

PART VI

CLEAN WATER REVENUE BONDS

Part VI of the 2017 Annual Report provides information about clean water revenue bonds (**Bonds**) issued by the State of Wisconsin (**State**). Selected information is provided on this page for the convenience of the readers; however, all information presented in this Part VI of the 2017 Annual Report should be reviewed to make an informed investment decision.

Total Outstanding Balance (12/15/2017)	\$45,080,000
Ratings ^(a) (Fitch/Moody's/S&P) Bonds	AA+/Aa1/AA+
Authority	Clean Water Revenue Bond General Resolution adopted by the Commission on March 7, 1991, as supplemented and amended (General Resolution), and Subchapter II of Chapter 18 and Sections 281.58 and 281.59, Wisconsin Statutes.
Trustee/Paying Agent	U.S. Bank National Association serves as Trustee, registrar, and Paying Agent.
Security	All Bonds, other than outstanding Clean Water Revenue Bonds, 2010 Series 3 (Taxable) (2010 Series 3 Bonds), have been legally defeased, and all Pledged Loans have been released from the General Resolution. The 2010 Series 3 Bonds have been economically defeased and are payable from amounts on deposit in the Revenue Fund and the Subsidy Fund under the General Resolution. See " SECURITY AND SOURCE OF PAYMENT FOR THE BONDS. "
Audit Report and Financial Statements	APPENDIX A of this Part VI of the 2017 Annual Report includes independent auditor's report and the financial statements for the Environmental Improvement Fund.
^(a) The ratings presented are the ratings assigned to the State's clean water revenue bonds without regard to any bond insurance policy. No information is provided in the 2017 Annual Report about any rating assigned to any clean water revenue bonds based on any bond insurance policy.	

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The State of Wisconsin Building Commission (**Commission**) supervises all matters concerning the State's issuance of revenue obligations. The Capital Finance Office, which is part of the State of Wisconsin Department of Administration's Division of Executive Budget and Finance, is responsible for managing the State's borrowing programs. The law firm of Foley & Lardner LLP provided bond counsel services, and the firm of Public Financial Management, Inc. provided financial advisor services, in connection with the issuance of clean water revenue bonds. Requests for additional information about the Bonds, the State's Environmental Improvement Fund, or the State's Clean Water Fund Program may be directed to the Capital Finance Office.

Most Bonds have been issued as tax-exempt obligations; however, the 2010 Series 3 Bonds were issued as “build America bonds” pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended, for which the State is allowed a refundable tax credit.

The State previously issued Bonds to finance the State’s Clean Water Fund Program pursuant to the General Resolution. In 2015 the Commission adopted, and in 2017 the Commission amended and restated, the Program Resolution for State of Wisconsin Environmental Improvement Fund Revenue Bonds. See “**FINANCING PLAN**” for a summary of the two different revenue bond programs the State has used to fund loans from the State’s Clean Water Fund Program. This Part VI of the 2017 Annual Report addresses the Bonds; [Part VII of the 2017 Annual Report](#) addresses environmental improvement fund revenue bonds. The pledged revenues and source of payment for each revenue bond program are different and readers of the 2017 Annual Report are asked to use caution to ensure they are making reference to the appropriate part of the 2017 Annual Report.

The 2017 Annual Report includes information and defined terms for different types of municipal securities issued by the State. The context or meaning of a term used in one part of the 2017 Annual Report may differ from that of the same term used in another part, and the total amount shown in a table may vary from the related sum due to rounding. See “**GLOSSARY**” for the definitions of capitalized terms used in this Part VI of the 2017 Annual Report.

Certain statements in this Part VI of the 2017 Annual Report may be forward-looking statements that are based on expectations, estimates, projections, or assumptions. Any forward-looking statements are made as of the date of the 2017 Annual Report, and the State undertakes no obligation to update such statements to reflect subsequent events or circumstances. Actual results could differ materially from the anticipated results.

OUTSTANDING BONDS

The State has issued Bonds on the dates and in the amounts shown in Table VI-1. The table also shows the outstanding principal balances of Bonds as of December 15, 2017. U.S. Bank National Association is the trustee for the Bonds (**Trustee**). In addition, the Trustee is the registrar (**Registrar**) and paying agent (**Paying Agent**) for the Bonds.

Table VI-1

**OUTSTANDING CLEAN WATER REVENUE BONDS
BY ISSUE
(As of December 15, 2017)**

<u>Financing</u>	<u>Date of Financing</u>	<u>Maturity</u>	<u>Amount of Issuance</u>	<u>Amount Outstanding</u>
1991- Series 1	3/1/91			
Serial Bonds		1994-2008	\$ 167,555,000	-0-
Term Bonds		2011	57,445,000	-0-
1993- Series 1	8/15/93	1996-2013	84,345,000	-0-
Series 2	8/15/93	1994-2008	81,950,000	-0-
1995- Series 1	7/1/95	1997-2015	80,000,000	-0-
1997- Series 1	1/15/97	1999-2017	80,000,000	-0-
1998- Series 1	1/15/98	1999-2018	90,000,000	-0-
Refunding Series 2	8/15/98			
Serial Bonds		1999	1,800,000	-0-
Serial Bonds		2003	12,160,000	-0-
Serial Bonds		2009-17	90,400,000	-0-
1999- Series 1	8/15/99			
Serial Bonds		2001-18	67,965,000	-0-
Term Bonds		2020	12,035,000	-0-
2001- Series 1	4/2/01	2002-21	70,000,000	-0-
2002- Series 1	5/1/02	2003-23	100,000,000	-0-
Refunding Series 2	8/1/02	2003-16	85,575,000	-0-
2004- Series 1	3/3/04	2006-24	116,795,000	-0-
Refunding Series 2	1/22/05	2009-20	\$107,025,000	-0-
2006- Series 1	3/16/06	2008-27	80,000,000	-0-
Series 2	11/7/06	2008-27	100,000,000	-0-
2008- Series 1	2/12/08	2009-28	100,000,000	-0- (a)
Refunding Series 2	2/12/08	2016-18	27,335,000	-0- (a)
Series 3	12/11/08			
Serial Bonds		2010-21	60,745,000	-0- (a)
Term Bonds		2025	24,825,000	-0- (a)
Serial Bonds		2026	6,640,000	-0- (a)
2010- Series 1 Bonds	2/25/10			
Serial Bonds		2012-16	20,180,000	-0-
Serial Bonds		2026-31	47,235,000	-0- (a)
Series 2 Bonds	2/25/10	2019-21	14,070,000	-0- (a)
Series 3 Bonds (Taxable)	2/25/10	2017-25	49,690,000	\$ 45,080,000 (b)
Series 4 Bonds	11/18/10	2012-31	116,290,000	-0- (a)
Series 5 Bonds	11/18/10	2018-23	36,760,000	-0- (a)
2012- Series 1 Bonds	7/26/12	2014-33	55,000,000	-0- (a)
Series 2 Bonds	7/26/12	2015-24	92,450,000	-0- (a)
2013- Series 1 Bonds	3/20/13	2016-27	82,845,000	-0- (a)
2015- Series 1 Bonds	7/15/15	2017-28	133,235,000	-0- (a)
2016- Series 1 Bonds	4/12/16	2021-31	120,890,000	-0- (a)
<i>Total Outstanding Clean Water Revenue Bonds</i>				<u>\$45,080,000</u>

- (a) The Bonds that have been defeased in accordance with the provisions of the General Resolution are not treated as outstanding for purposes of this table or the General Resolution. Pursuant to a refunding escrow agreement, the principal of, and interest on, such Bonds will be paid as it comes due on and prior to the respective maturity or redemption dates.
- (b) The Bonds that have not been defeased in accordance with the provisions of the General Resolution are treated as outstanding for purposes of this table and the General Resolution. Amounts are held under the General Resolution sufficient to pay the principal of, and interest on, such Bonds as it comes due on and prior to the respective maturity or redemption dates. Such Bonds will continue to be treated as outstanding under the General Resolution until their maturity or redemption date (unless otherwise defeased in accordance with the General Resolution).

