

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2019**

Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2019**

**TABLE OF CONTENTS**

	<u>Page</u>
Agency Officials .....	1
Financial Statement Report	
Summary .....	2
Independent Auditor’s Report .....	3
Basic Financial Statements	
Statement of Net Position .....	6
Statement of Revenues, Expenses, and Changes in Net Position .....	7
Statement of Cash Flows .....	8
Notes to the Financial Statements .....	9
Supplementary Information	
Combining Statement of Net Position By Program .....	43
Combining Statement of Revenues, Expenses, and Changes in Net Position By Program .....	44
Combining Statement of Cash Flows By Program.....	45
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	46
Schedule of Findings	
Current Finding.....	48

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2019**

**AGENCY OFFICIALS**

Director	John J. Kim (effective 5/31/19) John J. Kim, Acting (1/21/19 - 5/30/19) Alec Messina (through 1/20/19)
Deputy Director	Todd Rettig (effective 6/1/19) Laura Roche (through 6/2/19)
Chief of Staff	Laura Roche (effective 6/1/19)
Chief Legal Counsel	Dana Vetterhoffer, Acting (effective 2/28/19) Vacant (1/21/19 - 2/27/19) John J. Kim (through 1/20/19)
Chief Financial Officer	Courtney L. Bott
Chief Internal Auditor	James Froehner (effective 2/1/19) Vacant (12/4/18 - 1/31/19) Max Paller (through 12/3/18)

The Agency's headquarters is located at:

1021 North Grand Avenue East  
Springfield, Illinois 62794

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2019**

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying individual nonshared proprietary financial statements of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency (Agency) was performed by E.C. Ortiz and Co., LLP.

Based on their audit, the auditors expressed an unmodified opinion on the Agency's individual nonshared proprietary financial statements of the Water Revolving Fund.

**SUMMARY OF FINDINGS**

The auditors identified one matter involving the Agency's internal control over financial reporting that they considered to be a material weakness.

<u>Item No.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDING				
2019-001	48	New	Inadequate Controls over Financial Reporting	Material Weakness

**EXIT CONFERENCE**

The Agency waived an exit conference in a correspondence from James Froehner, Chief Internal Auditor, on January 2, 2020. The response to the recommendation was provided by James Froehner, Chief Internal Auditor, in a correspondence dated January 2, 2020.



## INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency, as of and for the year ended June 30, 2019, 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency, as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2, the financial statements present only the Water Revolving Fund and do not purport to, and do not, present fairly the financial position of either the State of Illinois or the State of Illinois, Environmental Protection Agency as of June 30, 2019, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency. The combining financial statements listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial statements listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not required part of the financial statements. Such information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 the auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements listed as supplementary information in the table of contents are fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2020 on our consideration of State of Illinois, Environmental Protection Agency's internal control over financial reporting of the Water Revolving Fund 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Environmental Protection Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Environmental Protection Agency's internal control over financial reporting of the Water Revolving Fund and its compliance.

### **Restricted Use of this Auditor's Report**

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and the State of Illinois, Environmental Protection Agency's management and is not intended to be and should not be used by anyone other than these specified parties.

Chicago, Illinois  
January 7, 2020

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
INDIVIDUAL NONSHARED PROPRIETARY FUND**

**STATEMENT OF NET POSITION**

**June 30, 2019  
(amounts in \$000's)**

	<u>Water Revolving Fund (270 Fund)</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 107,725
Securities lending collateral equity with State Treasurer	31,333
Loans and notes receivable	72,460
Other receivables	15,480
Due from federal government	307
Due from component unit	8,131
Restricted assets - accrued interest receivable	11,687
Restricted assets - loans receivable	200,820
Prepaid expenses	17
Total current assets	<u>447,960</u>
Noncurrent assets	
Loans and notes receivable, net of current portion	1,231,325
Restricted assets - loans receivable	2,997,630
Capital assets, net of accumulated depreciation	9
Total noncurrent assets	<u>4,228,964</u>
<b>TOTAL ASSETS</b>	<u>4,676,924</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amount on pension liability	7,350
Deferred amount on OPEB liability	740
Total deferred outflows of resources	<u>8,090</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>4,685,014</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	583
Due to component units	146
Due to federal governments	144
Due to other funds	401
Obligations under securities lending of State Treasurer	31,333
Total OPEB liability	732
Compensated absences	137
Total current liabilities	<u>33,476</u>
Noncurrent liabilities	
Long-term obligations	1,139,997
Compensated absences	821
Net pension liability	59,568
Total OPEB liability	30,541
Total noncurrent liabilities	<u>1,230,927</u>
<b>TOTAL LIABILITIES</b>	<u>1,264,403</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred amount on pension liability	9,200
Deferred amount on OPEB liability	15,182
Total deferred inflows of resources	<u>24,382</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>1,288,785</u>
<b>NET POSITION</b>	
Net investment in capital assets	9
Restricted for:	
Debt service	3,210,137
Other purposes	632,412
Unrestricted (deficit)	<u>(446,329)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 3,396,229</u>

See accompanying notes to the financial statements.



**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
INDIVIDUAL NONSHARED PROPRIETARY FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**For the Year Ended June 30, 2019  
(amounts in \$000's)**

	<b>Water Revolving Fund (270 Fund)</b>
<b>OPERATING REVENUES</b>	
Interest income on loans - unpledged	\$ 51,263
Interest income on loans - pledged	26,224
Total operating revenues	77,487
<b>OPERATING EXPENSES</b>	
General and administrative	16,370
Principal forgiveness	27,324
Depreciation	3
Total operating expenses	43,697
<b>OPERATING INCOME</b>	33,790
<b>NONOPERATING REVENUES</b>	
Interest and investment income	4,163
Federal government	144,768
Total nonoperating revenues	148,931
<b>NONOPERATING EXPENSES</b>	
Interest	23,844
Other nonoperating expenses	2,834
Total nonoperating expenses	26,678
<b>CHANGE IN NET POSITION</b>	156,043
<b>NET POSITION, BEGINNING OF YEAR</b>	3,240,186
<b>NET POSITION, END OF YEAR</b>	\$ 3,396,229

See accompanying notes to the financial statements.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
INDIVIDUAL NONSHARED PROPRIETARY FUND**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2019  
(amounts in \$000's)**

