obligation bonds (including unamortized premium)	698,780,909	768,022,265
Total Noncurrent Liabilities	698,412,678	769,086,857
Total Liabilities	763,930,683	832,274,198
Deferred Inflows of Resources		
Changes related to net pension asset	821	-
Net Position		
Restricted for environmental improvement	1,977,236,321	1,907,586,775
Unrestricted	14,004,720	15,784,521
Total Net Position	1,991,241,041	1,923,371,296
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 2,755,172,545</b>	<b>\$ 2,755,645,494</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, 2015 and 2014

	2015	2014
<b>OPERATING REVENUES</b>		
Loan interest	\$ 33,640,973	\$ 31,356,377
Interest income used as security for revenue bonds	18,870,494	20,409,280
Miscellaneous other	30,703	34,230
Total Operating Revenues	52,542,170	51,799,887
 <b>OPERATING EXPENSES</b>		
Interest	31,300,577	33,782,824
Salaries and benefits	4,457,673	3,835,880
Contractual services and other	3,221,916	2,262,994
Total Operating Expenses	38,980,166	39,881,698
 Operating Income	13,562,004	11,918,189
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	1,135,325	1,079,236
Investment income used as security for revenue bonds	3,463,690	11,727,152
Intergovernmental grants	55,812,249	51,214,815
Grants awarded	(9,532,629)	(10,133,150)
Total Nonoperating Revenues (Expenses)	50,878,635	53,888,053
 <b>INCOME BEFORE TRANSFERS</b>	64,440,639	65,806,242
 Transfers in	11,306,642	22,486,488
Transfers out	(8,011,761)	(8,017,113)
 <b>Increase in Net Position</b>	67,735,520	80,275,617
 TOTAL NET POSITION - Beginning of Year (as restated for 2015)	1,923,505,521	1,843,095,679
 <b>TOTAL NET POSITION - END OF YEAR</b>	\$ 1,991,241,041	\$ 1,923,371,296

See accompanying notes to financial statements.



**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collection of loans	\$ 174,170,680	\$ 166,981,430
Interest received on loans	52,415,116	51,650,051
Origination of loans	(203,390,663)	(201,054,323)
Payments to employees for services	(3,990,235)	(4,027,190)
Payments to suppliers and other	(3,135,564)	(2,130,304)
Other operating revenues	30,703	34,230
Net Cash Flows From Operating Activities	16,100,037	11,453,894
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Intergovernmental grants received	56,173,000	51,297,679
Grants paid	(9,532,629)	(10,133,150)
Transfers in	11,306,642	22,486,488
Transfers out	(8,011,761)	(8,017,113)
Retirement of long-term debt	(58,400,000)	(58,195,000)
Interest payments	(37,532,446)	(40,493,758)
Advances to other funds	(2,553)	(1,251,224)
Net Cash Flows From Noncapital Financing Activities	(45,999,747)	(44,306,078)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(31,032)	(10,705,087)
Liquidation of investments	7,768,448	5,930,397
Investment and interest income	8,752,715	9,068,558
Net Cash Flows From Investing Activities	16,490,131	4,293,868
<b>Net Decrease in Cash and Cash Equivalents</b>	(13,409,579)	(28,558,316)
CASH AND CASH EQUIVALENTS - Beginning of Year	477,594,295	506,152,611
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 464,184,716</b>	<b>\$ 477,594,295</b>

	<u>2015</u>	<u>2014</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 13,562,004	\$ 11,918,189
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities		
Interest expense classified as noncapital financing activity	31,300,577	33,782,824
Changes in assets and liabilities		
Loans to other governments	(29,219,984)	(34,072,842)
Due from other funds	133,295	(672,870)
Proportionate share of contributions	(34,821)	-
Prepaid items	18,655	16,318
Compensated absences	92	2,036
Other assets	39,577	-
Other post employment benefits	(1,479)	1,218
Accrued expenses	66,266	57,802
Accrued interest on bonds	(96,351)	(115,609)
Due to other funds	333,985	566,367
Due to other governmental entities	(1,779)	(29,539)
Total Adjustments	<u>2,538,033</u>	<u>(464,295)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 16,100,037</u>	<u>\$ 11,453,894</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>		
Unrestricted cash and cash equivalents - statement of net position	\$ 365,403,382	\$ 375,033,225
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	45,594,883	45,554,347
Investments in State of Wisconsin general obligation clean water bonds	176,611,170	188,914,802
Restricted cash and cash equivalents - statement of net position	<u>98,781,334</u>	<u>102,561,070</u>
Total Cash and Investments	686,390,769	712,063,444
Less: Noncash equivalents	<u>(222,206,053)</u>	<u>(234,469,149)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 464,184,716</u>	<u>\$ 477,594,295</u>
<b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>		
Net change in unrealized gains and losses	<u>\$ 4,540,353</u>	<u>\$ (4,019,579)</u>
Bond premium amortization	<u>\$ 9,306,356</u>	<u>\$ 10,026,524</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, 2015 and 2014

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

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

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

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

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

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. As of June 30, 2015 and 2014, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2015 and 2014, 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, 2015 and 2014

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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 2012, the GASB issued statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and in November 2013, the GASB issued statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements establish the accounting and financial reporting standards for the employer share of pension plan activities that are administered through trusts and meet certain criteria as well as employer contributions made in a fiscal year subsequent to the pension plan's measurement date. These standards were implemented July 1, 2014. 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, 2015.

**Net Operating Income/Loss**—The Fund incurred net operating income of \$13.6 million in 2015 and \$11.9 million in 2014. 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 \$55.8 million and \$51.2 million in 2015 and 2014, respectively, and are classified as intergovernmental grants. Transfers from the State of Wisconsin were approximately \$3.1 million and \$2.9 million in 2015 and 2014, respectively, and are classified as transfers in. Management expects the grants and transfers will continue for the foreseeable future sufficient to fund both the anticipated future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

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

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

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

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

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**United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements**—The Fund holds United States Treasury Notes as investments at June 30, 2015 and 2014 and records the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

GASB Statement No. 31 (GASB No. 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The four forward delivery agreements with Wachovia Bank, NA (“Wachovia”) and two forward delivery agreements with JP Morgan Chase Bank (“JP Morgan”) described in Note 4 would be considered participating investment contracts under GASB No. 31. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 30, 2015, the fair value of the Fund's interest in these agreements was above the cost of the treasury securities owned by \$1,081,587. At June 30, 2014, the fair value was above the cost by \$1,003,262.

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

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

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

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

The Fund defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a deferred outflow of resources.

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

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

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**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 \$56.5 million and \$51.2 million of EPA contributions in 2015 and 2014, respectively.