Table VI-2 provides a historical view of the amount of outstanding Bonds as of December 15th for the previous ten years.

Table VI-2

HISTORICAL OUTSTANDING CLEAN WATER REVENUE BONDS

Year (December 15)	Outstanding Bonds
2007	\$729,575,000
2008	866,035,000
2009	805,305,000
2010	968,165,000
2011	897,475,000
2012	885,510,000
2013	822,940,000
2014	764,745,000
2015	698,160,000
2016	634,815,000

FINANCING PLAN

In response to the Federal Water Quality Act of 1987, as amended, which established a joint federal and state program commonly referred to as the State Revolving Fund Program, the State created the Environmental Improvement Fund and the Clean Water Fund Program. Financial assistance is made available to Municipalities in the form of loans from the Clean Water Fund Program. From 1991 through 2012, the State issued Bonds to fund such loans. In 2015, the Commission approved and the State created, the environmental improvement fund revenue obligations program, and bonds were issued under that new program to provide financing for the Clean Water Fund Program.

In connection with the issuance in 2017 of environmental improvement fund revenue bonds, all Bonds under the General Resolution were either legally defeased (in accordance with the terms of the General Resolution) or economically defeased (by depositing sufficient funds under the General Resolution to provide for their payment), and all the Loans previously pledged to secure the Bonds under the General Resolution, which were then outstanding in the amount of approximately \$543 million, were released from the General Resolution. A portion of the proceeds of those environmental improvement fund revenue bonds, together with certain other funds, were used as provided pursuant to the General Resolution to:

- defease all outstanding Bonds other than the 2010 Series 3 Bonds, as described under “**SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION; Defeasance**”,
- make a deposit to the Subsidy Fund as described below under “**SECURITY AND SOURCE OF PAYMENT FOR THE BONDS**”, and
- obtain the release of all Loans made under the State’s Clean Water Fund Program that previously secured the Bonds, and release of all funds in the Loan Credit Reserve Fund,

The other funds used to obtain the release of the Loans to accomplish the legal or economic defeasance of the Bonds included funds held in the Equity Fund under the General Resolution, and funds released from the State’s equity fund held under the environmental improvement fund revenue obligations program.

The 2010 Series 3 Bonds will continue to be treated as outstanding under the General Resolution until their maturity or redemption date (unless they are otherwise defeased in accordance with the General Resolution). Upon the redemption of the 2010 Series 3 Bonds on June 1, 2020, the General Resolution

will then be discharged. The State does not intend to issue any additional Bonds under the General Resolution.

SECURITY AND SOURCE OF PAYMENT FOR BONDS

The 2010 Series 3 Bonds in the amount of \$45,080,000 remain outstanding under, and are payable pursuant to the terms of, the General Resolution, which are described below under “**SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION**”. However, the 2010 Series 3 Bonds are expected to be paid solely from amounts on deposit in the Revenue Fund and the Subsidy Fund under the General Resolution, which are invested in Investments Obligations under the General Resolution. Those amounts, together with investment earnings, will be sufficient to pay:

- interest when due on the 2010 Series 3 Bonds to and including their June 1, 2020 redemption date or earlier maturity dates; and
- principal or redemption price of the 2010 Series 3 Bonds when due, on the June 1, 2020 redemption date or earlier maturity dates.

No Loans made under the Clean Water Fund Program serve as security for the Bonds, nor are any receipts from such loans available to pay debt service on the Bonds.

SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION

The terms and provisions of the General Resolution are summarized below. Certain capitalized terms are defined in either the General Resolution or the “**GLOSSARY**”. As indicated earlier in this Part VI of the 2017 Annual Report, all Loans have been released from the General Resolution and Bonds outstanding are being paid from funds on deposit in the Revenue Fund and Subsidy Fund under the General Resolution. A copy of the General Resolution may be obtained by contacting the State at the address provided on [the first page of this Part VI of the 2017 Annual Report](#).

In addition, as indicated earlier in this Part VI of the 2017 Annual Report, the State has established a separate program for the issuance of environmental improvement fund revenue bonds to provide financing for the Clean Water Fund Program. A description of those environmental improvement fund revenue bonds, and a summary of the program resolution for environmental improvement fund revenue obligations, is included in [Part VII of the 2017 Annual Report](#).

Resolution to Constitute a Contract

The provisions of the General Resolution are deemed to be a contract among the State, the Trustee, and the owners from time to time of the Bonds. The provisions, covenants, and agreements set forth in the General Resolution (except for those relating to funds pledged to defease any specific Bonds) to be performed by, or on behalf of, the State are for the equal benefit, protection, and security of the owners of the Bonds, all of which are of equal rank without preference, priority, or distinction of any of the Bonds over any other Bonds except as expressly provided in the General Resolution.

Pledge

Under the General Resolution, the State pledges to the Trustee, for the benefit of all current and future Bondowners and any owner of a Parity Reimbursement Obligation, the Pledged Receipts, all funds and accounts established in connection with the issuance of the Bonds (except the Rebate Fund and the State Equity Fund), the investments of the funds and accounts and the proceeds of such investments for the payment of the principal and redemption price of, and interest on, the Bonds and the payment of any Parity Reimbursement Obligation, subject only to the provisions of the General Resolution permitting or further limiting the application thereof. Subject to the provisions of the General Resolution providing for defeasance of Bonds, the pledge is valid and binding, and the lien of such pledge is valid and binding, as against all parties having claims of any kind in tort, contract, or otherwise against the State, irrespective of whether such parties have notice of the lien.

Establishment of Funds and Accounts

The following funds (and within certain of the funds, the following accounts) are established and required to be maintained pursuant to the provisions of the General Resolution:

- (1) Loan Fund
- (2) Revenue Fund
- (3) Debt Service Fund
 - (a) Interest Account
 - (b) Principal Account
 - (c) Redemption Account
 - (d) Capitalized Interest Account
- (4) Loan Credit Reserve Fund
 - (a) SRF Account
 - (b) Non-SRF Account
- (5) Subsidy Fund
- (6) Administrative Fund
 - (a) Costs of Issuance Account
 - (b) Expense Account
- (7) State Equity Fund
- (8) Rebate Fund

Each of the funds and accounts, or assets for each of the funds and accounts, are deposited with, and held by, a Depository and maintained by the Trustee pursuant to the provisions of the General Resolution, except for the State Equity Fund, which is held and maintained by the State.

Loan Fund

Each Series Resolution authorizing a Series of Bonds will specify the amount of the proceeds of the Bonds of the Series and any other State moneys that are required to be deposited in the Loan Fund. Amounts in the Loan Fund shall be applied by the State from time to time as follows:

- (1) For financing Pledged Loans to Municipalities under the Clean Water Fund Program, including transfers of Pledged Loan capitalized interest to the Revenue Fund;
- (2) As directed in a certificate of an Authorized Officer, for deposit into the Revenue Fund; and
- (3) To the extent that other moneys are not available, for deposit into the Debt Service Fund.

