

**State of Illinois
Illinois Environmental
Protection Agency
Fund 270 - Water
Revolving Fund**

FINANCIAL AUDIT

**FOR THE YEAR ENDED
JUNE 30, 2021**

**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, 2021**

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	48
Combining Statement of Revenues, Expenses, and Changes in Net Position By Program	49
Combining Statement of Cash Flows By Program	50
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>	51
Schedule of Findings	
Current Findings	53

**STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2021**

AGENCY OFFICIALS

Director	Mr. John J. Kim
Deputy Director	Mr. Todd Rettig
Chief of Staff	Ms. Laura Roche
Chief Legal Counsel	Mr. Charles Gunnarson
Chief Financial Officer (11/20/20 – Present)	Mr. Jacob Poeschel
Chief Financial Officer (11/01/20 – 11/19/20)	Vacant
Chief Financial Officer (07/01/20 – 10/31/20)	Ms. Courtney L. Bott
Chief Internal Auditor (01/01/21 – Present)	Ms. Ellen Jennings Fairfield
Chief Internal Auditor (11/01/20 – 12/31/20)	Vacant
Chief Internal Auditor (07/01/20 – 10/31/20)	Mr. James Froehner

The Illinois Environmental Protection Agency's primary administrative office 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, 2021**

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 Roth and Company, 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

Number of	<u>Current Report</u>	<u>Prior Report</u>
Findings	2	1
Repeated Findings	1	0
Prior Recommendations Implemented or Not Repeated	0	1

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Finding				
2021-001	53	New	Inadequate Controls over Financial Reporting	Material Weakness
2021-002	55	2021/2020	Inadequate Internal Controls over Census Data	Significant Deficiency

EXIT CONFERENCE

The Agency waived an exit conference in a correspondence from John J. Kim, Director, on April 29, 2022. The responses to the recommendations were provided by Ellen Jennings Fairfield, Chief Internal Auditor, in a correspondence dated April 29, 2022.



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 (Agency), as of and for the year ended June 30, 2021, 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 Agency, as of June 30, 2021, 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 Agency as of June 30, 2021, 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 benefit (OPEB) related 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 Agency.

The combining statement of net position by program, combining statement of revenues, expenses, and changes in net position by program, and combining statement of cash flows by program are presented for purposes of additional analysis and are not a required part of the financial statements.



The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying other information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2022 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 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 Agency's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
May 3, 2022



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

STATEMENT OF NET POSITION

**June 30, 2021
(amounts in \$000's)**

	Water Revolving Fund (270 Fund)
ASSETS	
Current assets	
Cash and cash equivalents	\$ 236,480
Securities lending collateral equity with State Treasurer	88,301
Loans and notes receivable	52,367
Other receivables	13,214
Due from federal government	474
Due from component unit	6,537
Restricted assets - accrued interest receivable	14,343
Restricted assets - loans receivable	266,564
Prepaid expenses	10
Total current assets	678,290
Noncurrent assets	
Loans and notes receivable, net of current portion	725,768
Restricted assets - loans receivable	3,722,851
Capital assets, net of accumulated depreciation	5
Total noncurrent assets	4,448,624
TOTAL ASSETS	5,126,914
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on pension liability	8,160
Deferred amount on OPEB liability	2,300
Total deferred outflows of resources	10,460
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,137,374
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	209
Due to component units	192
Due to federal governments	3,780
Due to other funds	91
Obligations under securities lending of State Treasurer	88,301
Total OPEB liability	819
Compensated absences	83
Total current liabilities	93,475
Noncurrent liabilities	
Long-term obligations	1,342,559
Compensated absences	969
Net pension liability	63,077
Total OPEB liability	30,016
Total noncurrent liabilities	1,436,621
TOTAL LIABILITIES	1,530,096
DEFERRED INFLOWS OF RESOURCES	
Deferred amount on pension liability	3,156
Deferred amount on OPEB liability	5,676
Total deferred inflows of resources	8,832
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,538,928
NET POSITION	
Net investment in capital assets	5
Restricted for:	
Debt service	4,003,758
Unrestricted (deficit)	(405,317)
TOTAL NET POSITION	\$ 3,598,446

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, 2021
(amounts in \$000's)**