	<b>Water Revolving Fund (270 Fund)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash payments to employees for services	\$ (14,219)
Other payments	(4,244)
Net cash used in operating activities	(18,463)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating grants received	144,437
Operating grants paid	(1,411)
Proceeds from revenue bonds, net of underwriter's discount	272,532
Net cash provided by noncapital financing activities	415,558
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and investment income	68,860
Loans disbursed to governmental units	(659,794)
Loans repaid by governmental units	162,233
Net cash used in investing activities	(428,701)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(31,606)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	139,331
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 107,725
<b>Reconciliation of operating income to net cash used in operating activities:</b>	
Operating income	\$ 33,790
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation expense	3
Principal forgiveness	27,324
In-kind expense	298
Interest income	(77,487)
Change in assets and liabilities	
Decrease in due from other funds	278
Increase in prepaid expenses	(5)
Decrease in deferred outflows of resources	3,638
Increase in accounts payable and accrued liabilities	529
Increase in due to component units	83
Increase in intergovernmental payables	22
Increase in due to other funds	105
Decrease in other liabilities	(3)
Decrease in net pension liability	(2,758)
Decrease in net OPEB liability	(6,042)
Increase in deferred inflows of resources	1,762
Net cash used in operating activities	\$ (18,463)
<b>Noncash investing, capital, and financing activities</b>	
Loss on disposal of capital assets	\$ 2
Loan repayments held at Trustee	\$ 96,988

See accompanying notes to the financial statements.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**1. Description of Fund**

The State of Illinois, Environmental Protection Agency (Agency) administers the nonshared proprietary fund - Water Revolving Fund. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The Water Revolving Fund held by the State Treasurer consists of the Water Pollution Control Loan Program (“Clean Water Program”) established under authority granted in the Water Quality Act of 1987, which amended the Clean Water Act of 1972 and the Public Water Supply Loan Program (“Drinking Water Program”) established under authority granted in the Federal Safe Drinking Water Act Amendments of 1996.

The Clean Water Program is administered by the Agency pursuant to the Illinois Environmental Protection Act, as supplemented and amended. The Clean Water Program was established as a revolving fund to accept federal capitalization grants, the required 20% State match and any proceeds of revenue bonds for the purpose of making low interest loans to units of local government to finance the construction of wastewater treatment works.

The Drinking Water Program is administered by the Agency pursuant to the Illinois Environmental Protection Act to accept federal capitalization grants, the required 20% State match and any proceeds of revenue bonds for the purpose of making low interest loans to units of local government and certain private community water supplies to finance the construction of public water facilities.

**2. Summary of Significant Accounting Policies**

The financial statements of the individual nonshared proprietary fund (the Fund) administered by the Agency have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Reporting Entity: As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit’s board and either (a) the primary government’s ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**2. Summary of Significant Accounting Policies (Continued)**

Based upon the required criteria, the individual nonshared proprietary fund does not have component units, nor is it a component unit of any other entity. However, because the individual nonshared proprietary fund is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871, or accessing its website at [www.illinoiscomptroller.gov](http://www.illinoiscomptroller.gov).

The financial statements present only the Water Revolving Fund (270) administered by the Illinois Environmental Protection Agency and do not purport to, and do not, present fairly the financial position of the Illinois Environmental Protection Agency as of June 30, 2019 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation: In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows have been presented for the individual nonshared proprietary fund administered by the Agency.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of Accounting: The individual nonshared proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and entitlements. Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**2. Summary of Significant Accounting Policies (Continued)**

Cash and Cash Equivalents: Cash and cash equivalents consist of deposits held in the State Treasury.

Interfund Transactions: The individual nonshared proprietary fund has the following types of interfund transactions with other funds of the State:

*Loans* - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e., due from other funds) in lender funds and interfund payables (i.e., due to other funds) in borrower funds.

*Services Provided and Used* - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund statement of net position.

*Reimbursements* - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

*Transfers* - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

Restricted Assets - Loans Receivable: Under the bond agreements, the repayments of certain loans to municipalities and water districts are pledged against the bond payments. The repayments of those loans are collected in a separate trust account and are used to make bond payments.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**2. Summary of Significant Accounting Policies (Continued)**

Capital Assets: Capital assets, which include equipment, are reported at cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

The capitalization threshold and the estimated useful lives are as follows:

<u>Capital Asset Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Equipment	\$5,000	3-25

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Currently, the Fund has two items that qualify for reporting in this category, amounts related to pensions (note 13) and amounts related to other postemployment benefits (note 14).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has two items that qualify for reporting in this category, amounts related to pensions (note 13) and amounts related to other postemployment benefits (note 14).

Compensated Absences: The liability for compensated absences reported in the individual nonshared proprietary fund consists of unpaid, accumulated vacation and sick leave balances for Agency employees. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., social security and Medicare tax).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue 12 sick days per year but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**2. Summary of Significant Accounting Policies (Continued)**

Pensions: In accordance with the Agency's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the proprietary fund financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liability.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Agency's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB): In accordance with the Agency's adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, the net OPEB liability, deferred outflows of resources, deferred inflows of resources and OPEB expense have been recognized in the proprietary fund financial statements.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**2. Summary of Significant Accounting Policies (Continued)**

The net OPEB liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total OPEB expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total OPEB liability, plan administrative expenses, current year benefit changes and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to OPEB assets and liability.

For purposes of measuring the net OPEB liability, deferred outflows of resources, deferred inflows of resources, OPEB expense, information about the fiduciary net position of plans and additions to/deductions from the plans' fiduciary net position have been determined on the same bases as they are reported within the separately issued plan financial statements. For this purpose, benefit payments are recognized when due and payable, in accordance with the benefit terms. Investments are reported at fair value.

Net Position: Equity is displayed in three components as follows:

*Net Investment in Capital Assets* - this consists of capital assets, net of accumulated depreciation and related debt.

*Restricted* - this consists of amounts that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, and then unrestricted resources when they are needed.

*Unrestricted* - this is the amount that does not meet the definition of "restricted" or "net investment in capital assets." Although the Fund reports unrestricted net position, it is to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and is to remain in the Fund.



**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**2. Summary of Significant Accounting Policies (Continued)**

Adoption of New Accounting Pronouncements: Effective for the year ending June 30, 2019, the Agency adopted the following GASB statements:

Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The implementation of this statement had no financial impact on the Agency's net position or results of operations.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is intended to improve the information that is disclosed in the notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should be including when disclosing information related to debt. The implementation of this statement had no financial impact on the Agency's net position or results of operations.