Moneys may be withdrawn from the Loan Fund for financing a Pledged Loan upon a requisition of an Authorized Officer certifying: (1) that the aggregate amount of the requisition is equal to the sum of amounts disburseable to Municipalities pursuant to properly submitted and approved requisitions of such Municipalities; (2) that the amount requisitioned for each Municipality does not exceed the amount available to be disbursed pursuant to that Municipality's Financial Assistance Agreement and Municipal Obligation; (3) the identity of the Municipalities receiving disbursements from the requisition, the amount of the requisition allocable to each such Municipality, and the designation of the Municipal Obligations evidencing the applicable Pledged Loan; (4) that there is on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement; and (5) that the Contribution Amount has been transferred (or deemed transferred) to the Loan Credit Reserve Fund.

Prior to the initial transfer of amounts to a Municipality with respect to a Pledged Loan, the State shall deliver to the Trustee: (1) a copy of the original executed Financial Assistance Agreement evidencing the

Pledged Loan to be so made and (2) a copy of the Municipal Obligation evidencing or securing such Pledged Loan in an aggregate principal amount equal to the maximum permissible Pledged Loan amount.

In addition, money and earnings in the Loan Fund may be transferred to the Revenue Fund, *provided* that the amount in the Subsidy Fund is at least equal to the Subsidy Fund Requirement.

Revenue Fund

The Trustee shall promptly deposit the following into the Revenue Fund:

- (1) Transfers of capitalized interest on a Pledged Loan from the Loan Fund (which shall be deemed to be Pledged Loan disbursements), as directed in a certificate of an Authorized Officer;
- (2) Other transfers of moneys from the Loan Fund;
- (3) All Pledged Loan Repayments (excluding prepayments of Pledged Loans, which shall be deposited in the Redemption Account of the Debt Service Fund) received by the Trustee; and
- (4) On the business day preceding an interest payment date, interest earned on Investment Obligations in the Loan Credit Reserve Fund (less amounts required to be transferred to the Rebate Fund).

The Revenue Fund shall be applied as follows:

- (1) First, to the Interest Account of the Debt Service Fund for the payment of interest due or to become due on the next succeeding interest payment date;
- (2) Second, to the Principal Account of the Debt Service Fund for the payment of principal and sinking fund installments, if any, on the next succeeding interest payment date; and
- (3) Third, to the Rebate Fund so that the balance in the Rebate Fund shall equal the amount required to be deposited therein.

Debt Service Fund

The Trustee shall promptly deposit the following receipts in the Debt Service Fund:

- (1) Any accrued interest received as proceeds of a Series of Bonds as set forth in the applicable Series Resolution, which shall be deposited in the Interest Account;
- (2) All amounts required to be transferred from the Revenue Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;
- (3) The Subsidy Fund Transfer Amount transferred from the Subsidy Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;
- (4) All amounts required to be transferred from the Loan Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;
- (5) Any amounts directed by the State to be transferred from the Administrative Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;
- (6) Any amounts received by the Trustee for the purpose of redeeming Bonds, which shall be deposited in the Redemption Account; and

(7) Any portion of Bond proceeds designated by a Series Resolution as capitalized interest on the Bonds, which shall be deposited into the Capitalized Interest Account.

The Trustee shall transfer from the Capitalized Interest Account to the Interest Account on the business day preceding each interest payment date the amount required for the payment of capitalized interest on such Bonds due on such interest payment date.

The Trustee shall pay out of the Interest Account of the Debt Service Fund (1) on each interest payment date, the amount required for the payment of interest on Bonds due on such interest payment date and (2) on any redemption date, the amount required for the payment of accrued interest on Bonds redeemed, unless the payment of such accrued interest shall be otherwise provided for.

The Trustee shall pay out of the Principal Account on each principal payment date or sinking fund redemption date, as applicable (as set forth in a Series Resolution), the amounts required for the payment of such principal on such date or such sinking fund redemption price on such date, as applicable.

The amount accumulated in the Principal Account for each sinking fund redemption may, and if so directed by the State shall, be applied (together with amounts accumulated in the Interest Account of the Debt Service Fund with respect to interest on the Bonds subject to sinking fund redemption) by the Trustee prior to the 45th day preceding the sinking fund redemption date, or such shorter period as shall be acceptable to the Trustee, to:

- (1) the purchase of Bonds of the Series and maturity of such Bonds subject to such sinking fund redemption, at prices (including any brokerage and other charges) not exceeding the redemption price payable for such Bonds pursuant to such sinking fund redemption plus unpaid interest accrued to the date of purchase, or
- (2) the redemption of such Bonds if then redeemable by their terms, at the redemption price referred to in paragraph (1) above.

Upon any such purchase or redemption of Bonds of any Series and maturity, for which sinking fund installments shall have been established, an amount equal to the applicable redemption prices thereof shall be credited toward any one or more of such sinking fund installments, as directed by the State in an Authorized Officer's certificate, or failing such direction toward such sinking fund installments in inverse order of their due dates. The portion of any such sinking fund installment remaining after the deduction of any such amounts credited toward such installment (or the original amount of any such sinking fund installment if no such amounts shall have been so credited) shall constitute the unsatisfied balance of such sinking fund installment for the purpose of the calculation of Principal Installments due on a future date.

If, after all transfers provided for above have been made, the moneys in the Debt Service Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds on any interest payment date, the Trustee shall apply amounts from the following funds to the extent necessary to cure the deficiency in the order of priority as provided below:

- (1) First, from the Loan Credit Reserve Fund;
- (2) Second, from the Subsidy Fund;
- (3) Third, from the Loan Fund, which transfers shall not be deemed to be a Pledged Loan disbursement subject to the requirements applicable to Pledged Loan disbursements; and
- (4) Fourth, from any other fund or account (except the Rebate Fund and the State Equity Fund).

As soon as practicable after the 45th day preceding the date of any sinking fund redemption, the Trustee shall proceed to call for redemption on such redemption date Bonds of the Series and maturity for which such sinking fund redemption was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such sinking fund redemption. The Trustee shall pay out of the Redemption Account of the Debt Service Fund to the Paying Agents on each redemption date (as set forth in a Series Resolution) for any such Bonds for which there have not been made sinking fund

installments, the amounts required for the payment of such redemption price on the redemption date and such amounts shall be applied by the Paying Agents to such payments.

Loan Credit Reserve Fund

If at any time the moneys in the Debt Service Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall apply amounts from the Loan Credit Reserve Fund to the extent necessary to cure the deficiency. The State may designate the amounts from the SRF Account and Non-SRF Account, respectively, to be applied by the Trustee for such payment.

Whenever moneys and securities in the Loan Credit Reserve Fund (excluding earnings required to be transferred to the Revenue Fund) shall exceed the Loan Credit Reserve Fund Requirement, the Trustee may, at the direction of an Authorized Officer, transfer all, or any portion of, such surplus from the SRF Account to any account within the Clean Water Fund Program or from the Non-SRF Account to the State Equity Fund. However, if any Municipality is in default with respect to Pledged Loan Repayments, no such transfer shall be made to the extent it would cause the balance in the Loan Credit Reserve Fund to be less than the sum of the Loan Credit Reserve Fund Requirement plus the amount of Pledged Loan Repayments then in default and not otherwise provided for. After a defaulting Municipality has cured its default and has fully resumed its payment obligations under the Financial Assistance Agreement, such surplus amounts may be withdrawn from the Loan Credit Reserve Fund.

See “**GLOSSARY**” for a definition of the Loan Credit Reserve Fund Requirement.

Subsidy Fund

Whenever the money in the Debt Service Fund and money available in the Loan Credit Reserve Fund are insufficient to pay the interest, principal, and sinking fund installments due on Bonds, the Trustee shall transfer amounts from the Subsidy Fund to the Debt Service Fund to the extent necessary to cure the deficiency.

The Trustee shall transfer any amount in the Subsidy Fund in excess of the Subsidy Fund Requirement upon the direction of an Authorized Officer:

- (1) First, to the Loan Credit Reserve Fund to replenish the Loan Credit Reserve Fund to the then-current Loan Credit Reserve Fund Requirement; and
- (2) Second, to the State Equity Fund or for any Program purpose.