	Water Revolving Fund (270 Fund)
OPERATING REVENUES	
Interest income on loans - unpledged	\$ 46,385
Interest income on loans - pledged	35,619
Total operating revenues	82,004
OPERATING EXPENSES	
General and administrative	20,080
Principal forgiveness	54,726
Depreciation	2
Total operating expenses	74,808
OPERATING INCOME	7,196
NONOPERATING REVENUES	
Interest and investment income	1,380
Federal government	96,638
Total nonoperating revenues	98,018
NONOPERATING EXPENSES	
Interest	41,811
Other nonoperating expenses	3,086
Total nonoperating expenses	44,897
TRANSFERS	
Transfers-in	148,893
Transfers-out	(102,893)
Total transfers	46,000
CHANGE IN NET POSITION	106,317
NET POSITION, BEGINNING OF YEAR	
As originally reported	3,483,329
Prior period adjustment	8,800
As restated	3,492,129
NET POSITION, END OF YEAR	\$ 3,598,446

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, 2021
(amounts in \$000's)**

	Water Revolving Fund (270 Fund)
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to employees for services	\$ (17,875)
Cash payments to internal service providers	(3,303)
Other payments	(19)
Net cash used in operating activities	(21,197)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	100,310
Transfers	46,000
Proceeds from revenue bonds, net of underwriter's discount	194,742
Net cash provided by noncapital financing activities	341,052
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment income	64,941
Loans disbursed to governmental units	(503,700)
Loans repaid by governmental units	177,841
Net cash used in investing activities	(260,918)
NET INCREASE IN CASH AND CASH EQUIVALENTS	58,937
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	177,543
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 236,480
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 7,196
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation expense	2
Principal forgiveness	54,726
Interest income	(82,004)
Interest expense	193
Change in assets and liabilities	
Increase in deferred outflows of resources	(1,768)
Decrease in accounts payable and accrued liabilities	(149)
Increase in due to component units	239
Increase in intergovernmental payables	9
Decrease in due to other funds	(127)
Decrease in unearned revenue	(58)
Increase in other liabilities	56
Increase in net pension liability	4,938
Increase in net OPEB liability	4,601
Decrease in deferred inflows of resources	(9,051)
Net cash used in operating activities	\$ (21,197)
Noncash investing, capital, and financing activities	
Loan repayments held at Trustee	\$ 167,740

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, 2021**

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, 2021**

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' Annual Comprehensive 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.

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, 2021, 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, 2021**

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, 2021**

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).

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

2. Summary of Significant Accounting Policies (Continued)

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.

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, 2021**

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, 2021**

2. Summary of Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements: Effective for the year ending June 30, 2021, the Agency adopted the following GASB Statements:

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. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

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. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

Future Adoption of New Accounting Pronouncements: Effective for the year ending June 30, 2022, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

2. Summary of Significant Accounting Policies (Continued)

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.

The portion of Statement No. 92, *Omnibus 2020*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements related to (a) intra-entity transfers of assets, (b) reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specified criteria, (c) applicability of certain requirements of Statement No. 84 to postemployment benefit arrangements, (d) exception to acquisition value in a government acquisition and (e) nonrecurring fair value measurements.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to remove the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate.

The portion of Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Effective for the year ending June 30, 2023, the Agency will adopt the following GASB statements:

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.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

2. Summary of Significant Accounting Policies (Continued)

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

The Agency has not yet determined the impact of adopting these statements on the Fund's 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.

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, 2021, were \$236,480 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' Annual Comprehensive Financial Report.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

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 2021, 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.

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, 2021, arising from securities lending agreements to the various funds of the State. The total allocated to the Water Revolving Fund at June 30, 2021, was \$88,301 thousand.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

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, 2021**

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

5. Loans and Notes Receivable (Continued)

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>
2022	\$ 318,931	\$ 77,686	\$ 396,617
2023	315,112	74,956	390,068
2024	319,235	70,459	389,694
2025	310,187	64,790	374,977
2026	306,065	59,374	365,439
2027-2031	1,469,248	219,829	1,689,077
2032-2036	1,146,147	104,017	1,250,164
2037-2041	521,599	22,513	544,112
2042-2053	<u>64,794</u>	<u>3,080</u>	<u>67,874</u>
	<u>\$ 4,771,318</u>	<u>\$ 696,704</u>	<u>\$ 5,468,022</u>

*Repayments include planned future interest capitalization in the amount of: \$2,266 (based on actual disbursements).