Future Adoption of New Accounting Pronouncements: Effective for the year ending June 30, 2020, the Agency will adopt the following GASB statement:

Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**2. Summary of Significant Accounting Policies (Continued)**

Effective for the year ending June 30, 2021, the Agency will adopt the following GASB statements:

Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

The Agency has not yet determined the impact of adopting these statements on its financial statements.

Use of Estimates: The preparation of financial statements in conformity with GAAP 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.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**3. Cash and Cash Equivalents**

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury.

Deposits in the custody of the State Treasurer (or in transit) at June 30, 2019, were \$107,725 thousand. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11).

Funds held by the State Treasurer have not been categorized as to credit risk because the Agency does not own individual securities. Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report.

**4. Securities Lending Transaction**

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During Fiscal Year 2019, Deutsche Bank AG lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank AG.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**4. Securities Lending Transaction (Continued)**

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the State Treasurer has allocated the assets and obligations at June 30, 2019, arising from securities lending agreements to the various funds of the State. The total allocated to the Water Revolving Fund at June 30, 2019, was \$31,333 thousand.

**5. Loans and Notes Receivable**

Loans and notes receivable consist of loans made to local governments for infrastructure programs.

Each loan to a participant for an eligible project from funds in the Clean Water Program or the Drinking Water Program is evidenced by a Loan Agreement. In each Loan Agreement, the Agency agrees to make a loan in an amount up to the maximum amount provided in the Loan Agreement. Funds are disbursed to a participant only to pay eligible project costs that actually have been incurred by the participant, and the amount of a loan is generally equal to the aggregate of such disbursed amounts, although in certain instances such amount may also include capitalized interest. The actual amounts loaned to participants will generally depend upon the actual progress of construction on the related projects.

Each Loan Agreement specifies a date as of which the Project is required to initiate operation (“Operation Initiation Date”). Amortization of each Loan is required to begin no later than one year from the earlier of the Operation Initiation Date or the date identified in the Loan Agreement as the initiation of loan repayment date (“Initiation of Loan Repayment Date”). The final maturity of each loan is not later than 20 years from the earlier of the Operation Initiation Date or the Initiation of Loan Repayment Date. Each Loan Agreement permits prepayment of all or a portion of the balance of the loan, without premium. Most of the Loan Agreements provide for semi-annual principal and interest payments, with the actual dates of repayment varying from Loan Agreement to Loan Agreement, with a few Loan Agreements providing for quarterly or annual principal and interest payments.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**5. Loans and Notes Receivable (Continued)**

Fixed Loan Rate: The Agency assigns to each loan a fixed loan rate at the time a loan is made to the participant. For loans financed prior to the inception of the American Recovery and Reinvestment Act (ARRA), the fixed loan rate is comprised of an interest portion and a loan support portion and is computed by using the mean interest rate of the 20-year Tax-Exempt Bonds General Obligation Bond Buyer Index, as published weekly by *The Bond Buyer*, from July 1 to June 30 of the preceding fiscal year rounded to the nearest 100th of a percent and multiplied by 50%. Those loans financed with ARRA funds bear an interest rate of 0.0%. The interest rates on the loans currently outstanding are between 0.0% and 2.91%

Security for Loans: Generally, the repayment obligations of each participant will either be (i) secured by the revenues generated by its wastewater or drinking water system or (ii) a general obligation of the participant. The Agency conducts an analysis as part of its loan review process to determine the appropriate security for a loan and upon making such determination, the participant evidences its obligation under the loan agreement and grants the security determined by the Agency by adopting a bond ordinance or resolution or similar authorization in accordance with State law. In certain instances, a participant may issue revenue bonds, general obligation bonds, or other obligations, as applicable, to evidence its repayment obligations.

Estimated repayments of the loans receivable and interest thereon, are as follows (amounts in \$000's):

<u>Year ending June 30</u>	<u>Principal*</u>	<u>Interest</u>	<u>Total</u>
2020	273,278	73,740	347,018
2021	287,323	73,184	360,507
2022	288,167	68,492	356,659
2023	287,695	63,258	350,953
2024	288,903	58,057	346,960
2025-2029	1,349,147	215,743	1,564,890
2030-2034	1,089,567	108,101	1,197,668
2035-2039	599,515	27,106	626,621
2040-2052	<u>41,314</u>	<u>1,703</u>	<u>43,017</u>
	<u>\$ 4,504,909</u>	<u>\$ 689,384</u>	<u>\$ 5,194,293</u>

\*Repayments include planned future interest capitalization in the amount of: \$2,674 (based on actual disbursements).

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**5. Loans and Notes Receivable (Continued)**

Restricted Loans Receivable

At June 30, 2019, the Agency has pledged loans receivable in the amount of \$3,198,450 thousand. This amount is to finance present and future issuances of leveraged bond debt (see note 9). During the year ended June 30, 2019, the Agency received \$193,275 thousand and \$26,203 thousand pledged principal and interest, respectively, on these loans. After bond payment, any excess of the principal and interest received over the 1.2 coverage ratio is released from restriction.

Loan Commitments and Concentrations

Per the Environmental Protection Agency Procedures and Requirements for Determining Loan Priorities (35 Illinois Administrative Code, Section 366.105: Funding Allocations), loan funds available from State and Federal appropriations during the capitalization period authorized by the Clean Water Act to capitalize the Clean Water portion of the fund will be subject to an equal division between the service area of the Metropolitan Water Reclamation District of Greater Chicago (MWRDGC) and the area which is comprised of the geographical balance of the State of Illinois, to the extent that projects in either area in any fiscal year have qualified to receive loan assistance and are ready to proceed in accordance with the criteria for loan award. The service area of MWRDGC also includes several municipalities that may receive loans directly from the fund. Any imbalance in the division of the total loan funds shall be carried forward from year to year and shall be applied as projects are able to complete a loan application to achieve an accumulatively equal distribution. Currently, 42.13% of loan funds made under the Clean Water Program have been made to MWRDGC and municipalities in its service area.

As of June 30, 2019, the outstanding balance of loans to MWRDGC amounted to \$1,032,786 thousand which exceeds 5% of total loans receivable of the fund. This represents approximately 22.94% of total loans receivable.

As of June 30, 2019, the outstanding balance of loans to the City of Chicago amounted to \$813,541 thousand which exceeds 5% of the total loans receivable of the fund. This represents approximately 18.07% of the total loans receivable.