See “**GLOSSARY**” for definitions of the Subsidy Fund Requirement and the Subsidy Fund Transfer Amount.

Notes

Whenever the Commission shall authorize the issuance of a Series of Bonds, the Commission is authorized to issue Notes (including renewals thereof) in anticipation of such Series. The principal of, and interest on, such Notes and renewals thereof shall be payable solely from the proceeds of such Notes or from the proceeds of the sale of the Series of Bonds in anticipation of which such Notes were issued. The proceeds of such Bonds may be pledged for the payment of the principal of, and interest on, such Notes, and any such pledge shall have a priority over any other pledge of such proceeds created by the General Resolution. Notes shall not be secured by any fund or account established under the General Resolution.

Issuance of Additional Bonds Other Than Refunding Bonds

The State may issue additional Series of Bonds from time to time on a parity with all other Bonds issued pursuant to the General Resolution and secured by an equal charge and lien on the Pledged Receipts and any other security pledged under the General Resolution.

No additional Series of Bonds shall be issued unless:

- (1) The principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) All other requirements applicable to the issuance of Bonds are met, including the requirement that there be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there be in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement; and

(3) Evidence satisfactory to the Trustee that any credit rating assigned to the proposed Series of Bonds is no lower than the lowest credit rating then assigned by the applicable Rating Agency to any Outstanding Bonds of similar tenor, and no notice has been received from any Rating Agency that the issuance of the proposed Series of Bonds will cause such Rating Agency to lower, suspend, remove, or otherwise modify adversely the credit ratings then assigned by it to any Outstanding Bonds.

Refunding Bonds

The General Resolution authorizes the Commission to issue one or more Series of Refunding Bonds to refund all, or any part of, one or more Series of outstanding Bonds. Refunding Bonds may be issued only upon receipt by the Trustee (in addition to the other requirements applicable to the issuance of Bonds) of:

(1) Irrevocable instructions to the Trustee to give notice of redemption to the owners of the Bonds being refunded; and

(2) Either Investment Obligations described below under “Defeasance” in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, or such amount of moneys, as shall be necessary to comply with the defeasance provisions of the General Resolution.

Payment of Bonds

The State covenants that it shall duly and punctually pay or cause to be paid the principal or redemption price of, and interest on, the Bonds, but only from the Pledged Receipts and other revenues or receipts, funds, or moneys pledged therefor as provided in the Act and the General Resolution, at the dates and places and in the manner provided in the Bonds according to the true intent and meaning thereof, and shall duly and punctually satisfy all sinking fund installments becoming payable with respect to any Series of Bonds.

Power to Issue Bonds and Make Pledges

The State represents that it is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the General Resolution and to pledge the Pledged Receipts and other revenues, receipts, funds, or moneys purported to be pledged by the General Resolution in the manner and to the extent provided in the General Resolution. The State represents that the Pledged Receipts and other revenues, receipts, funds, and moneys so pledged are, and will be, free and clear of any pledge, lien, charge, or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the General Resolution, and that all action on the part of the State to that end has been duly and validly taken. The State further represents that the Bonds and the provisions of the General Resolution are, and will be, the valid and legally enforceable obligations of the State in accordance with their terms and the terms of the General Resolution. The State covenants that it shall at all times, to the extent permitted by law, defend, preserve, and protect the pledge of the Pledged Receipts and revenues, receipts, funds, and moneys pledged under the General Resolution and all the rights of the Bondowners under the General Resolution against all claims and demands of all persons whomsoever.

Agreement of the State

The State pledges and agrees with the Bondowners that the State will not limit or alter the terms of any agreements made with Bondowners or in any way impair the rights and remedies of the Bondowners until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondowners, are fully met and discharged.

Federal Tax Covenant

The State covenants that it shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excluded from the gross income of the recipients thereof.

The State shall not permit at any time any of the proceeds of the Bonds or other funds of the State to be used, directly or indirectly, to acquire any asset or obligation the acquisition of which would cause any Note or Bond to be an “arbitrage bond” for the purposes of Section 148 of the Internal Revenue Code of 1986, as amended.

Notwithstanding the foregoing, the State reserves the right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the federal tax covenants contained in the General Resolution shall not apply to such Bonds.

Accounts and Reports

The State shall keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Pledged Loan Repayments, Municipal Obligations, the Fees and Charges, if any, and all funds and accounts established by the General Resolution.

The State shall annually, on or before January 1 in each year, file with the Trustee and with the Rating Agencies a copy of the audited financial statements for the preceding Fiscal Year with respect to the Leveraged Portfolio, accompanied by an Accountant’s Certificate, setting forth in complete and reasonable detail: (1) its receipts and expenditures during such Fiscal Year in accordance with the categories or classifications established by the State for its operating and capital outlay purposes; (2) its assets and liabilities at the end of such Fiscal Year, including a schedule of its Pledged Loan Repayments, Municipal Obligations, and Fees and Charges, a list of Municipalities in default, and the status of the funds and accounts established by the General Resolution; and (3) a schedule of its Bonds and Notes outstanding and other obligations outstanding at the end of such Fiscal Year, together with a statement of the amounts paid, redeemed, and issued during such Fiscal Year.

Clean Water Revenue Bond Program

To provide sufficient moneys with which to pay the principal and interest and sinking fund installments when due and payable on its Bonds, the State covenants that it shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act and the Water Quality Act as then amended and as interpreted in regulations adopted by EPA and DNR and in effect and with the provisions of the General Resolution, use and apply the proceeds of the Bonds to finance Pledged Loans pursuant to the Act as so amended and the General Resolution, to earn sufficient interest on its funds and accounts established within the General Resolution to generate income which when combined with moneys received with respect to the Municipal Obligations shall at least equal the principal and interest and sinking fund installments on the Bonds. The State further covenants that it shall do all such acts and things necessary to receive and collect the Pledged Loan Repayments and the interest on all funds and accounts established within the General Resolution and shall diligently enforce, and take all steps, actions, and proceedings for the enforcement of, all terms, covenants, and conditions of the Pledged Loans. However, the State has the authority to modify those terms and conditions, subject to the limitations in the General Resolution.

Events of Default

Each of the following events constitutes an “Event of Default”:

- (1) The State shall default in the payment of the principal or redemption price of any Bond when and as the same shall become due whether at maturity or upon call for redemption; or
- (2) The State shall default in the payment of any installment of interest on any Bonds; or
- (3) The State shall fail or refuse to comply with the provisions of the Act or shall default in the performance or observance of any other of the covenants, agreements, or conditions contained in the

General Resolution, any Series Resolution, any Supplemental Resolution, or the Bonds, and such failure, refusal, or default shall continue for a period of 45 days after written notice thereof is given to the State by the Trustee or the owners of not less than 25% in principal amount of Bonds outstanding.

Remedies

Upon the occurrence and continuance of any Event of Default specified in clauses (1) or (2) immediately above, the Trustee shall proceed, or upon the occurrence and continuance of any Event of Default specified in clause (3) immediately above, the Trustee may proceed, and upon the written request of the owners of not less than 25% in principal amount of the outstanding Bonds shall proceed, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) By mandamus or other suit, action, or proceeding at law or in equity, enforce all rights of the Bondowners, including the right to require the State to collect Pledged Loan Repayments adequate to carry out the covenants and agreements as to, and the pledge of, such Pledged Loan Repayments, and other properties and to require the State to carry out any other covenant or agreement with Bondowners and to perform its duties under the Act;

(2) Bring suit upon the Bonds;

(3) By action or suit in equity, require the State to account as if it were the trustee of an express trust for the owners of the Bonds; or

(4) By action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Bonds.