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

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

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

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

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

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Loans to local governments at June 30, 2015 and 2014 represent loans for wastewater treatment projects or drinking water projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, virtually all of the loans issued by the Clean Water Fund Program, Safe Drinking Water Loan Program and Land Recycling Loan Program are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State transfers. Interest rates on loans receivable ranged from 4.95% to 0% in 2015 and 4.95% to 0% in 2014. The weighted average interest rate was 2.500% and 2.519% at June 30, 2015 and 2014, 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, 2015, all loan repayments were performing in accordance with the contractual terms.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

Of the loans outstanding at June 30, 2015 and 2014, \$648,935,006 and \$668,058,748 (32% and 33%), 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 \$172,173,563 of new loans and \$7,533,727 of new grants during fiscal year 2015. For fiscal year 2014, these same programs entered into \$173,522,321 of new loans and \$9,286,532 of new grants. As of June 30, 2015, they had undisbursed commitments of \$125,038,717 relating to loans and \$1,185,752 relating to grants. For fiscal year 2014, they had undisbursed commitments of \$164,530,418 relating to loans and \$2,977,691 relating to grants. From July 1, 2015 to September 19, 2015, the Fund made additional loan disbursements of \$15,548,944 for financial assistance agreements that were outstanding prior to June 30, 2015. \$24,301,054 of additional loans were executed between July 1, 2015 and September 19, 2015. These funding commitments are generally met through the proceeds from additional Federal grants, recycled loan payments, and from the issuance of additional revenue obligation bonds (Note 6).

### **NOTE 3 – CASH AND CASH EQUIVALENTS**

As of June 30, 2015 and 2014, cash and cash equivalents consisted of the following:

	2015	2014
Local Government Investment Pool (“LGIP”), at fair value	\$ 464,184,509	\$ 469,996,385
Investments reported at cost:		
Repurchase Agreement with Bayerische Landesbank	-	7,597,910
Miscellaneous cash	208	-
	464,184,717	477,594,295
Less: Amounts classified as restricted assets (see Note 6)	(98,781,335)	(102,561,070)
Total Unrestricted Cash and Cash Equivalents	\$ 365,403,382	\$ 375,033,225

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, 2015, the current yield on the LGIP was 0.14%, compared to 0.09% as of June 30, 2014. The LGIP investment is stated at fair value.

The repurchase agreement with Bayerische Landesbank was collateralized by U.S. Treasury notes, bonds and debentures. At June 30, 2015, the investment had matured and was liquidated. At June 30, 2014, the repurchase agreement had a market value of \$8,058,860. The collateral was held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contained a fixed yield of 6.5%. The repurchase agreement provided for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

<u>As of June 30, 2015</u>	<u>Amount</u>	<u>Exposure to Custodial Credit Risk</u>	<u>Credit Risk</u>	<u>Interest Rate Risk</u>	<u>Interest Rate Highly Sensitive</u>	<u>Foreign Currency Rate</u>	<u>% of Portfolio</u>
LGIP	\$ 464,184,509	N/A	Not rated	N/A	N/A	N/A	67.6%
Treasury notes – Forward delivery	45,594,883	\$0	N/A	See Note 4	N/A	N/A	6.7
GO Bonds-WI	176,611,170	\$0	Aa2	5-1-33 final maturity	N/A	N/A	25.7

  

<u>As of June 30, 2014</u>	<u>Amount</u>	<u>Exposure to Custodial Credit Risk</u>	<u>Credit Risk</u>	<u>Interest Rate Risk</u>	<u>Interest Rate Highly Sensitive</u>	<u>Foreign Currency Rate</u>	<u>% of Portfolio</u>
LGIP	\$ 469,996,385	N/A	Not rated	N/A	N/A	N/A	66.0%
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.0
Treasury notes – Forward delivery	45,554,347	\$0	N/A	See Note 4	N/A	N/A	6.5
GO Bonds-WI	188,914,802	\$0	Aa2	5-1-33 final maturity	N/A	N/A	26.5

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

Restricted assets of \$98,781,334 and \$102,561,070 at June 30, 2015 and 2014, respectively, represent amounts legally restricted by the Clean Water Revenue Bonds. The amounts restricted are the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

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

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



# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

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

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

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2015, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,138,000	1.375%	\$ 6,992,075	5.58%	June 1, 2017	\$ 7,185,056
Series 1998-1 Agreement	7,424,000	1.375	7,292,832	5.01	June 1, 2018	7,472,942
Series 1999-1 Agreement	7,088,000	1.375	6,918,903	6.32	June 1, 2020	7,134,727
Series 2006-1 Agreement	6,560,000	0.250	6,422,000	4.56	June 1, 2027	6,565,971
Series 2006-2 Agreement	8,183,000	0.250	8,000,000	4.84	June 1, 2027	8,190,448
Series 2008-1 Agreement	10,061,000	1.375	9,969,073	4.10	June 1, 2028	10,127,326

The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2014, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,187,000	2.000%	\$ 6,992,011	5.58%	June 1, 2017	\$ 7,170,415
Series 1998-1 Agreement	7,475,000	2.000	7,292,215	5.01	June 1, 2018	7,457,751
Series 1999-1 Agreement	7,137,000	2.000	6,918,023	6.32	June 1, 2020	7,120,531
Series 2006-1 Agreement	6,545,000	0.375	6,421,714	4.56	June 1, 2027	6,542,458
Series 2006-2 Agreement	8,163,000	0.375	7,999,509	4.84	June 1, 2027	8,159,830
Series 2008-1 Agreement	10,130,000	2.000	9,927,034	4.10	June 1, 2028	10,106,624

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

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

The following is a schedule of transfers between the loan portfolios and/or other funds at the State of Wisconsin at June 30, 2015 and 2014:

Transferred To	Transferred From	June 30, 2015 Amount	June 30, 2014 Amount	Principal Purpose
Direct Loan Portfolio	Proprietary Portfolio	\$ 7,575,311	\$ 7,217,401	State match
Proprietary Portfolio	Capital Improvement	8,221,642	19,591,119	Future debt service
Safe Drinking Water Loan Program	Capital Improvement	3,085,000	2,895,369	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	11,761	17,113	Personal services
Leveraged Loan Portfolio	Proprietary Portfolio	-	10,700,000	Future debt service
Subtotal		26,893,714	48,421,002	
Less: Eliminations		(23,598,833)	(33,951,627)	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Position		<u>\$ 3,294,881</u>	<u>\$ 14,469,375</u>	

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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

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

Revenue bonds activity as of June 30, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 764,745,000	\$ -	\$ 58,400,000	\$ 706,345,000	\$ 59,935,000
Add:					
Unamortized premiums	61,677,265	-	9,306,356	52,370,909	-
Totals	\$ 826,422,265	\$ -	\$ 67,706,356	\$ 758,715,909	\$ 59,935,000