Principal Forgiveness

As of June 30, 2019, the Federal loan commitments included ARRA federal funds of \$256,781 thousand, of which \$129,077 thousand will be forgiven. ARRA principal forgiveness loans are forgiven as disbursed but must be repaid if the recipient fails to meet ARRA requirements.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**5. Loans and Notes Receivable (Continued)**

Federal grants awarded post-ARRA required additional loan principal forgiveness with the minimum and maximum requirements depending on the program. The total minimum principal forgiveness amount is \$143,197 thousand and the total maximum amount is \$407,103 thousand.

The 2019 Federal grants for both the Clean Water and Drinking Water programs had not been received as of June 30, 2019. The Clean Water principal forgiveness required under these grants will be provided through a methodology established in the rules established to manage the loan program and the Drinking Water principal forgiveness will be determined by the criteria established in the annual Intended Use Plan for that program. The Clean Water Program exceeded the maximum principal forgiveness allowed after the 2011 grant by \$11,903 thousand. This amount has been paid from the Clean Water Loan Support Program. The Drinking Water minimum has been met, except for the 2017 grant, and no issues have resulted from the maximum amount for the Drinking Water Program. Following is a summary of Post-ARRA loan principal forgiveness (amounts in \$000's):

	<b>Clean Water Program</b>		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010-2014 Grant	\$ 29,837	\$ 81,403	\$ 78,171
2015 Grant	-	18,926	14,261
2016 Grant	6,043	18,128	9,351
2017 Grant	5,996	23,985	18,518
2018 Grant	7,259	29,036	28,522
2019 Grant (to be issued)	7,186	28,744	-
Principal forgiveness charged to Loan Support Program	-	-	11,903
Total Principal Forgiveness Post ARRA	\$ 56,231	\$ 200,222	\$ 160,726

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**5. Loans and Notes Receivable (Continued)**

	<b>Drinking Water Program</b>		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010-2014 Grant	\$ 46,549	\$ 117,552	\$ 50,485
2015 Grant	7,334	11,000	9,853
2016 Grant	6,938	17,345	8,404
2017 Grant	6,879	17,196	17,192
2018 Grant	8,382	20,954	20,435
2019 Grant (to be issued)	10,794	22,834	-
Principal forgiveness charged to Loan Support Program	-	-	-
<b>Total Principal Forgiveness Post ARRA</b>	<b>\$ 86,876</b>	<b>\$ 206,881</b>	<b>\$ 106,369</b>
	<b>Total</b>		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010-2014 Grant	\$ 76,386	\$ 198,955	\$ 128,656
2015 Grant	7,334	29,926	24,114
2016 Grant	12,981	35,473	17,755
2017 Grant	12,875	41,181	35,710
2018 Grant	15,641	49,990	48,957
2019 Grant (to be issued)	17,980	51,578	-
Principal forgiveness charged to Loan Support Program	-	-	11,903
<b>Total Principal Forgiveness Post ARRA</b>	<b>\$ 143,197</b>	<b>\$ 407,103</b>	<b>\$ 267,095</b>



**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**6. Due from Component Unit**

The amount due from component unit represents unpledged loan repayments and related interest received and held in certain trust accounts in the name of the Illinois Finance Authority (IFA) in connection with the bonds (See note 9). The unpledged loan repayments and related interest are transferred monthly to the State Treasury.

**7. Interfund Balances and Transfers**

Balances Due to Other Funds: The following balances at June 30, 2019, represent amounts due to other Agency and State of Illinois funds (amounts in \$000's):

Due to Central Management Services	\$ 97
Due to State Employees' Retirement System	244
Due to Auditor General	<u>60</u>
Total Due to Other Funds	<u>\$ 401</u>

**8. Capital Assets**

Capital asset activities for the year ended June 30, 2019 were as follows (amounts in \$000's):

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital assets being depreciated				
Equipment	\$ 401	\$ -	\$ 21	\$ 380
Less: accumulated depreciation	<u>387</u>	<u>3</u>	<u>19</u>	<u>371</u>
Total capital assets being depreciated	<u>\$ 14</u>	<u>\$ (3)</u>	<u>\$ 2</u>	<u>\$ 9</u>

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**9. Long-Term Obligations**

Changes in Long-Term Obligations: Changes in long-term obligations for the year ended June 30, 2019, were as follows (amounts in \$000's):

	Balance July 1, 2018	Additions	Deletions/ Transfers	Balance June 30, 2019	Amounts Due Within One Year
Due to Illinois Finance Authority	\$ 941,052	\$ 735,078	\$ 536,133	\$1,139,997	\$ -
Compensated absences	961	1,011	1,014	958	137
Net pension liability	62,326	791	3,549	59,568	-
Net OPEB liability	37,315	-	6,042	31,273	732
	<u>\$ 1,041,654</u>	<u>\$ 736,880</u>	<u>\$ 546,738</u>	<u>\$1,231,796</u>	<u>\$ 869</u>

Due to Illinois Finance Authority: On December 5, 2013, the Illinois Finance Authority (IFA), a nonmajor component unit of the State of Illinois, issued \$141,700 thousand State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds Series 2013 (2013 bonds), with interest rates ranging from 1.5% to 5.0%. The purpose of the 2013 bonds was to advance refund \$107,770 thousand of outstanding Series 2002 and 2004 bonds, with interest rates ranging from 3.25% to 5.5%, and to provide \$58,526 thousand of State Match required under the program's capitalization grants for the grant years 2011-2013. The net proceeds from the 2013 bond issue included \$16,875 thousand in bond premiums.

A portion of the 2013 bond proceeds was deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments of the 2002 and 2004 Series bonds. As a result, those bonds were considered to be defeased, as was the Agency's obligation to IFA for those bonds. The liability was removed from the Agency's statement of net position. The 2002 and 2004 Series bonds were repaid in their entirety during the year ended June 30, 2015.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**9. Long-Term Obligations (Continued)**

On September 12, 2016, the IFA issued \$500,000 thousand of State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds Series 2016 (2016 bonds), with interest rates ranging from 4.0% to 5.0%. The proceeds of the 2016 bonds (including a premium of \$91,698 thousand and less expenses of \$2,923 thousand) provided \$24,177 thousand of Clean Water State Match, \$21,218 thousand for Drinking Water State Match, \$326,017 thousand for Clean Water Loan program needs, and \$217,363 thousand for the needs of the Drinking Water Loan Program.