In the enforcement of any remedy under the General Resolution, the Trustee shall be entitled to sue for, enforce payment on, and receive, any and all amounts due from the State for principal, redemption price, interest, or otherwise under any provision of the General Resolution or a Series Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the General Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgment or decree against the State for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Program Expenses

The State covenants to pay all program expenses when due and payable, but only from the sources provided in the General Resolution.

The State covenants to pay to the Fiduciaries from time to time reasonable compensation for all services rendered under the General Resolution, and also all reasonable expenses, charges, counsel fees, and other disbursements, including those of their attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the General Resolution. The State further agrees to indemnify and save each Fiduciary harmless against any liabilities that it may incur in the exercise and performance of its powers and duties under the General Resolution, and which are not due to its willful misconduct, negligence, or bad faith.

Defeasance

If the State shall pay or cause to be paid to the owners of all Bonds then outstanding, the principal or redemption price and interest to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then, at the option of the State, the covenants, agreements, and other obligations of the State to the Bondowners shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the State, execute and deliver to the State all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the State all money, securities, and funds held by them pursuant to the General Resolution which are not

required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Bonds or interest installments for the payment at maturity or redemption of which moneys or securities shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) shall be deemed to have been paid within the meaning and with effect expressed in the immediately preceding paragraph. All outstanding Bonds of any Series shall be deemed to have been paid within the meaning and with the effect expressed in the immediately preceding paragraph if all the following conditions apply:

(1) In case any of such Bonds are to be redeemed on any date prior to their maturity, the State shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to give notice of redemption of such Bonds as provided in the General Resolution.

(2) There shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Obligations, the principal of, and the interest on, which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or redemption price of, and interest on, such Bonds on, and prior to, the redemption date or maturity date thereof, as the case may be.

(3) In the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the State shall have given the Trustee irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in Authorized Newspapers a notice to the owners of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price on said Bonds. Neither Investment Obligations nor moneys deposited with the Trustee nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than the payment of the principal or redemption price, if applicable, and interest on said Bonds. Any cash received from such principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal or redemption price and interest due and to become due on such Bonds on, and prior to, such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the State, as received by the Trustee, free and clear of any trust, lien, or pledge.

For the purposes of the defeasance provisions of the General Resolution, Investment Obligations shall mean and include direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this paragraph.

Any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the State, be repaid by the Fiduciary to the State, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the State for the payment of such Bonds; *provided*, however, that before being required to make any such payment to the State, the Fiduciary shall, at the expense of the State, cause to be published at least once in Authorized Newspapers a notice that said moneys remain unclaimed and that, after a date named in said notice, which

date shall not be less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the State.

Right to Adopt Another General Resolution

The State expressly reserves the right to adopt one or more other general resolutions and reserves the right to issue bonds and notes and any other obligations so long as the same are not a charge or lien on the Pledged Receipts or payable from any fund or account (except for the State Equity Fund or the Rebate Fund) established under the General Resolution. As discussed above, the State has exercised that right through the establishment of a separate program resolution for environmental improvement fund revenue bonds.

GLOSSARY

The following definitions apply to capitalized terms used in this Part VI of the 2016 Annual Report:

Accreted Value means, with respect to any Capital Appreciation Bond, the initial principal amount at which such Capital Appreciation Bond is sold to the initial purchaser by the State without reduction to reflect underwriter's discount, compounded from the date of delivery of such Bonds semiannually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation is an interest payment date) at the original issue yield to maturity less, with respect to Bonds with interest payable on a current basis, interest paid and payable during such period plus, if such date of calculation is not an interest payment date, a portion of the difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semiannual period in equal daily amounts (based on a 360-day year of twelve 30-day months); *provided*, however, that the calculation of Accreted Value for purposes of determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent, or waiver under the General Resolution shall be based upon the Accreted Value calculated as of the interest payment date immediately preceding such date of calculation (unless such date of calculation is an interest payment date, in which case it shall be calculated as of the date of calculation).

Act means Sections 281.58 and 281.59 of the Wisconsin Statutes, as amended.

Administrative Fund means the fund of that name established by the General Resolution.

Aggregate Debt Service for any period means, with respect to the Bonds, as of any date of calculation, the sum of the amounts of Debt Service for such period.

Authorized Officer means the Capital Finance Director of the State and any other person designated in writing to the Trustee by the Capital Finance Director or by the Commission as an Authorized Officer.

Bond or **Bonds** means any bond or bonds, as the case may be, authenticated and delivered under the General Resolution pursuant to a Series Resolution.

Bondowners or **Owner of Bonds** or **Owner** (when used with reference to Bonds) or any term of similar import means the person or party in whose name the Bond is registered.

Business Day means any day other than a Saturday or Sunday or other day on which commercial banks in the city in which the principal office of the Trustee is located are not open for business, except as may be provided in a Series or Supplemental Resolution.

Capital Appreciation Bonds means Bonds that provide for the addition of all, or any part of, accrued and unpaid interest thereon to the principal due thereon upon such terms and for such periods of time as may be determined by the applicable Series Resolution.

Capitalized Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Clean Water Fund Program means the program established pursuant to the Act and operated and administered as part of the Environmental Improvement Fund.

Commission means the State of Wisconsin Building Commission or any successor body having the power under the Subchapter II of Chapter 18 of the Wisconsin Statutes, as amended, to authorize and direct the issuance of Bonds.

Contribution Amount has the meaning set forth in the definition of “Loan Credit Reserve Fund Requirement.”

Credit Facility means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy, guaranty, or similar obligation, arrangement, or instrument issued by a bank, insurance company, or other financial institution or the federal government or an agency thereof which (1) provides for payment of all, or a portion of, the principal of, Redemption Price of, or interest on any Series of Bonds, (2) provides funds for the purchase of such Bonds or portions thereof, (3) provides deposits for a fund or account under the General Resolution, or (4) provides for, or further secures, payment of loans or Municipal Obligations, *provided* that with respect to (3) above, the issuer of such Credit Facility must be rated, or the effect of such Credit Facility must be to cause bonds insured or secured thereby to be rated, by each Rating Agency in a rating category no lower than the then current rating on the Bonds (without such Credit Facility).

Debt Service for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (1) interest payable during such period on Bonds of such Series, (2) that portion of the Principal Installments for such Series which are payable during such period, and (3) any “Reimbursement Obligation” or “Parity Reimbursement Obligation” as defined in the General Resolution. Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Debt Service Fund means the fund of that name established by the General Resolution.

Depository means any bank, trust company, or national banking association, which may be the Trustee, selected by the Commission and approved by the Trustee as a depository of moneys and securities held under the provisions of the General Resolution and its successor or successors.

DNR means the State of Wisconsin Department of Natural Resources.

DOA means the State of Wisconsin Department of Administration.

Environmental Improvement Fund means the nonlapsible trust fund of that name created by Section 25.43 of the Wisconsin Statutes.

EPA means the United States Environmental Protection Agency.

Expense Account means the account of that name established within the Administrative Fund established by the General Resolution.

Fees and Charges means all fees and charges, if any, charged by the State to Municipalities pursuant to the terms and provisions of Clean Water Fund Program loans or Municipal Obligations but does not include principal of, and interest on, such Municipal Obligations.

Fiduciary or **Fiduciaries** means the Trustee, any Paying Agent, any Depository, or any or all of them, as may be appropriate.

Financial Assistance Agreement means any agreement entered into between DNR, DOA, and a Municipality for financial assistance.

Fiscal Year means any 12 consecutive calendar months commencing with the 2nd day of June and ending on the 1st day of the following June.