Revenue bonds activity as of June 30, 2014 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 822,940,000	\$ -	\$ 58,195,000	\$ 764,745,000	\$ 58,400,000
Add:					
Unamortized premiums	71,703,789	-	10,026,524	61,677,265	-
Totals	\$ 894,643,789	\$ -	\$ 68,221,524	\$ 826,422,265	\$ 58,400,000

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

### REVENUE OBLIGATION BONDS (cont.)

Revenue obligation serial and term bonds as of June 30, 2015 and 2014 consisted of the following:

	2015	2014
1998 Series 2:		
Serial Bonds, no optional redemption, June 1, 2017	\$ 11,590,000	\$ 21,560,000
Unamortized premium on bonds	102,847	235,047
	11,692,847	21,795,047
2002 Series 2:		
Serial Bonds, no optional redemption, June 1, 2016	3,935,000	7,675,000
Unamortized premium on bonds	39,793	121,977
	3,974,793	7,796,977
2004 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015 (refunded July 15, 2015 – see Note 15)	37,305,000	51,770,000
Unamortized premium on bonds	757,927	1,270,261
	38,062,927	53,040,261
2006 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	3,575,000	6,980,000
Unamortized premium on bonds	36,000	109,703
	3,611,000	7,089,703
2006 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	-	4,255,000
Unamortized premium on bonds	-	44,381
	-	4,299,381
2008 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	76,105,000	80,010,000
Unamortized premium on bonds	2,876,440	3,406,785
	78,981,440	83,416,785
2008 Series 2:		
Serial Bonds, no optional redemption, June 1, 2018	27,335,000	27,335,000
Unamortized premium on bonds	841,299	1,225,760
	28,176,299	28,560,760
2008 Series 3:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	71,850,000	75,680,000
Unamortized premium on bonds	812,595	1,018,776
	72,662,595	76,698,776

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

<i>REVENUE OBLIGATION BONDS</i> (cont.)	2015	2014
2010 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	\$ 51,625,000	\$ 55,810,000
Unamortized premium on bonds	3,084,863	3,438,989
	54,709,863	59,248,989
2010 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	14,070,000	14,070,000
Unamortized premium on bonds	1,079,235	1,276,945
	15,149,235	15,346,945
2010 Series 3:		
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	49,690,000	49,690,000
	49,690,000	49,690,000
2010 Series 4:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	100,635,000	104,800,000
Unamortized premium on bonds	7,814,270	8,888,693
	108,449,270	113,688,693
2010 Series 5:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	36,760,000	36,760,000
Unamortized premium on bonds	3,278,199	3,863,823
	40,038,199	40,623,823
2012 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2033	51,075,000	53,055,000
Unamortized premium on bonds	6,974,614	7,720,737
	58,049,614	60,775,737
2012 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2024	87,950,000	92,450,000
Unamortized premium on bonds	12,452,102	15,111,330
	100,402,102	107,561,330
2013 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2027	82,845,000	82,845,000
Unamortized premium on bonds	12,220,725	13,944,058
	95,065,725	96,789,058
Total of All Series	\$ 758,715,909	\$ 826,422,265

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

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

The original premium at issuance and the interest rates for bonds outstanding at June 30, 2015 or June 30, 2014, were the following:

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

\* - The effect of the interest rate subsidy on the 2010 Series 3 revenue bonds through June 1, 2025 is \$5,446,902. The amount due in the next fiscal year is \$831,375.

Principal and interest due on the bonds, net of advance refundings, as of June 30, 2015, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2016	\$ 59,935,000	\$ 34,657,283	\$ 94,592,283
2017	60,775,000	31,729,095	92,504,095
2018	60,510,000	28,824,553	89,334,553
2019	55,315,000	25,856,664	81,171,664
2020	54,780,000	23,143,864	77,923,864
2021-2025	239,810,000	78,094,832	317,904,832
2026-2030	147,475,000	25,573,425	173,048,425
2031-2033	27,745,000	1,798,000	29,543,000
Totals	<u>\$ 706,345,000</u>	<u>\$ 249,677,716</u>	<u>\$ 956,022,716</u>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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

Principal and interest due on the bonds, net of advance refundings, as of June 30, 2014, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2015	\$ 58,400,000	\$ 37,532,446	\$ 95,932,446
2016	59,935,000	34,657,283	94,592,283
2017	60,775,000	31,729,095	92,504,095
2018	60,510,000	28,824,553	89,334,553
2019	55,315,000	25,856,664	81,171,664
2020-2024	253,335,000	90,507,717	343,842,717
2025-2029	168,170,000	33,889,154	202,059,154
2030-2033	48,305,000	4,213,250	52,518,250
Totals	<u>\$ 764,745,000</u>	<u>\$ 287,210,162</u>	<u>\$ 1,051,955,162</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2015 and 2014, the total assets of the Leveraged Loan Portfolio were \$985,342,392 and \$1,060,427,775, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

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

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay \$706.4 million in revenue bonds issued between 1998-2013. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require 53% of revenues. The total principal and interest remaining to be paid on the bonds is \$956,022,716. Principal and interest paid for the current year and total net revenues were \$95.9 million and \$100.5 million, respectively.

### **RESTRICTED ASSETS**

Among other restrictions under the revenue obligation bond agreements are provisions that require a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net position consist of \$98.8 million of the LGIP balance held as a credit reserve. This amount is required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

### NOTE 7 – DEBT REFUNDING

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

In prior years, the fund defeased certain revenue obligation 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, 2015, \$53,325,000 of bonds outstanding are considered defeased. At June 30, 2014, \$124,445,000 of bonds outstanding are considered defeased. The bonds are callable as follows:

Call Date	Amount as of June 30, 2015	Amount as of June 30, 2014
6/1/2015	\$ -	\$ 71,120,000
6/1/2016	53,325,000	53,325,000

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

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for a State of Wisconsin General Obligation Bond as part of the Clean Water Program ("Global Certificate"). Subsequent to the Global Certificate, additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program. Details of these investments as of June 30, 2015 are as follows:

Series	Par Value	Weighted Average Coupon Interest Rate	Market Value
2004	\$ 56,855,080	0.00%	\$ 49,534,793
2007A	8,934,070	5.52	10,231,584
2007B	6,851,446	5.76	7,987,137
2008A	10,300,000	Less than 1%	10,300,000
2008B	16,600,000	6.16	20,548,786
2009A	17,700,000	5.78	20,957,780
2010A	15,243,000	5.47	17,403,345
2010B	15,000,000	5.96	17,859,396
2012A	11,900,000	2.96	11,820,034
2014A	9,800,000	3.40	9,968,315
Totals	\$ 169,183,596		\$ 176,611,170



## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

The details of the investments as of June 30, 2014 are as follows:

Series	Par Value	Weighted Average Coupon Interest Rate	Market Value
2004	\$ 62,528,244	0.00%	\$ 54,287,495
2007A	9,724,186	5.50	11,502,353
2007B	6,851,446	5.76	8,458,665
2008A	10,300,000	Less than 1%	10,300,000
2008B	16,600,000	6.16	21,751,058
2009A	17,700,000	5.78	21,702,256
2010A	15,243,000	5.47	18,303,867
2010B	15,000,000	5.96	18,807,717
2012A	12,300,000	2.89	12,565,068
2014A	10,700,000	3.13	11,236,323
Totals	<u>\$ 176,946,876</u>		<u>\$ 188,914,802</u>

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

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

Years Ending June 30,	2015	2014
2015	\$ -	\$ 7,763,280
2016	8,291,289	8,291,289
2017	12,025,350	12,025,350
2018	13,424,630	13,424,630
2019	11,522,163	11,522,163
2020	10,887,904	10,887,904
2021-2025	38,353,120	38,353,120
2026-2030	42,964,140	42,964,140
2031-2033	21,415,000	21,415,000
Totals	<u>\$ 158,883,596</u>	<u>\$ 166,646,876</u>

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

### NOTE 9 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2015 and 2014:

	2015	2014
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 454,517	\$ 386,847
Repurchase Agreement with Bayerische Landesbank	452,709	493,864
United States Treasury Notes	2,280,203	2,280,105
State of Wisconsin General Obligation Bonds	5,435,970	5,136,698
Federal Interest on Build America Bonds	770,685	771,516
Total Interest	9,394,084	9,069,030
Changes in Realized and Unrealized Gains (Losses)		
State of Wisconsin General Obligation Bonds	(4,540,353)	4,019,579
Total Interest and Changes in Unrealized Gains	4,853,731	13,088,609
Change in Estimated Rebateable Arbitrage Liability	(254,716)	(282,221)
TOTAL INVESTMENT INCOME	\$ 4,599,015	\$ 12,806,388

### NOTE 10 – 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 \$38.0 million for federal fiscal year 2015. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2015 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 2015 and a grant to Wisconsin of approximately \$15.4 million is expected for federal fiscal year 2015.

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, 2015 and 2014

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## NOTE 10 – 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 June 30, 2015 and 2014, the Fund was committed to award \$0 and \$2,937,544, respectively, of additional hardship grants. At June 30, 2015 and 2014, the Fund had projected additional hardship grants of \$0 for both years. In addition to hardship grants, the Fund was committed to award \$7,533,727 and \$6,348,988, respectively, of reduced interest rate loans. At June 30, 2015 and 2014, the Fund had projected additional reduced interest rate loans of \$6,665,553 and \$2,378,339, respectively.

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## NOTE 11 – RESTATEMENT

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Net position has been restated as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which requires the measurement and recognition of certain liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to defined benefit pension plans. These items had not previously been measured or recorded. The details of this restatement is as follows:

Net Position – June 30, 2014 (as reported)	\$ 1,923,371,296
Add: Net pension asset	<u>134,225</u>
Net Position – June 30, 2014 (as restated)	<u>\$ 1,923,505,521</u>

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

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

- > Statement No. 72, *Fair Value Measurement and Application*
- > Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- > Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- > Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- > Statement No. 77, *Tax Abatement Disclosures*

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

# STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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

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## **NOTE 14 – RISK MANAGEMENT**

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

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## **NOTE 15 – SUBSEQUENT EVENTS**

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On July 15, 2015, the Fund issued Series 1 Clean Water Revenue Refunding Bonds in the amount of \$133,235,000 with interest rates varying between 0.73% and 2.81% to refund 2004 Series 2 as well as partially refund 2008 Series 1 and 3 Clean Water Revenue Bonds.

**SUPPLEMENTAL INFORMATION**

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2015

	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	\$ 258,929,644	\$ 7,226,866	\$ (9,685,825)
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	44,285	45,550,598
<b>Receivables</b>			
Loans to local governments - current portion	88,787,525	1,060,477	64,961,323
Due from other funds	1,000	1,702,731	-
Due from other governmental entities	4,490,733	34,426	2,842,936
Accrued investment income	-	-	190,009
Prepaid items	-	3,294	16,887
Total Current Assets	<u>352,208,902</u>	<u>10,072,079</u>	<u>103,875,928</u>
<b>Noncurrent Assets</b>			
Restricted assets - cash equivalents	-	-	98,781,334
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	-	176,611,170
Loans to local governments	996,284,913	7,059,943	605,940,272
Advances to other funds	6,222,149	-	-
Prepaid items	-	-	133,688
Net pension assets	-	81,885	-
Total Noncurrent Assets	<u>1,002,507,062</u>	<u>7,141,828</u>	<u>881,466,464</u>
Total Assets	<u>1,354,715,964</u>	<u>17,213,907</u>	<u>985,342,392</u>
<b>Deferred Outflows of Resources</b>			
Changes related to net pension asset	-	48,406	-
Unamortized charges	-	-	14,411,933
Total Deferred Outflows of Resources	<u>-</u>	<u>48,406</u>	<u>14,411,933</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,354,715,964</u>	<u>\$ 17,262,313</u>	<u>\$ 999,754,325</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 108,932,697	\$ -	\$ 365,403,382
-	-	45,594,883
22,528,657	-	177,337,982
1,849	(1,702,731)	2,849
1,437,705	-	8,805,800
-	-	190,009
-	-	20,181
<u>132,900,908</u>	<u>(1,702,731)</u>	<u>597,355,086</u>
-	-	98,781,334
-	-	176,611,170
252,241,766	-	1,861,526,894
-	-	6,222,149
-	-	133,688
-	-	81,885
<u>252,241,766</u>	<u>-</u>	<u>2,143,357,120</u>
<u>385,142,674</u>	<u>(1,702,731)</u>	<u>2,740,712,206</u>
-	-	48,406
-	-	14,411,933
<u>-</u>	<u>-</u>	<u>14,460,339</u>
<u>\$ 385,142,674</u>	<u>\$ (1,702,731)</u>	<u>\$ 2,755,172,545</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION  
BY PROGRAM  
As of June 30, 2015