On September 12, 2017, the IFA issued \$560,025 thousand of State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds Series 2017 (2017 bonds), with interest rates of 5%. The proceeds of the 2017 bonds (including a premium of \$104,447 thousand less expenses of \$3,117 thousand) provided \$411,355 thousand for Clean Water Loan program needs and \$250,000 thousand for Drinking Water Loan Program needs.

On April 16, 2019, the IFA issued \$450,000 thousand of State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds Series 2019 (2019 bonds), with interest rates ranging from 4.0% to 5.25%. The proceeds of the 2019 bonds (including a premium of \$85,026 thousand less expenses of \$2,677 thousand) provided \$29,036 thousand for Clean Water State Match, \$16,763 thousand for Drinking Water State Match, \$225,306 thousand for Clean Water Loan program needs, and \$261,244 thousand for Drinking Water Loan Program needs.

Prior to issuance of each series of bonds, the Agency sold and assigned certain loans outstanding related to the Clean Water Program and Drinking Water Program to the IFA and pledged the loans to secure payment of the bonds. Of the total outstanding loans at June 30, 2019, \$3,198,450 thousand has been pledged for repayment of the Bonds. The bond trustee is entitled to receive all principal and interest due on these pledged loans. Any loans funded with the proceeds from the bonds are not pledged to the bond trustee and are not deemed to be pledged loans.

The State Match portion of the bonds is to be paid from the interest repayments of the pledged loans and the income derived from the investment of monies held in funds and accounts established under the bond indenture. The remaining funds are used to pay the amounts due from refinancing and any future leveraged bond sale.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**9. Long-Term Obligations (Continued)**

After the bond payments have been made, any excess repayment funds can be released for use in the Loan Program as long as the Pledged Loan to Debt Ratio is 1.2 to 1. All funds at the Trustee are held in the name of IFA. As a result, the Water Revolving Fund has recorded an obligation to repay the outstanding balance of the bonds and other costs, adjusted for excess amounts held by IFA in certain restricted accounts, as follows (amounts in \$000's):

Bonds payable	\$	1,479,430
Accrued interest payable on bonds at June 30, 2019		30,237
Unamortized premium		227,275
Trustee fees payable		175
Deferred net loss on prior bonds refunded		<u>(148)</u>
		1,736,969
Cash and cash equivalents and accrued interest receivable held in restricted accounts at June 30, 2019		<u>(596,972)</u>
Net obligation	\$	<u><u>1,139,997</u></u>

The debt service required to be paid by IFA on the bonds is as follows (amounts in \$000's):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 68,255	\$ 64,921
2021	87,525	67,789
2022	88,985	63,395
2023	89,965	58,971
2024	91,465	54,606
2025 – 2029	452,460	206,140
2030 – 2034	393,955	99,585
2035 – 2039	201,270	21,141
2040 – 2042	<u>5,550</u>	<u>208</u>
	<u><u>\$ 1,479,430</u></u>	<u><u>\$ 636,756</u></u>

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**10. Restricted Net Position**

Portions of net position at June 30, 2019 are restricted for (amounts in \$000's):

Low interest loans to local governments, net of loans pledged for debt service	\$ 632,412
Debt service	<u>3,210,137</u>
Total restricted net position	<u>\$ 3,842,549</u>

Low Interest Loans: The Water Revolving Fund was created pursuant to the Clean Water Act and Safe Drinking Water Act and established to provide financial assistance in the form of loans. These funds are restricted for the purpose of making low interest loans from the Fund.

Debt Service: The amount restricted for debt service consists of loans receivable pledged and related interest receivable pursuant to the sale of revenue bonds in 2013, 2016, 2017, and 2019. (see Note 9).

**11. Capitalization Grants**

The Agency has entered into Capitalization Grant Agreements with the United States Environmental Protection Agency to administer the Waste Water and Drinking Water Loan Programs, jointly the Water Revolving Fund (270). Pursuant to these Capitalization Grant Agreements, \$2,014,258 thousand for Waste Water and \$815,663 thousand for Drinking Water have been made available to be drawn (pursuant to state matching requirements being met) on the Capital Grant facility at June 30, 2019, with respect to costs in connection with loans made under the Waste Water and Drinking Water Loan Programs.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**11. Capitalization Grants (Continued)**

The remaining Capital Grant Facility as of June 30, 2019, is summarized below (amounts in \$000's):

	<u>Waste Water</u>	<u>Drinking Water</u>	<u>Total</u>
Total Capital Grants	\$ 2,014,258	\$ 815,663	\$ 2,829,921
Less: Cumulative drawdowns	<u>(2,014,247)</u>	<u>(813,845)</u>	<u>(2,828,092)</u>
Capital Grant Facility	<u>\$ 11</u>	<u>\$ 1,818</u>	<u>\$ 1,829</u>

Included in the above table are the following amounts awarded under the ARRA (amounts in \$000's):

Total ARRA grants	\$ 177,243	\$ 79,538	\$ 256,781
Less: Cumulative drawdowns	<u>(177,243)</u>	<u>(79,538)</u>	<u>(256,781)</u>
Remaining ARRA amounts to be drawn	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**12. General and Administrative Costs**

The Agency is authorized to utilize up to 4% of the total Clean Water Capitalization Grants received for administration of the loan program. In order to allow the maximum amount of grant dollars for loan disbursements, the Agency currently funds administrative costs for the Clean Water Program from sources other than the grant. The Drinking Water Grant Program sets aside and restricts 4% of each grant for the administrative costs of running the program. As of June 30, 2019, the Agency had \$1,770 thousand available to fund future administration costs of the Drinking Water Program.

The Agency also charges a loan support fee. This loan support fee is used to defray program expenses and for state match on federal grants. Loan support fees are collected, deposited and held in the Water Revolving Fund. This fee cannot exceed 50% of the fixed loan rate.

The Agency is also authorized to use a portion of each capitalization grant for specific set-asides authorized under Federal statutes.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**12. General and Administrative Costs (Continued)**

The Administrative Revenues and Expenses reported in the Water Revolving Fund for the year ended June 30, 2019, are as follows (amounts in \$000's):

Revenues	
Administrative grants	\$ 1,639
Loan Support	<u>34,330</u>
	35,969
Expenses	
Payroll and insurance	14,209
Other general expenses	2,158
Depreciation	<u>3</u>
	<u>16,370</u>
Excess of revenues over expenses	<u>\$ 19,599</u>

**13. Pension Plan**

Plan description: Substantially all of the Agency's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by Article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate CAFR available at [www.srs.illinois.gov](http://www.srs.illinois.gov) or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255.