General Resolution means the Clean Water Revenue Bond General Resolution adopted by the Building Commission on March 7, 1991, as amended by resolutions adopted by the Commission on July 30, 2003 and June 28, 2006, as the same may be further amended and supplemented from time to time.

Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Investment Obligation means any of the following that at the time are legal investments for moneys of the State:

(1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as at the time of their purchase such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (1);

(2) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (1) above which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of, and interest on, the bonds and obligations of the character described in clause (1) above which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of, and redemption premium, if any, on the bonds or other obligations described in this clause (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (2), as appropriate, and (d) which at the time of their purchase under the General Resolution bear the highest rating available from each Rating Agency;

(3) bonds, debentures, participation certificates (representing a timely guaranty of principal and interest), notes or similar evidences of indebtedness of any of the following: Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association (excluding "stripped" securities), Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association, or Tennessee Valley Authority;

(4) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes, or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; *provided*, however, that any investment purchased pursuant to this clause (4) shall be rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(5) obligations of any state of the United States of America or of any political subdivision or public agency or instrumentality thereof, including the State, *provided* that at the time of their purchase under the General Resolution such obligations are rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(6) direct obligations of the State or obligations guaranteed by the State that have the same rating as direct obligations of the State;

(7) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase under the General Resolution the highest rating available from each Rating Agency;

(8) interest-bearing time deposits, certificates of deposit, or other similar banking arrangements with banks (which may include any Fiduciary), *provided* such deposits are made with banks rated by each Rating Agency at the time the deposit is made no lower than the rating assigned to the Bonds by such Rating Agency;

(9) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which are rated at the time of their purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(10) repurchase agreements for obligations of the type specified in clauses (1) and (3) above, *provided* either (a) the repurchase agreement is an unconditional obligation of the counterparty and such counterparty is rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or (b) the repurchase agreement is an obligation of a counterparty that is rated at the time of its purchase by each Rating Agency in an investment grade category and is collateralized by obligations which are marked to market daily and have a value equal to not less than the percentage of the amount thereby secured specified by each Rating Agency, taking into account the maturity of such obligations;

(11) any investment obligation or deposit the investment in which will not, at the time such investment is made, adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency;

(12) any investment agreement with a bank, bank holding company, insurance company, or other financial institution rated at the time such investment is made by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or guaranteed by an entity rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency; and

(13) the Local Government Pooled–Investment Fund of the State established under Chapter 25 of the Wisconsin Statutes.

Loan Credit Reserve Fund means the fund of that name established by the General Resolution.

Loan Credit Reserve Fund Requirement means and is calculated as follows:

(1) DOA has delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (each a **Loan Credit Reserve Fund Schedule** or **Schedule**) approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each Loan disbursement from the Loan Fund is the “**Contribution Amount**”.

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for different total Contribution Amounts, then the highest total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

Loan Fund means the fund of that name established by the General Resolution.

Municipal Obligations means the bonds, notes, or other evidences of debt issued by any Municipality and authorized by law and acquired by the State as evidence of indebtedness of a Pledged Loan, Direct Loan, or Proprietary Loan to the Municipality pursuant to the Act. Municipal Obligations may constitute any of a combination of the following: a revenue obligation secured by a covenant to assess user fees and a pledge of the utility's revenues, a revenue obligation secured by special assessments and other utility revenue and a pledge of the utility's revenues, or a general obligation secured by a tax levy and a pledge of the full faith and credit of the Municipality.

Municipality means a political subdivision of the State constituting a "municipality" within the meaning of the Act, duly organized and existing under the laws of the State and any successor entity or a federally recognized American Indian tribe or band in the State.

Non-SRF Account means account of that name established by the General Resolution within the Loan Credit Reserve Fund.

Notes mean any bond anticipation notes issued by the State pursuant to the Act.

Outstanding, when used with reference to Bonds, other than Bonds owned or held by or for the account of the State, means, as of any date, Bonds theretofore or then being delivered under the provisions of the General Resolution, except: (1) any Bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (2) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in trust (whether at or prior to the maturity or redemption date), *provided* that if such Bonds are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the General Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (3) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Resolution, and (4) Bonds deemed to have been paid as provided in the General Resolution. In determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent, or waiver under the General Resolution, the principal amount of a Capital Appreciation Bond that shall be deemed Outstanding for such purposes shall be the Accreted Value thereof.

Parity Reimbursement Obligation means the obligation of the State to directly reimburse the issuer of a Credit Facility for amounts paid under the terms of such Credit Facility, together with interest thereon, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument, which obligation shall be secured on a parity with the lien created by the General Resolution.

Paying Agent for the Bonds of any Series means the bank, trust company, or national banking association, which may be the Trustee, and its successor or successors, appointed pursuant to the provisions of the General Resolution and a Series Resolution or any other resolution of the Commission adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

Pledged Loan means a loan made by the State to a Municipality from the Loan Fund pursuant to a Financial Assistance Agreement and the Act, and that has not been release from the lien of the General Resolution.

Pledged Loan Repayments means any payments on a Pledged Loan pursuant to a Financial Assistance Agreement, or on the Municipal Obligations evidencing and securing the same, on account of the principal, interest, and premium, if any, due on such Pledged Loan, including scheduled payments of principal of, and interest on, such Loan or Municipal Obligation, any payments made to cure a default, prepayments of principal or interest, and any additional amounts payable upon prepayment of such Pledged Loan or Municipal Obligations, and any amounts paid with respect to such Pledged Loan or Municipal Obligation on account of (1) acceleration of the due date of such Pledged Loan or such Municipal Obligation, (2) the sale or other disposition of such Pledged Loan or the Municipal Obligations and other collateral securing such Pledged Loan, (3) the receipt of proceeds of any insurance or guaranty

of such Pledged Loan or Municipal Obligations or any Credit Facility applicable to such Pledged Loan or Municipal Obligations, and (4) the exercise of any right or remedy granted to the State and available under law or the applicable Financial Assistance Agreement upon default on such Pledged Loan or Municipal Obligations, but specifically excluding any payment of Fees and Charges.

Pledged Receipts means:

- (1) all Pledged Loan Repayments, including both timely and delinquent payments,
- (2) Fees and Charges held or collected by the State,
- (3) any moneys received by the State under Section 281.59 (11) (b) of the Wisconsin Statutes (that is, State payments intercepted by DOA and taxes collected by county treasurers) upon a default under a Municipal Obligation,
- (4) any moneys made available to the Clean Water Fund Program pursuant to Section 281.59 (13m) of the Wisconsin Statutes (that is, as a result of the designation of an individual Pledged Loan as one to which the State's "moral obligation" applies),
- (5) any moneys collected by recourse to collateral and security devices under the Municipal Obligations, and
- (6) any other moneys held or received by the State or the Trustee relating to the Municipal Obligations.

Principal Account means the account of that name established within the Debt Service Fund by the General Resolution.

Principal Installment means, as of any date of calculation and with respect to any Series of Bonds Outstanding, (1) the principal amount or Accreted Value of Bonds of such Series due on any payment date for which no Sinking Fund Installments have been established, or (2) the Sinking Fund Installment due on a date for Bonds of such Series, or (3) if such dates coincide, the sum of such principal amount or Accreted Value of Bonds and of such Sinking Fund Installment(s) due on such date; in each case in the amounts and on the dates as provided in the Series Resolution authorizing such Series of Bonds; *provided*, however, that Principal Installments shall not include the principal of Notes.

Proprietary Loan means financial assistance made primarily from the proceeds of State general obligation bonds or repayment of Proprietary Loans, and excludes any Direct Loan or Pledged Loan. This financial assistance is not funded with Bond proceeds.