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Accrued expenses	\$ 1,106	\$ 13,437	\$ 40,000
Accrued interest on bonds	-	-	2,888,107
Due to other funds	371,961	731,015	1,452,731
Due to other governmental entities	-	-	-
Compensated absences - current portion	-	57,440	-
Revenue obligation bonds - current maturities	-	-	59,935,000
<b>Total Current Liabilities</b>	<u>373,067</u>	<u>801,892</u>	<u>64,315,838</u>
<b>Noncurrent Liabilities</b>			
Accrued expenses	-	28,826	-
Due to other governmental entities	-	-	574,584
Compensated absences	-	28,359	-
Revenue obligation bonds (including unamortized premium)	-	-	698,780,909
<b>Total Noncurrent Liabilities</b>	<u>-</u>	<u>57,185</u>	<u>699,355,493</u>
<b>Total Liabilities</b>	<u>373,067</u>	<u>859,077</u>	<u>763,671,331</u>
<b>Deferred Inflows of Resources</b>			
Changes related to net pension asset	-	821	-
<b>Net Position</b>			
Restricted for environmental improvement	1,354,342,897	2,397,695	236,082,994
Unrestricted	-	14,004,720	-
<b>Total Net Position</b>	<u>1,354,342,897</u>	<u>16,402,415</u>	<u>236,082,994</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 1,354,715,964</u>	<u>\$ 17,262,313</u>	<u>\$ 999,754,325</u>



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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 95,171	\$ -	\$ 149,714
-	-	2,888,107
410,865	(1,702,731)	1,263,841
223,903	-	223,903
-	-	57,440
-	-	59,935,000
<u>729,939</u>	<u>(1,702,731)</u>	<u>64,518,005</u>
-	-	28,826
-	-	574,584
-	-	28,359
-	-	698,780,909
-	-	699,412,678
<u>729,939</u>	<u>(1,702,731)</u>	<u>763,930,683</u>
-	-	821
384,412,735	-	1,977,236,321
-	-	14,004,720
<u>384,412,735</u>	<u>-</u>	<u>1,991,241,041</u>
<u>\$ 385,142,674</u>	<u>\$ (1,702,731)</u>	<u>\$ 2,755,172,545</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY PROGRAM  
For the Year Ended June 30, 2015

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>OPERATING REVENUES</b>			
Loan interest	\$ 27,523,427	\$ 233,205	\$ -
Interest income used as security for revenue bonds	-	-	18,870,494
Miscellaneous other	-	30,703	-
Total Operating Revenues	<u>27,523,427</u>	<u>263,908</u>	<u>18,870,494</u>
<b>OPERATING EXPENSES</b>			
Interest	-	-	31,300,577
Salaries and benefits	1,503,908	268,292	1,073,168
Contractual services and other	134,529	94,891	1,081,689
Total Operating Expenses	<u>1,638,437</u>	<u>363,183</u>	<u>33,455,434</u>
Operating Income (Loss)	<u>25,884,990</u>	<u>(99,275)</u>	<u>(14,584,940)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	245,580	7,839	770,685
Investment income used as security for revenue bonds	-	-	3,463,690
Intergovernmental grants	38,156,526	-	-
Grants awarded	(1,529,820)	(1,318,744)	-
Total Nonoperating Revenues (Expenses)	<u>36,872,286</u>	<u>(1,310,905)</u>	<u>4,234,375</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	62,757,276	(1,410,180)	(10,350,565)
Transfers in	7,575,311	8,221,642	-
Transfers out	(8,000,000)	(7,587,072)	-
<b>Change in Net Position</b>	62,332,587	(775,610)	(10,350,565)
TOTAL NET POSITION - Beginning of Year (as restated)	<u>1,292,010,310</u>	<u>17,178,025</u>	<u>246,433,559</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,354,342,897</u>	<u>\$ 16,402,415</u>	<u>\$ 236,082,994</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 5,884,341	\$ -	\$ 33,640,973
-	-	18,870,494
-	-	30,703
<u>5,884,341</u>	<u>-</u>	<u>52,542,170</u>
-	-	31,300,577
1,612,305	-	4,457,673
<u>1,910,807</u>	<u>-</u>	<u>3,221,916</u>
<u>3,523,112</u>	<u>-</u>	<u>38,980,166</u>
<u>2,361,229</u>	<u>-</u>	<u>13,562,004</u>
111,221	-	1,135,325
-	-	3,463,690
17,655,723	-	55,812,249
<u>(6,684,065)</u>	<u>-</u>	<u>(9,532,629)</u>
<u>11,082,879</u>	<u>-</u>	<u>50,878,635</u>
13,444,108	-	64,440,639
3,085,000	(7,575,311)	11,306,642
<u>-</u>	<u>7,575,311</u>	<u>(8,011,761)</u>
16,529,108	-	67,735,520
<u>367,883,627</u>	<u>-</u>	<u>1,923,505,521</u>
<u>\$ 384,412,735</u>	<u>\$ -</u>	<u>\$ 1,991,241,041</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2015

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection of loans	\$ 85,230,273	\$ 1,187,085	\$ 67,088,424
Interest received on loans	27,143,264	237,742	19,172,441
Origination of loans	(166,057,660)	-	-
Payments to employees for services	(1,736,952)	438,238	(794,952)
Payments to suppliers and other	(132,557)	(89,037)	(1,032,830)
Other operating revenues	-	30,703	-
Net Cash Flows From Operating Activities	<u>(55,553,632)</u>	<u>1,804,731</u>	<u>84,433,083</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental grants received	38,165,731	-	-
Grants paid	(1,529,820)	(1,318,744)	-
Transfers in	7,575,311	8,221,642	-
Transfers out	(8,000,000)	(7,587,072)	-
Retirement of long-term debt	-	-	(58,400,000)
Interest payments	-	-	(37,532,446)
Advances to other funds	(2,553)	-	-
Net Cash Flows From Noncapital Financing Activities	<u>36,208,669</u>	<u>(684,174)</u>	<u>(95,932,446)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	-	-	(31,032)
Liquidation of investments	-	-	7,768,448
Investment and interest income	245,580	(6,833)	8,402,746
Net Cash Flows From Investing Activities	<u>245,580</u>	<u>(6,833)</u>	<u>16,140,162</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(19,099,383)	1,113,724	4,640,799
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>278,029,027</u>	<u>6,113,142</u>	<u>84,454,710</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 258,929,644</u>	<u>\$ 7,226,866</u>	<u>\$ 89,095,509</u>

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Safe Drinking Water Loan Program	Eliminations	Totals
\$ 20,664,898	\$ -	\$ 174,170,680
5,861,669	-	52,415,116
(37,333,003)	-	(203,390,663)
(1,896,569)	-	(3,990,235)
(1,881,140)	-	(3,135,564)
-	-	30,703
<u>(14,584,145)</u>	<u>-</u>	<u>16,100,037</u>
18,007,269	-	56,173,000
(6,684,065)	-	(9,532,629)
3,085,000	(7,575,311)	11,306,642
-	7,575,311	(8,011,761)
-	-	(58,400,000)
-	-	(37,532,446)
-	-	(2,553)
<u>14,408,204</u>	<u>-</u>	<u>(45,999,747)</u>
-	-	(31,032)
-	-	7,768,448
<u>111,222</u>	<u>-</u>	<u>8,752,715</u>
<u>111,222</u>	<u>-</u>	<u>16,490,131</u>
(64,719)	-	(13,409,579)
<u>108,997,416</u>	<u>-</u>	<u>477,594,295</u>
<u>\$ 108,932,697</u>	<u>\$ -</u>	<u>\$ 464,184,716</u>