The schedule above does not reflect certain adjustments to the loan principal balances for interest capitalization during the construction period.

Restricted Loans Receivable

At June 30, 2021, the Agency has pledged loans receivable in the amount of \$3,989,415 thousand. This amount is to finance present and future issuances of leveraged bond debt (see note 9). During the year ended June 30, 2021, the Agency received \$279,330 thousand and \$35,619 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

5. Loans and Notes Receivable (Continued)

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, 39.55% of loan funds made under the Clean Water Program have been made to MWRDGC and municipalities in its service area.

As of June 30, 2021, the outstanding balance of loans to MWRDGC amounted to \$996,666 thousand which exceeds 5% of total loans receivable of the fund. This represents approximately 20.91% of total loans receivable.

As of June 30, 2021, the outstanding balance of loans to the City of Chicago amounted to \$953,350 thousand which exceeds 5% of the total loans receivable of the fund. This represents approximately 20% of the total loans receivable.

Principal Forgiveness

As of June 30, 2021, 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, 2021**

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 \$156,200 thousand and the total maximum amount is \$456,207 thousand.

The 2021 Federal grants for both the Clean Water and Drinking Water programs had not been received as of June 30, 2021. 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. The amount the Drinking Water program was short of the 2017 minimum amount was accounted for in fiscal year 2019 forgiveness awards. The Actual amount in Drinking Water program exceeded the maximum amount in FY2020 grant due to the Booker Act funding, which consisted of \$25,695 thousand. Following is a summary of Post-ARRA loan principal forgiveness (amounts in \$000's):

	Clean Water Program		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010-2016 Grant	\$ 35,880	\$ 118,457	\$ 101,783
2017 Grant	5,996	23,985	18,518
2018 Grant	7,259	29,036	28,522
2019 Grant	7,186	28,744	22,595
2020 Grant	7,187	28,748	28,748
Principal forgiveness charged to Loan Support Program	-	-	-
Total Principal Forgiveness Post ARRA	\$ 63,508	\$ 228,970	\$ 200,166

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

5. Loans and Notes Receivable (Continued)

	Drinking Water Program		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010-2016 Grant	\$ 60,821	\$ 145,897	\$ 68,742
2017 Grant	6,879	17,196	17,192
2018 Grant	8,382	20,954	20,435
2019 Grant	10,794	22,834	22,730
2020 Grant	5,816	20,356	45,386
Principal forgiveness charged to Loan Support Program	-	-	-
Total Principal Forgiveness Post ARRA	\$ 92,692	\$ 227,237	\$ 174,485
	Total		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010-2016 Grant	\$ 96,701	\$ 264,354	\$ 170,525
2017 Grant	12,875	41,181	35,710
2018 Grant	15,641	49,990	48,957
2019 Grant	17,980	51,578	45,325
2020 Grant	13,003	49,104	74,134
Principal forgiveness charged to Loan Support Program	-	-	-
Total Principal Forgiveness Post ARRA	\$ 156,200	\$ 456,207	\$ 374,651

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

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, 2021, represent amounts due to other Agency and State of Illinois funds (amounts in \$000's):

Due to Central Management Services	\$	82
Due to State Employees' Retirement System		8
Due to Court of Claims		1
Total Due to Other Funds	\$	91

8. Capital Assets

Capital asset activities for the year ended June 30, 2021, were as follows (amounts in \$000's):

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2021</u>
Capital assets being depreciated				
Equipment	\$ 337	\$ -	\$ 16	\$ 321
Less: accumulated depreciation	330	2	16	316
Total capital assets being depreciated	\$ 7	\$ (2)	\$ -	\$ 5

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

9. Long-Term Obligations

Changes in Long-Term Obligations: Changes in long-term obligations for the year ended June 30, 2021, were as follows (amounts in \$000's):

	Balance July 1, 2020, <u>as restated</u>	<u>Additions</u>	Deletions/ <u>Transfers</u>	Balance <u>June 30, 2021</u>	Amounts Due Within <u>One Year</u>
Due to Illinois Finance Authority\$	1,288,584	\$ 570,032	\$ 516,057	\$1,342,559	\$ -
Compensated absences	996	1,108	1,052	1,052	83
Net pension liability	58,139	4,938	-	63,077	-
Net OPEB liability	<u>34,625</u>	<u>-</u>	<u>3,790</u>	<u>30,835</u>	<u>819</u>
	<u>\$1,382,344</u>	<u>\$ 576,078</u>	<u>\$ 520,899</u>	<u>\$1,437,523</u>	<u>\$ 902</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.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

9. Long-Term Obligations (Continued)

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.