Rating Agency means a credit rating agency which is nationally recognized for skill and expertise in rating the credit of obligations similar to the Bonds and which has assigned and currently maintains a rating on any Outstanding Bonds at the request of the State (which request may be withdrawn by the State so long as following such withdrawal of request, the Bonds are rated by at least two Rating Agencies), and any successor to any such agency by merger, consolidation, or otherwise.

Rebate Fund means the fund of that name established by the General Resolution.

Redemption Account means the account of that name established within the Debt Service Fund by the General Resolution.

Redemption Price, means (1) when used with respect to a Bond other than a Capital Appreciation Bond, or a portion of a Bond to be redeemed, means the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof, plus interest to the redemption date, pursuant to the General Resolution and the applicable Series Resolution and (2) when used with respect to a Capital Appreciation Bond, the Accreted Value on the date of redemption of such Bond or portion thereof plus the applicable premium, if any, pursuant to the General Resolution and the applicable Series Resolution.

Refunding Bonds means Bonds issued to refund other Bonds.

Revenue Fund means the fund of that name established by the General Resolution.

Series of Bonds or Bonds of a Series or words of similar meaning means the series of Bonds authorized by a Series Resolution.

Series Resolution means a resolution of the Building Commission authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution.

Sinking Fund Installment means, as of any particular date of calculation, (1) the amount required by the General Resolution and a Series Resolution to be deposited by the State for the retirement of Bonds which are stated to mature subsequent to such date or (2) the amount required by the General Resolution and a Series Resolution to be deposited by the State on a date for the payment of Bonds at maturity on a subsequent date.

SRF Account means the account of that name established by the General Resolution within the Loan Credit Reserve Fund.

State means the State of Wisconsin.

State Equity Fund means the fund of that name established by the General Resolution.

Subsidy Fund means the fund of that name established by the General Resolution.

Subsidy Fund Requirement means that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing on an interest payment date and ending on the next interest payment date (**Period**) which is at least equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (1) scheduled disbursements from the Capitalized Interest Account and (2) Pledged Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts were invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon were transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (2) above; *provided* that, prior to each Loan disbursement, the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and is repayable in accordance with the applicable Municipal Obligations).

Subsidy Fund Transfer Amount means, with respect to any interest payment date, the amount by which Aggregate Debt Service payable during the Period (as such term is used in the definition of Subsidy Fund Requirement) ending on such interest payment date exceeds the sum of (1) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (2) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (3) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (4) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (5) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during the Period.

Supplemental Resolution means a resolution supplemental to or amendatory of the General Resolution, adopted by the Commission in accordance with the General Resolution.

Trustee means U.S. Bank National Association, and its successor or successors and any other bank, trust company, or national banking association at any time substituted in its place pursuant to the General Resolution.

APPENDIX A

AUDITED FINANCIAL STATEMENTS

The following are the independent auditor's report and financial statements for the Environmental Improvement Fund for the years ended June 30, 2017 and 2016, along with supplemental information as of June 30, 2017.

Financial statements present the financial position, results of operations, and cash flows of the Environmental Improvement Fund for the fiscal years ended June 30, 2017 and 2016. These financial statements are not intended to predict future cash flows that will be available for the benefit of bondholders pursuant to the bond resolutions.

As indicated earlier in this Part VI of the 2017 Annual Report, all Loans have been released from the General Resolution and such no longer serve as security for the Bonds. In addition, all funds have been released from the Loan Credit Reserve Fund, and Bonds outstanding are being paid from funds on deposit in the Revenue Fund and Subsidy Fund under the General Resolution. Audited financial statements are being provided pursuant to undertakings of the State described in [Part I of the 2017 Annual Report](#).

Baker Tilly Virchow Krause, LLP, the independent auditor of the Environmental Improvement Fund, has not been engaged to perform and has not performed, since the date of its reports included on the following pages, any procedures on the financial statements addressed in those reports. Baker Tilly Virchow Krause, LLP also has not performed any procedures related to this Part VII of the 2017 Annual Report.

{This page number is the last sequential page number of the 2017 Annual Report to be used in Part VI of the 2017 Annual Report. The following uses page numbers from the financial statements and independent auditor's report. The sequential page numbers for the 2017 Annual Report continue in Part VII.}

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

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

AND

SUPPLEMENTAL INFORMATION

As of and for the Year Ended June 30, 2017

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement Fund, as an enterprise fund of the State of Wisconsin, as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin, as of June 30, 2017 and 2016, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017 on our consideration of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
November 6, 2017

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

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

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

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2017 and 2016

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

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

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

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

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

See accompanying notes to financial statements.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

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

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

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

- > **Leveraged Loan Portfolio** – This portfolio is funded by proceeds of Clean Water Revenue Bonds and operating transfers from the State. Assets in this portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements of the Clean Water Fund Program. During fiscal 2017, all of the Clean Water Revenue Bonds were defeased and the municipal loans were sold to and purchased by the Direct Loan Portfolio (see Notes 6 and 9).
- > **Direct Loan Portfolio** – This portfolio is funded by the U.S. Environmental Protection Agency (the “EPA”) grants and proceeds from the issuance of Environmental Improvement Fund Revenue Bonds (i.e., a minimum 20% match of EPA capitalization grant). Repayments from loans in this portfolio and proceeds from the issuance of Environmental Improvement Fund Revenue Bonds (i.e., in addition to the amount needed for match requirements of EPA capitalization grants) are used to fund new loans. Loans in this portfolio are made for wastewater projects that comply with EPA eligibility and reporting requirements of the Clean Water Fund Program.
- > **Proprietary Loan/Grant Portfolio** – This portfolio is funded by operating transfers from the State. Assets of this portfolio are used to fund both loans and hardship grants for qualifying wastewater projects. Repayments from loans in this portfolio may be used to fund new loans or hardship grants under the Clean Water Fund Program.
- > **Drinking Water Loan Portfolio** – This portfolio is funded by the EPA grants and operating transfers from the State (the State is required to match a minimum of 20% of EPA grants). Repayments from loans in this portfolio may be used to fund new loans. Loans in this portfolio are made for drinking water projects that comply with EPA eligibility and reporting requirements under the Safe Drinking Water Loan Program.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. As of June 30, 2017 and 2016, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2017 and 2016, the total amount drawn on these loans was \$13,500,343. The Land Recycling Program loans are included in the Clean Water Fund Program – Direct Loan Portfolio for reporting purposes.

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented July 1, 2015.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

Net Operating Income/Loss – The Fund incurred net operating loss of \$9.1 million and net operating income of \$13.6 million in 2017 and 2016, respectively. Management anticipates the Fund will periodically incur net operating losses. As explained in Note 2, a loss will generally result from the Fund's statutory mission to provide loans to municipalities at interest rates below the Fund's own cost of funds. Previous losses have historically been funded by EPA grants and operating transfers from the State of Wisconsin. EPA grants were approximately \$56.7 million and \$43.0 million in 2017 and 2016, respectively, and are classified as intergovernmental grants. Transfers from the State of Wisconsin were approximately \$8.2 million and \$3.1 million in 2017 and 2016, respectively, and are classified as transfers in. Management expects the grants and transfers will continue for the foreseeable future sufficient to fund both the anticipated future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

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

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

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

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

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

Accounting standards require that investments in participating interest-earning investment contracts be reported at fair value. The four forward delivery agreements with Wells Fargo (formerly Wachovia) and two forward delivery agreements with JP Morgan Chase Bank described in Note 4 would be considered participating investment contracts under current accounting standards. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 30, 2017, the fair value of the Fund's interest in these agreements was \$0. At June 30, 2016, the fair value of the Fund's interest in these agreements was above the cost of the treasury securities owned by \$935,503.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

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

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

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

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

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

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

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

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

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

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

Revenue Recognition – Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expense occurs and include \$56.7 million and \$43.0 million of EPA contributions in 2017 and 2016, respectively.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

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

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

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

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

NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS

Loans to local governments at June 30, 2017 and 2016 represent loans for wastewater treatment projects or drinking water projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, virtually all of the loans issued by the Clean Water Fund Program, Safe Drinking Water Loan Program and Land Recycling Loan Program are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State transfers. Interest rates on loans receivable ranged from 0% to 4.95% in both 2017 and 2016. The weighted average interest rate was 2.559% and 2.468% at June 30, 2017 and 2016, respectively. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment.