**STATE OF WISCONSIN  
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS  
BY PROGRAM  
For the Year Ended June 30, 2015

	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)	\$ 25,884,990	\$ (99,275)	\$ (14,584,940)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities			
Interest expense classified as noncapital financing activity	-	-	31,300,577
Changes in assets and liabilities:			
Loans to other governments	(80,827,388)	1,187,085	67,088,424
Due from other funds	-	80,661	-
Proportionate share of contributions	-	(34,821)	-
Prepaid items	-	1,768	16,887
Compensated absences	-	92	-
Other assets	-	39,577	-
Other postemployment benefits	-	(1,479)	-
Accrued expenses	1,106	(1,053)	38,325
Accrued interest on bonds	(380,163)	4,537	301,947
Due to other funds	(232,177)	627,639	271,863
Due to other governmental entities	-	-	-
Total Adjustments	(81,438,622)	1,904,006	99,018,023
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ (55,553,632)</b>	<b>\$ 1,804,731</b>	<b>\$ 84,433,083</b>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>			
Unrestricted cash and cash equivalents - statement of net position	\$ 258,929,644	\$ 7,226,866	\$ (9,685,825)
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	-	44,285	45,550,598
Investments in State of Wisconsin general obligation clean water bonds	-	-	176,611,170
Restricted cash and cash equivalents - statement of net position	-	-	98,781,334
Total Cash and Investments	258,929,644	7,271,151	311,257,277
Less: Noncash equivalents	-	(44,285)	(222,161,768)
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 258,929,644</b>	<b>\$ 7,226,866</b>	<b>\$ 89,095,509</b>
 <b>NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES</b>			
Net change in unrealized gains and losses	\$ -	\$ -	\$ 4,540,353
Bond premium amortization	-	-	9,306,356

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Safe Drinking Water Loan Program	Totals
\$ 2,361,229	\$ 13,562,004
-	31,300,577
(16,668,105)	(29,219,984)
52,634	133,295
-	(34,821)
-	18,655
-	92
-	39,577
-	(1,479)
27,888	66,266
(22,672)	(96,351)
(333,340)	333,985
(1,779)	(1,779)
(16,945,374)	2,538,033
\$ (14,584,145)	\$ 16,100,037
\$ 108,932,697	\$ 365,403,382
-	45,594,883
-	176,611,170
-	98,781,334
108,932,697	686,390,769
-	(222,206,053)
\$ 108,932,697	\$ 464,184,716
\$ -	\$ 4,540,353
\$ -	\$ 9,306,356

## STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)  
For the Years Ended June 30, 2015 and 2014

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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, 2015, 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 23, 2015.

***Internal Control Over Financial Reporting***

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

*Baker Tilly Vinchow Krause, LLP*  
Madison, Wisconsin  
October 23, 2015

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended June 1, 2015

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS	
Statement of Net Position – As of June 1, 2015	3
Statement of Revenues, Expenses, and Changes in Net Position – For the Year Ended June 1, 2015	4
Statement of Cash Flows – For the Year Ended June 1, 2015	5 – 6
Notes to Financial Statements	7 – 18
OTHER INFORMATION (UNAUDITED)	19

## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the Leveraged Loan Portfolio (an environmental financing program) of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the year ended June 1, 2015, and the related notes to the financial statements, as listed in the table of contents.

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

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leveraged Loan Portfolio as of June 1, 2015, 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 Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin, as of June 1, 2015, or June 30, 2015, and the changes in financial position, or cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***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.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Leveraged Loan Portfolio's financial statements. The "Other Information" listed in the accompanying table of contents are presented for purposes of additional analysis and are 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.

*BakerTilly Virchow Krause, LLP*

Madison, Wisconsin  
October 23, 2015

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF NET POSITION  
As of June 1, 2015

<b><i>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</i></b>	
<b>Current Assets</b>	
Unrestricted cash and cash equivalents	\$ (9,247,844)
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,550,597
<b>Receivables</b>	
Loans to local governments - current portion	64,961,323
Due from other governmental entities	1,445,561
Prepaid items	151,982
Total Current Assets	<u>102,861,619</u>
<b>Noncurrent Assets</b>	
Restricted assets - cash equivalents	98,781,335
Investments - State of Wisconsin general obligation clean water bonds, at fair value	177,780,691
Loans to local governments	605,940,272
Total Noncurrent Assets	<u>882,502,298</u>
Total Assets	<u>985,363,917</u>
<b>Deferred Outflows of Resources</b>	
Unamortized charges	<u>14,662,925</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 1,000,026,842</u></b>
<b><i>LIABILITIES AND NET POSITION</i></b>	
<b>Current Liabilities</b>	
Due to other funds	\$ 1,331,670
Revenue obligation bonds - current maturities	59,935,000
Total Current Liabilities	<u>61,266,670</u>
<b>Noncurrent Liabilities</b>	
Due to other governmental entities	952,547
Revenue obligation bonds (including unamortized premium)	699,495,924
Total Noncurrent Liabilities	<u>700,448,471</u>
Total Liabilities	<u>761,715,141</u>
<b>Net Position</b>	
Restricted for environmental improvement	238,311,701
Total Net Position	<u>238,311,701</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 1,000,026,842</u></b>

See accompanying notes to financial statements.

**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Year Ended June 1, 2015

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<b>OPERATING REVENUES</b>	
Interest income used as security for revenue bonds	\$ 19,018,909
Total Operating Revenues	<u>19,018,909</u>
<b>OPERATING EXPENSES</b>	
Interest	31,508,548
Salaries and benefits	1,049,983
Contractual services and other	<u>600,948</u>
Total Operating Expenses	<u>33,159,479</u>
Operating Loss	<u>(14,140,570)</u>
<b>NONOPERATING REVENUES</b>	
Investment income used as security for revenue bonds	3,982,059
Other revenues	<u>770,685</u>
Total Nonoperating Revenues	<u>4,752,744</u>
<b>Change in Net Position</b>	(9,387,826)
TOTAL NET POSITION - Beginning of Year	<u>247,699,527</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 238,311,701</u>

See accompanying notes to financial statements.