Benefit provisions: SERS provides retirement benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. The minimum monthly retirement annuity payable is \$15 for each year of covered service and \$25 for each year of noncovered employment.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**13. Pension Plan (Continued)**

Participants in SERS under the Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<b>Regular Formula Tier 1</b>	<b>Regular Formula Tier 2</b>
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> <li>• Age 60, with 8 years of service credit.</li> <li>• Any age, when the member’s age (years &amp; whole months) plus years of service credit (years &amp; whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service.</li> <li>• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).</li> </ul> <p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p> <p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p> <p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> <li>• Age 67, with 10 years of credited service.</li> <li>• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).</li> </ul> <p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.</p> <p>If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2018 rate is \$113,645.</p> <p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.



**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**13. Pension Plan (Continued)**

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Workers' Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Contributions: Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed \$106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2019, this amount was \$114,942.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2019, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2019, the employer contribution rate was 51.614%. The Fund's contribution amount for fiscal year 2019 was \$4.043 million.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**13. Pension Plan (Continued)**

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions: At June 30, 2019, the Fund reported a liability of \$59.568 million for its proportionate share of the State’s net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2018 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Fund’s portion of the net pension liability was based on the Fund’s proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2018. As of the current year measurement date of June 30, 2018, the Fund’s proportion was 0.1802% which was a decrease of 0.0092% from its proportion measured as of the prior year measurement date of June 30, 2017.

For the year ended June 30, 2019, the Fund recognized pension expense of \$42 thousand. At June 30, 2019, the Fund reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2018, from the following sources (amounts expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,427
Changes of assumptions	3,282	1,367
Net difference between projected and actual investment earnings on pension plan investments	27	-
Changes in proportion	-	6,406
Fund contributions subsequent to the measurement date	4,043	-
<b>Total</b>	<u>\$ 7,352</u>	<u>\$ 9,200</u>

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**13. Pension Plan (Continued)**

\$4.043 million reported as deferred outflows of resources related to pensions resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

<b>Year ended June 30,</b>	
2020	\$ (1,762)
2021	(1,787)
2022	(1,889)
2023	(453)
Total	<u>\$ (5,891)</u>

Actuarial methods and assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality: 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

Inflation: 2.50%

Investment Rate of Return: 7.00%, net of pension plan investment expense, including inflation.

Salary increases: Salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2016, valuation pursuant to an experience study of the period July 1, 2012 to June 30, 2015.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**13. Pension Plan (Continued)**

The long-term expected real rate of return on pension plan investments was determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan’s target asset allocation, calculated as of the measurement date of June 30, 2017, the best estimates of geometric real rates of return are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S equity	23.0%	5.50%
Developed Foreign Equity	13.0%	5.30%
Emerging Market Equity	8.0%	7.80%
Private Equity	7.0%	7.60%
Intermediate Investment Grade Bonds	14.0%	1.50%
Long-term Government Bonds	4.0%	1.80%
TIPS	4.0%	1.50%
High Yield and Bank Loans	5.0%	3.80%
Opportunistic Debt	8.0%	5.00%
Emerging Market Debt	2.0%	3.70%
Core Real Estate	5.5%	3.70%
Non Core Real Estate	4.5%	5.90%
Infrastructure	2.0%	5.80%
<b>Total</b>	<u>100%</u>	

**Discount rate:** A discount rate of 6.81% was used to measure the total pension liability as of the measurement date of June 30, 2018 as compared to a discount rate of 6.78% used to measure the total pension liability as of the prior year measurement date. The June 30, 2018 single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.62%, based on an index of 20-year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**13. Pension Plan (Continued)**

Based on these assumptions, the pension plan’s fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the net pension liability to changes in the discount rate: The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	<b>1% Decrease 5.81%</b>	<b>Discount Rate 6.81%</b>	<b>1% Increase 7.81%</b>
Fund's proportionate share of the net pension liability	\$ 72,113	\$ 59,568	\$ 49,290

Payables to the pension plan: At June 30, 2019, the Fund reported a payable of \$244 thousand to SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2019.

**14. Other Post-employment Benefits (OPEB)**

Plan description: The State Employees Group Insurance Act of 1971 (“Act”), as amended, authorizes the Illinois State Employees Group Insurance Program (“SEGIP”) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Fund’s full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (“GARS”), Judges Retirement System (“JRS”), State Employees’ Retirement System of Illinois (“SERS”), Teachers’ Retirement System (“TRS”), and State Universities Retirement System of Illinois (“SURS”) are eligible for these other post-employment benefits (“OPEB”). Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**14. Other Post-employment Benefits (Continued)**

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits provided: The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes five thousand dollars.

Funding policy and annual other postemployment benefit cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date.

The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**14. Other Post-employment Benefits (Continued)**

For fiscal year 2019, the annual cost of the basic program of group health, dental, and vision benefits before the State’s contribution was \$11,269.44 (\$6,698.64 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$13,823.52 (\$4,983.60 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB: The total OPEB liability, as reported at June 30, 2019, was measured as of June 30, 2018, with an actuarial valuation as of June 30, 2017. At June 30, 2019, the Fund recorded a liability of \$31.273 million for its proportionate share of the State’s total OPEB liability. The Fund’s portion of the OPEB liability was based on the Fund’s proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2018. As of the current year measurement date of June 30, 2017, the Fund’s proportion was 0.0780%, which was a decrease of 0.0123% from its proportion measured as of the prior year measurement date of June 30, 2017.

The Fund recognized negative OPEB expense for the year ended June 30, 2019, of \$3.445 million. At June 30, 2019, the Fund reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 8	\$ 689
Changes of assumptions	-	2,937
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,556
Fund contributions subsequent to the measurement date	732	-
<b>Total</b>	<b>\$ 740</b>	<b>\$ 15,182</b>

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**14. Other Post-employment Benefits (Continued)**

\$732 thousand reported as deferred outflows of resources related to OPEB resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

<b>Year ended June 30,</b>	
2020	\$ (4,123)
2021	(4,123)
2022	(4,123)
2023	(2,613)
2024	(192)
<b>Total</b>	<u>\$ (15,174)</u>



**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**14. Other Post-employment Benefits (Continued)**

Actuarial methods and assumptions: The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2017, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2017.