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

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

The Clean Water Fund Program, Safe Drinking Water Loan Program, and Land Recycling Loan Program entered into \$114,315,408 of new loans and \$38,285,883 of new grants during fiscal year 2017. For fiscal year 2016, these same programs entered into \$230,887,026 of new loans and \$9,499,885 of new grants. As of June 30, 2017, they had undisbursed commitments of \$120,155,336 relating to loans and \$26,948,248 relating to grants. For fiscal year 2016, they had undisbursed commitments of \$226,576,537 relating to loans and \$3,705,271 relating to grants. From July 1, 2017 to August 9, 2017, the Fund made additional loan disbursements of \$14,637,328 for financial assistance agreements that were outstanding prior to June 30, 2017. \$0 of additional loans were executed between July 1, 2017 and August 9, 2017. These funding commitments are generally met through the proceeds from additional Federal grants, recycled loan payments, and from the issuance of additional revenue obligation bonds (Note 6).

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

NOTE 3 – CASH AND CASH EQUIVALENTS

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

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

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal and liquidity while earning a competitive money market rate of return. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is not a Securities and Exchange Commission (“SEC”) registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2017, the current yield on the LGIP was 0.77%, compared to 0.42% as of June 30, 2016. The LGIP investment is stated at fair value.

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

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

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

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

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

NOTE 4 – FORWARD DELIVERY AGREEMENTS

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

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2016, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,169,000	0.500%	\$ 6,992,075	5.58%	June 1, 2017	\$ 7,174,601
Series 1998-1 Agreement	7,456,000	0.500	7,292,832	5.01	June 1, 2018	7,461,825
Series 1999-1 Agreement	7,119,000	0.500	6,918,903	6.32	June 1, 2020	7,124,562
Series 2006-1 Agreement	6,539,000	0.875	6,422,000	4.56	June 1, 2027	6,554,070
Series 2006-2 Agreement	8,158,000	0.875	8,000,000	4.84	June 1, 2027	8,178,802
Series 2008-1 Agreement	10,105,000	0.500	9,927,500	4.10	June 1, 2028	10,112,895

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

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

The following is a schedule of transfers between the loan portfolios and/or other funds at the State of Wisconsin at June 30, 2017 and 2016:

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

REVENUE OBLIGATION BONDS

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

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

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

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

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

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

REVENUE OBLIGATION BONDS (cont.)

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

REVENUE OBLIGATION BONDS (cont.)

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

REVENUE OBLIGATION BONDS (cont.)

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

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

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

Series	Original Issue (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%
2008 Series 3	(2,764,120)	3.00 – 5.50%
2010 Series 2	(2,065,947)	5.00%
2010 Series 3	-	3.957 – 5.441%*
2010 Series 4	(13,528,717)	3.00 – 5.00%
2010 Series 5	(5,845,742)	5.00%
2012 Series 1	(9,195,497)	2.00 – 5.00%
2012 Series 2	(20,160,489)	3.96 – 5.00%
2013 Series 1	(16,100,626)	4.50 – 5.00%
2015 Series 1	(23,504,408)	3.75 – 5.00%
2016 Series 1	(24,464,791)	2.00 – 5.00%

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

REVENUE OBLIGATION BONDS (cont.)

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

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

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

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

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

REVENUE OBLIGATION BONDS (cont.)

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

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

The Clean Water Revenue Bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2016, the total assets of the Leveraged Loan Portfolio was \$923,853,799. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Clean Water Revenue Bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Clean Water Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

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

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay outstanding revenue bonds. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues. Specifics of these requirements are as follows:

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

ADVANCE REFUNDINGS

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

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

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

These advance refundings were from the issuance of \$218,705,000 of 2017 Series A Environmental Improvement Fund Revenue Bonds, of which \$88,115,000 was used for the defeasance, with an average coupon rate of 4.87% and refunded bonds with an average coupon rate of 4.97%. The second issuance was for \$71,870,000 of 2017 Series B (Taxable) Environmental Improvement Fund Revenue Bonds with an average coupon rate of 1.30% and refunded bonds with an average coupon rate of 4.88%. The proceeds, along with \$488,887,709 of funds on hand, were used to purchase the U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2017, there was \$537,905,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2017 advance refunding was \$759,659,242 from 2017 through 2033. The cash flow requirements on the 2017 Series A refunding bonds are \$96,148,365 from 2017 through 2035 and the cash flow requirements on the 2017 Series B refunding bonds are \$72,791,333 from 2017 through 2018. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$4,906,529 for the 2017 Series A refunding bonds and \$84,820,684 for the 2017 Series B refunding bonds.

RESTRICTED ASSETS

Among other restrictions under the revenue obligation bond agreements are provisions that require a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net position at June 30, 2016 consist of \$93.9 million of the LGIP balance held as a credit reserve. This amount is required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

NOTE 7 – DEBT REFUNDING

PRIOR-YEAR DEFEASANCE OF DEBT

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

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

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

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

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

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

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

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

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

NOTE 9 – SPECIAL ITEM

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

NOTE 9 – SPECIAL ITEM (cont.)

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

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

NOTE 10 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2017 and 2016:

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

NOTE 11 – 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 \$35.8 million for federal fiscal year 2017. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2017 are unknown at this time.

EPA Operating Grants for Drinking Water Projects—The Federal Safe Drinking Water Act Amendment of 1996 (the “Safe Drinking Water Act”) established a joint Federal and State program with the EPA to assist in providing financial assistance to municipal and community water system projects. Under the terms of the EPA grant, the State was required (1) to establish the Safe Drinking Water Loan Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipal and community water system projects. The Safe Drinking Water Act was authorized through federal fiscal year 2017 and a grant to Wisconsin of approximately \$14.4 million is expected for federal fiscal year 2017.

Reauthorization of the Safe Drinking Water Act may not be acted upon by the present Congress of the United States, although the Fund expects EPA capitalization grants to states to continue into the future. Four percent of the EPA grant amount may be used for water program administrative expenses plus a portion of the grant may be used by DNR for various water-related issues and initiatives.

Hardship Assistance—Wisconsin statutes require that the Fund provide financial hardship assistance to communities that qualify under Wisconsin Statute 281.58(13). This assistance may come in the form of reduced interest rates (as low as 0%) or grants for wastewater projects subject to limitations prescribed by the statute. At both June 30, 2017 and 2016, the Fund was committed to award \$0 of additional hardship grants. At June 30, 2017 and 2016, the Fund had projected additional hardship grants of \$0 for both years. In addition to hardship grants, the Fund was committed to award \$32,285,883 and \$9,499,885, respectively, of reduced interest rate loans. At June 30, 2017 and 2016, the Fund had projected additional reduced interest rate loans of \$15,157,970 and \$15,187,392, respectively.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

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

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

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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.

NOTE 14 – RISK MANAGEMENT

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

SUPPLEMENTAL INFORMATION

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

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

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

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

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

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

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

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

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

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

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

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

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

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

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

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

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

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

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

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

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

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

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

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State of Wisconsin Environmental Improvement Fund's financial statements, and have issued our report thereon dated November 6, 2017.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
November 6, 2017