**STATE OF WISCONSIN  
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF CASH FLOWS  
For the Year Ended June 1, 2015

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Collection on loans	\$ 67,088,424
Interest and dividends received on loans	19,172,441
Payments to employees for services	(794,952)
Payments to suppliers and other	<u>(589,884)</u>
Net Cash Flows From Operating Activities	<u>84,876,029</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Retirement of long-term debt	(116,595,000)
Interest payments	<u>(57,779,325)</u>
Net Cash Flows From Noncapital Financing Activities	<u>(174,374,325)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of investments	(31,032)
Liquidation of investments	7,797,233
Investment and interest income	<u>9,803,380</u>
Net Cash Flows From Investing Activities	<u>17,569,581</u>

**Net Decrease in Cash and Cash Equivalents** (71,928,715)

CASH AND CASH EQUIVALENTS - Beginning of Year 161,462,206

**CASH AND CASH EQUIVALENTS - END OF YEAR** \$ 89,533,491

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

Operating loss	\$ (14,140,570)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Interest expense classified as noncapital financing activity	31,508,548
Changes in assets and liabilities:	
Prepaid items	16,887
Loans to other governments	67,088,424
Interest receivable	153,532
Due to other funds	<u>249,208</u>
Total Adjustments	<u>99,016,599</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 84,876,029</u></b>

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

Unrestricted cash and cash equivalents - statement of net position	\$ (9,247,844)
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	45,550,597
Investments in State of Wisconsin general obligation clean water bonds	177,780,691
Restricted cash and cash equivalents - statement of net position	<u>98,781,335</u>
Total Cash and Investments	312,864,779
Less: Noncash equivalents	<u>(223,331,288)</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 89,533,491</u></b>

**NONCASH INVESTING ACTIVITIES**

Net change in unrealized gains and losses	<u>\$ 3,656,846</u>
Bond premium amortization	<u>\$ 9,367,091</u>

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

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

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

**Net Operating Loss**—The Portfolio incurred an operating loss of \$14.1 million in 2015. Management expects the Portfolio will generally incur net operating losses for the foreseeable future. As explained in Note 2, the losses result from the Portfolio’s statutory mission to provide loans to municipalities at interest rates below the Portfolio’s own cost of funds. The losses have historically been funded by transfers from the State. There were no such transfers made in 2015 for this purpose. Management expects transfers will continue for the foreseeable future sufficient to fund both the future operating losses and, together with additional borrowing, to fund additional loans to municipalities.

**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 statement of net position.

**United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements**—The Portfolio holds United States Treasury Notes as investments at June 1, 2015 and records the notes at cost. The Portfolio purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

GASB Statement No. 31 (GASB No. 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The four forward delivery agreements with Wachovia Bank, NA (“Wachovia”) and two forward delivery agreements with JP Morgan Chase Bank (JP Morgan) described in Note 4 would be considered participating investment contracts under GASB No. 31. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 1, 2015, the fair value of the Fund’s interest in these agreements exceeded the cost of the treasury securities owned by approximately \$1,118,011.

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

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

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**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.

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

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

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

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

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

**Revenue Recognition**—Loan interest and investment income are recognized as revenue when earned.

**Transfers In**—Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received. No transfers occurred during fiscal 2015.

**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.

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

## NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended June 1, 2015

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

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Leveraged loans to local governments at June 1, 2015, represent loans for wastewater treatment projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, a majority of the loans issued by the Portfolio are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State contributions. Interest rates on loans receivable ranged from 0% to 4.95% in 2015. The weighted average interest rate was 2.583% at June 1, 2015. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment. In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary.

Of the loans outstanding at June 1, 2015, \$259,840,445 (39%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio did not enter into any new loans during the 12 month period ended June 1, 2015. As of June 1, 2015, the Portfolio had undisbursed loan commitments totaling \$16,526,512. From June 1, 2015 to September 19, 2015, the Portfolio made no additional loan disbursements for financial assistance agreements that were outstanding prior to June 1, 2015. There were no additional leverage loans executed between June 1, 2015 and September 19, 2015. These funding commitments are generally met through the proceeds from the issuance of additional Clean Water revenue bonds and investment earnings thereon (Note 6). Financial assistance in the form of grants is not provided in the Leverage Portfolio. The management of the EIF may elect to switch the target funding portfolio for a loan from Leverage to another loan portfolio based on various business or program needs.

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### NOTE 3 – CASH AND CASH EQUIVALENTS

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As of June 1, 2015, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	
Cash held by custodian	\$ 89,533,491
Less: Amounts classified as restricted assets (see Note 6)	<u>(98,781,335)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ (9,247,844)</u>

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal and liquidity while earning a competitive money market rate of return. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is not a SEC registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 1, 2015, the current yield on the LGIP was 0.13%. The LGIP investment is stated at fair value.

	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 89,533,491	N/A	Not rated	N/A	N/A	N/A	28.6%
Treasury notes – Forward delivery	45,550,597	\$0	N/A	See Note 4	N/A	N/A	14.6
GO Bonds-WI	177,780,691	\$0	Aa2	5-1-33 final maturity	N/A	N/A	56.8

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

Restricted assets of \$98,781,335 represent amounts legally restricted by the Clean Water Revenue Bonds. The amount restricted is the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

### NOTE 4 – FORWARD DELIVERY AGREEMENTS

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

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

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

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

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 1, 2015, are as follows:

	<u>Par Value of Treasuries</u>	<u>Coupon Rate of Treasuries</u>	<u>Cost of Treasuries</u>	<u>Agreement Interest Rate</u>	<u>Agreement Maturity Date</u>	<u>Agreement Market Value</u>
Series 1997-1 Agreement	\$ 7,138,000	1.375%	\$ 6,992,075	5.58%	June 1, 2017	\$ 7,183,815
Series 1998-1 Agreement	7,424,000	1.375	7,292,832	5.01	June 1, 2018	7,471,650
Series 1999-1 Agreement	7,088,000	1.375	6,918,903	6.32	June 1, 2020	7,133,494
Series 2006-1 Agreement	6,560,000	0.250	6,422,000	4.56	June 1, 2027	6,564,927
Series 2006-2 Agreement	8,183,000	0.250	8,000,000	4.84	June 1, 2027	8,189,146
Series 2008-1 Agreement	10,061,000	1.375	9,924,787	4.10	June 1, 2028	10,125,576

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

The following is a schedule of interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Proprietary Portfolio	Leveraged Loan Portfolio	\$ 1,331,670
Total Due to Other Funds – Statement of Net Position		<u>\$ 1,331,670</u>

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

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

#### REVENUE OBLIGATION BONDS

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 822,940,000	\$ -	\$ 116,595,000	\$ 706,345,000	\$ 59,935,000
Add:					
Unamortized premiums	62,453,015	-	9,367,091	53,085,924	-
Totals	\$ 885,393,015	\$ -	\$ 125,962,091	\$ 759,430,924	\$ 59,935,000