<b>Valuation Date</b>	June 30, 2017
<b>Measurement Date</b>	June 30, 2018
<b>Actuarial Cost Method</b>	Entry Age Normal
<b>Inflation Rate</b>	2.75%
<b>Projected Salary Increases*</b>	3.00% - 15.00%
<b>Discount Rate</b>	3.62%
<b>Healthcare Cost Trend Rate:</b>	
Medical (Pre-Medicare)	8.0 % grading down 0.5% in the first year to 7.5%, then grading down 0.08% in the second year to 7.42%, followed by grading down of 0.5% per year over 5 years to 4.92% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	6.0% grading down 0.5% per year over 3 years to 4.5%
<b>Retirees' share of benefit-related costs</b>	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2018 and 2019 are based on actual premiums. Premiums after 2019 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.
* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.	

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**14. Other Post-employment Benefits (Continued)**

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2017 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	<u>Retirement age experience study<sup>^</sup></u>	<u>Mortality<sup>^^</sup></u>
<b>GARS</b>	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
<b>JRS</b>	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
<b>SERS</b>	July 2009 - June 2013	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
<b>TRS</b>	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
<b>SURS</b>	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

<sup>^</sup> The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

<sup>^^</sup> Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount rate: Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.56% at June 30, 2017, and 3.62% at June 30, 2018, was used to measure the total OPEB liability.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**14. Other Post-employment Benefits (Continued)**

Sensitivity of total OPEB liability to changes in the single discount rate: The following presents the plan’s total OPEB liability, calculated using a Single Discount Rate of 3.62%, as well as what the plan’s total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.62%) or lower (2.62%) than the current rate (amounts expressed in thousands):

	<b>1% Decrease (2.62%)</b>	<b>Current Single Discount Rate Assumption (3.62%)</b>	<b>1% Increase (4.62%)</b>
Fund's proportionate share of total OPEB liability	\$ 36,663	\$ 31,273	\$ 26,993

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate: The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2019 decreasing to an ultimate trend rate of 4.92% in 2026, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2028 for Medicare coverage.

	<b>1% Decrease</b>	<b>Current Healthcare Cost Trend Rates Assumption</b>	<b>1% Increase</b>
Fund's proportionate share of total OPEB liability	\$ 26,413	\$ 31,273	\$ 37,586

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2019**

**15. Contingencies**

The Agency is involved in a number of legal proceedings and claims covering a wide range of matters. The ultimate results of these lawsuits and other proceedings against the Agency cannot be predicted with certainty; however, the Agency does not expect such matters to have a material effect on the financial position of Water Revolving Fund.

**16. Subsequent Event**

The Agency is not aware of any facts, decisions, or conditions that might be expected to have a significant impact on the financial position or results of operations during this and future fiscal years.

**SUPPLEMENTARY INFORMATION**

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
INDIVIDUAL NONSHARED PROPRIETARY FUND**

**COMBINING STATEMENT OF NET POSITION BY PROGRAM**

**June 30, 2019  
(amounts in \$000's)**

	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 39,153	\$ 68,572	\$ 107,725
Securities lending collateral equity with State Treasurer	11,722	19,611	31,333
Loans and notes receivable	2,830	69,630	72,460
Other receivables	2,602	12,878	15,480
Due from federal government	307	-	307
Due from component unit	1,036	7,095	8,131
Restricted assets - accrued interest receivable	3,601	8,086	11,687
Restricted assets - loans receivable	72,012	128,808	200,820
Prepaid expenses	5	12	17
Total current assets	<u>133,268</u>	<u>314,692</u>	<u>447,960</u>
Noncurrent assets			
Loans and notes receivable, net of current portion	45,021	1,186,304	1,231,325
Restricted assets - loans receivable	1,202,710	1,794,920	2,997,630
Capital assets, net of accumulated depreciation	-	9	9
Total noncurrent assets	<u>1,247,731</u>	<u>2,981,233</u>	<u>4,228,964</u>
<b>TOTAL ASSETS</b>	<u>1,380,999</u>	<u>3,295,925</u>	<u>4,676,924</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount on pension liability	1,521	5,829	7,350
Deferred amount on OPEB liability	153	587	740
Total deferred outflows of resources	<u>1,674</u>	<u>6,416</u>	<u>8,090</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,382,673</u>	<u>3,302,341</u>	<u>4,685,014</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	166	417	583
Due to component units	90	56	146
Due to federal government	8	136	144
Due to other funds	120	281	401
Obligations under securities lending of State Treasurer	11,722	19,611	31,333
Total OPEB liability	152	580	732
Compensated absences	31	106	137
Total current liabilities	<u>12,289</u>	<u>21,187</u>	<u>33,476</u>
Noncurrent liabilities			
Long-term obligations	443,118	696,879	1,139,997
Compensated absences	187	634	821
Net pension liability	12,331	47,237	59,568
Total OPEB liability	6,321	24,220	30,541
Total noncurrent liabilities	<u>461,957</u>	<u>768,970</u>	<u>1,230,927</u>
<b>TOTAL LIABILITIES</b>	<u>474,246</u>	<u>790,157</u>	<u>1,264,403</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred amount on pension liability	1,904	7,296	9,200
Deferred amount on OPEB liability	3,143	12,039	15,182
Total deferred inflows of resources	<u>5,047</u>	<u>19,335</u>	<u>24,382</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>479,293</u>	<u>809,492</u>	<u>1,288,785</u>
<b>NET POSITION</b>			
Net investment in capital assets	-	9	9
Restricted for:			
Debt service	1,278,324	1,931,813	3,210,137
Other purposes	-	632,412	632,412
Unrestricted (deficit)	<u>(374,944)</u>	<u>(71,385)</u>	<u>(446,329)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 903,380</u>	<u>\$ 2,492,849</u>	<u>\$ 3,396,229</u>

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
INDIVIDUAL NONSHARED PROPRIETARY FUND**

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY PROGRAM**

**For the Year Ended June 30, 2019  
(amounts in \$000's)**

	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Subtotal</u>
<b>OPERATING REVENUES</b>			
Interest income on loans - unpledged	\$ 11,409	\$ 39,854	\$ 51,263
Interest income on loans - pledged	10,836	15,388	26,224
Total operating revenues	<u>22,245</u>	<u>55,242</u>	<u>77,487</u>
<b>OPERATING EXPENSES</b>			
General and administrative	3,937	12,433	16,370
Principal forgiveness	8,494	18,830	27,324
Depreciation	-	3	3
Total operating expenses	<u>12,431</u>	<u>31,266</u>	<u>43,697</u>
<b>OPERATING INCOME</b>	<u>9,814</u>	<u>23,976</u>	<u>33,790</u>
<b>NONOPERATING REVENUES</b>			
Interest and investment income	1,661	2,502	4,163
Federal government	64,869	79,899	144,768
Total nonoperating revenues	<u>66,530</u>	<u>82,401</u>	<u>148,931</u>
<b>NONOPERATING EXPENSES</b>			
Interest	9,508	14,336	23,844
Other nonoperating expenses	1,558	1,275	2,834
Total nonoperating expenses	<u>11,066</u>	<u>15,611</u>	<u>26,678</u>
<b>TRANSFERS</b>			
Transfers-in	39,285	-	39,285
Transfers-out	-	(39,285)	(39,285)
Total transfers	<u>39,285</u>	<u>(39,285)</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>104,563</u>	<u>51,481</u>	<u>156,043</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>798,817</u>	<u>2,441,368</u>	<u>3,240,186</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 903,380</u>	<u>\$ 2,492,849</u>	<u>\$ 3,396,229</u>

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
INDIVIDUAL NONSHARED PROPRIETARY FUND**

**COMBINING STATEMENT OF CASH FLOWS BY PROGRAM**

**For the Year Ended June 30, 2019  
(amounts in \$000's)**

	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash payments to employees for services	\$ (3,049)	\$ (11,170)	\$ (14,219)
Other payments	(975)	(3,269)	(4,244)
Net cash used in operating activities	<u>(4,024)</u>	<u>(14,439)</u>	<u>(18,463)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating grants received	64,687	79,750	144,437
Operating grants paid	(88)	(1,323)	(1,411)
Proceeds from revenue bonds, net of underwriter's discount	155,509	117,023	272,532
Net cash provided by noncapital financing activities	<u>220,108</u>	<u>195,450</u>	<u>415,558</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and investment income	17,598	51,262	68,860
Loans disbursed to governmental units	(299,184)	(360,610)	(659,794)
Loans repaid by governmental units	19,177	143,056	162,233
Net cash used in investing activities	<u>(262,409)</u>	<u>(166,292)</u>	<u>(428,701)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(46,325)	14,719	(31,606)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>85,478</u>	<u>53,853</u>	<u>139,331</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 39,153</u>	<u>\$ 68,572</u>	<u>\$ 107,725</u>
<b>Reconciliation of operating income to net cash used in operating activities:</b>			
Operating income	\$ 9,814	\$ 23,976	\$ 33,790
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation expense	-	3	3
Principal forgiveness	8,495	18,829	27,324
In-kind expense	148	150	298
Interest income	(22,245)	(55,242)	(77,487)
Change in assets and liabilities			
Decrease in due from other funds	73	205	278
Increase in prepaid expenses	(5)	-	(5)
Decrease in deferred outflows of resources	924	2,714	3,638
Increase in accounts payable and accrued liabilities	166	363	529
Increase in due to component units	27	56	83
Increase in intergovernmental payables	8	14	22
Increase in due to other funds	16	89	105
Decrease in other liabilities	(1)	(2)	(3)
Decrease in net pension liability	(564)	(2,194)	(2,758)
Decrease in net OPEB liability	(1,247)	(4,795)	(6,042)
Increase in deferred inflows of resources	367	1,395	1,762
Net cash used in operating activities	<u>\$ (4,024)</u>	<u>\$ (14,439)</u>	<u>\$ (18,463)</u>
<b>Noncash investing, capital, and financing activities</b>			
Loss on disposal of capital assets	\$ -	\$ 2	\$ 2
Loan repayments held at Trustee	\$ 54,364	\$ 42,624	\$ 96,988





**INDEPENDENT AUDITOR'S 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***

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

**Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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 Water Revolving Fund of the State of Illinois, Environmental Protection Agency (Agency), as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated January 7, 2020.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Water Revolving 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*.

**Internal Control Over Financial Reporting**

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting of the Water Revolving Fund (internal control).

In planning and performing our audit of the financial statements, we considered the Agency's 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings as item 2019-001 that we consider to be a material weakness.

### **Agency's Response to the Finding**

The Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

Chicago, Illinois  
January 7, 2020

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS* FINDING  
For the Year Ended June 30, 2019**

2019-001. **FINDING** (Inadequate Controls over Financial Reporting)

The Illinois Environmental Protection Agency (Agency) failed to exercise adequate controls over financial reporting to ensure draft financial statements of the Water Revolving Fund, Fund 270, provided to auditors were properly supported and free of errors.

During our testing, we noted the following:

- The Agency made an incorrect entry to reverse prior year accrual entries to the General and Administrative Expenses. The entry resulted in an understatement of the General and Administrative Expenses by \$1,613 thousand, an understatement of Interest and Investment Income, Non-Operating, by \$859 thousand and an overstatement of the Other Expenses by \$754 thousand. An adjusting entry was required. Additionally, \$626 thousand of this journal entry was not adequately supported.
- Three of 16 (19%) disclosures in the draft Notes to Financial Statements did not agree to supporting documentation.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over State's resources. Good internal controls require financial reporting procedures to include proper checks and balances and adequate and timely supervisory review of all fiscal related activities to ensure proper financial reporting.

Agency officials indicated the Agency used a different accounting firm during fiscal year 2019 to assist in the completion of the financial statements. Established procedures were in place to review the accounting firm's draft financial statements; however, due to time constraints, Agency personnel did not identify errors or omissions prior to providing the draft financial statements to the auditors.

**STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS* FINDING  
For the Year Ended June 30, 2019**

Failure to maintain adequate controls over the financial reporting process increases the risk of a material misstatement in the financial statements and reduces the reliability of Statewide financial reporting. (Finding Code No. 2019-001)

**RECOMMENDATION**

We recommend the Agency strengthen its internal controls over the financial reporting process, including a timely and adequate review of financial statements and notes to the financial statements, to ensure accurate submission of financial data.

**AGENCY RESPONSE**

Agree. The Agency will assure a more proactive approach to quarterly financial statements. The Agency will assure established GAAP financial procedures will be thoroughly followed, and all adjusting journal entries, financial statements, and footnotes will be reviewed and approved timely prior to the audit review process.