Revenue obligation serial and term bonds as of June 1, 2015 consisted of the following:

	2015
1998 Series 2:	
Serial Bonds, no optional redemption, June 1, 2017	\$ 11,590,000
Unamortized premium on bonds	108,852
	11,698,852
2002 Series 2:	
Serial Bonds, no optional redemption, June 1, 2016	3,935,000
Unamortized premium on bonds	43,368
	3,978,368
2004 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	37,305,000
Unamortized premium on bonds	785,323
	38,090,323
2006 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	3,575,000
Unamortized premium on bonds	39,239
	3,614,239
2008 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	76,105,000
Unamortized premium on bonds	2,916,219
	79,021,219
2008 Series 2:	
Serial Bonds, no optional redemption, June 1, 2018	27,335,000
Unamortized premium on bonds	874,073
	28,209,073
2008 Series 3:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	71,850,000
Unamortized premium on bonds	830,623
	72,680,623



## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

<i>REVENUE OBLIGATION BONDS</i> (cont.)	<u>2015</u>
2010 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	\$ 51,625,000
Unamortized premium on bonds	3,105,094
	<u>54,730,094</u>
2010 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	14,070,000
Unamortized premium on bonds	1,096,072
	<u>15,166,072</u>
2010 Series 3:	
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	<u>49,690,000</u>
2010 Series 4:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	100,635,000
Unamortized premium on bonds	7,898,307
	<u>108,533,307</u>
2010 Series 5:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	36,760,000
Unamortized premium on bonds	3,327,962
	<u>40,087,962</u>
2012 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2033	51,075,000
Unamortized premium on bonds	7,034,080
	<u>58,109,080</u>
2012 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2024	87,950,000
Unamortized premium on bonds	12,660,664
	<u>100,610,664</u>
2013 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2027	82,845,000
Unamortized premium on bonds	12,366,048
	<u>95,211,048</u>
Total of All Series	<u>\$ 759,430,924</u>

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

#### REVENUE OBLIGATION BONDS (cont.)

The original issue discount or premium at issuance and the interest rates at June 1, 2015, on the following bond series were:

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

\* - The effect of the interest rate subsidy on the 2010 Series 3 revenue bonds through June 1, 2025 is \$5,446,902. The amount due in the next fiscal year is \$831,375.

Principal and interest due on the bonds, net of advance refundings, as of June 1, 2015, are as follows:

Years Ending June 1,	Principal	Interest	Totals
2016	\$ 59,935,000	\$ 34,657,283	\$ 94,592,283
2017	60,775,000	31,729,095	92,504,095
2018	60,510,000	28,824,553	89,334,553
2019	55,315,000	25,856,664	81,171,664
2020	54,780,000	23,143,864	77,923,864
2021-2025	239,810,000	78,094,832	317,904,832
2026-2030	147,475,000	25,573,425	173,048,425
2031-2033	27,745,000	1,798,000	29,543,000
<b>Totals</b>	<b>\$ 706,345,000</b>	<b>\$ 249,677,716</b>	<b>\$ 956,022,716</b>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2015, the total assets of the Leveraged Loan Portfolio were \$985,363,917. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

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

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

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay \$706.4 million in revenue bonds issued between 1998-2013. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require 53% of revenues. The total principal and interest remaining to be paid on the bonds is \$956,022,716. Principal and interest paid for the current year and total net revenues were \$154.1 million and \$100.7 million, respectively.

### *RESTRICTED ASSETS*

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net position consist of \$9.2 million of the Treasury securities (Note 4) and \$89.5 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

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## NOTE 7 – PRIOR-YEAR DEFEASANCE OF DEBT

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In prior years, the fund defeased certain revenue obligation 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 1, 2015, \$53,325,000 of bonds outstanding are considered defeased. The bonds are callable as follows:

<u>Call Date</u>	<u>Amount as of June 1, 2015</u>
6/1/2016	\$ 53,325,000

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for a State of Wisconsin General Obligation Bond as part of the Clean Water Program (“Global Certificate”). Subsequent to the Global Certificate, additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program. Details of these investments as of June 1, 2015 are as follows:

Series	Par Value	Weighted Average Coupon Interest Rate	Market Value
2004	\$ 56,855,080	0.00%	\$ 49,609,062
2007A	8,934,070	5.52	10,263,474
2007B	6,851,446	5.76	8,077,452
2008A	10,300,000	Less than 1%	10,300,000
2008B	16,600,000	6.16	20,765,029
2009A	17,700,000	5.78	21,041,920
2010A	15,243,000	5.47	17,640,441
2010B	15,000,000	5.96	18,120,069
2012A	11,900,000	2.96	11,897,784
2014A	9,800,000	3.40	10,065,460
Totals	\$ 169,183,596		\$ 177,780,691

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

Par value of the principal maturities of the Global Certificates as of June 1 excluding the 2008A issue which does not have a repayment schedule are as follows:

Years Ending June 1,	
2016	\$ 8,291,289
2017	12,025,350
2018	13,424,630
2019	11,522,163
2020	10,887,904
2021-2025	38,353,120
2026-2030	42,964,140
2031-2033	21,415,000
Totals	\$ 158,883,596

# STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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## NOTE 9 – INVESTMENT INCOME

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Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal year ended June 1, 2015:

Interest

State of Wisconsin Investment Board Local Government Investment Pool	\$	85,655
Repurchase Agreement with Bayerische Landesbank		493,864
United States Treasury Notes		2,280,203
State of Wisconsin General Obligation Bonds		<u>5,435,970</u>
Total Interest		<u>8,295,692</u>

Changes in Realized and Unrealized Gains (Losses)

State of Wisconsin General Obligation Bonds		<u>(3,656,846)</u>
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Total Interest and Changes in Unrealized Gains (Losses) 4,638,846

Change in Estimated Rebatable Arbitrage Liability (656,787)

TOTAL INVESTMENT INCOME \$ 3,982,059

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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. 72, *Fair Value Measurement and Application*
- > Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- > Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- > Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- > Statement No. 77, *Tax Abatement Disclosures*

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

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 1, 2015

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

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

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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 Portfolio itself.

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### **NOTE 13 – SUBSEQUENT EVENTS**

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On July 15, 2015, the Leveraged Loan Portfolio issued Series 1 Clean Water Revenue Refunding Bonds in the amount of \$133,235,000 with interest rates varying between 0.73% and 2.81% to refund 2004 Series 2 as well as partially refund 2008 Series 1 and 3 Clean Water Revenue Bonds.

## STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)  
For the Year Ended June 1, 2015

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