On December 30, 2020, the IFA issued \$500,000 thousand of State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds Series 2020 (2020 bonds), with interest rates of 4% to 5%. The proceeds of the 2020 bonds (including a premium of \$137,306 thousand less expenses of \$2,897 thousand) provided \$571,905 thousand for Clean Water Loan program needs, and \$62,504 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, 2021, \$3,989,415 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, 2021**

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	\$	1,823,560
Accrued interest payable on bonds at June 30, 2021		43,831
Unamortized premium		298,165
Trustee fees payable		101
Deferred net loss on prior bonds refunded		<u>(27)</u>
		2,165,630
Cash and cash equivalents and accrued interest receivable held in restricted accounts at June 30, 2021		<u>(823,071)</u>
Net obligation	\$	<u><u>1,342,559</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>
2022	\$ 98,440	\$ 86,403
2023	103,460	81,370
2024	107,460	76,297
2025	109,330	70,878
2026	109,820	65,666
2027 – 2031	570,465	244,803
2032 – 2036	485,935	113,188
2037 – 2041	234,570	20,596
2042	<u>4,080</u>	<u>83</u>
	<u>\$ 1,823,560</u>	<u>\$ 759,284</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

10. Restricted Net Position

Portions of net position at June 30, 2021, are restricted for (amounts in \$000's):

Debt service	\$ <u>4,003,758</u>
Total restricted net position	\$ <u>4,003,758</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, 2019 and 2020. (see Note 9).

11. Capitalization Grants

The Agency has entered into Capitalization Grant Agreements with the U.S. EPA to administer the Waste Water and Drinking Water Loan Programs, jointly the Water Revolving Fund (270). Pursuant to these Capitalization Grant Agreements, \$2,157,938 thousand for Waste Water and \$898,575 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, 2021, 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, 2021**

11. Capitalization Grants (Continued)

The remaining Capital Grant Facility as of June 30, 2021, is summarized below (amounts in \$000's):

	<u>Waste Water</u>	<u>Drinking Water</u>	<u>Total</u>
Total Capital Grants	\$ 2,157,938	\$ 898,575	\$ 3,056,513
Less: Cumulative drawdowns	<u>(2,157,857)</u>	<u>(884,002)</u>	<u>(3,041,859)</u>
Capital Grant Facility	<u>\$ 81</u>	<u>\$ 14,573</u>	<u>\$ 14,654</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>

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

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, 2021, the Agency had \$666,721 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.

The Administrative Revenues and Expenses reported in the Water Revolving Fund for the year ended June 30, 2021, are as follows (amounts in \$000's):

Revenues		
Administrative grants	\$	2,543
Loan Support		<u>38,299</u>
		40,842
Expenses		
Payroll and insurance		16,533
Other general expenses		3,545
Depreciation		<u>2</u>
		<u>20,080</u>
Excess of revenues over expenses	\$	<u><u>20,762</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

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 ACFR available at 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 service credit 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 for noncovered employees it is 2.2% for each year of 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 service.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

13. Pension Plan (Continued)

Members 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.

Regular Formula Tier 1	Regular Formula Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> • Age 60, with 8 years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). <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"> • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). <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 2020 rate is \$115,929.</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, 2021**

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 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 2021, this amount was \$116,740.

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 2021, 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 2021, the employer contribution rate was 54.831%. The Fund's contribution amount for fiscal year 2021 was \$4,553 thousand.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

13. Pension Plan (Continued)

Pension liability, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. At June 30, 2021, the Fund reported a liability of \$63,077 thousand 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, 2020 (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, 2020. As of the current year measurement date of June 30, 2020, the Fund’s proportion was 0.1809%, which was an increase of 0.0068% from its proportion measured as of the prior year measurement date of June 30, 2019.

For the year ended June 30, 2021, the Fund recognized pension expense of \$3,669 thousand. At June 30, 2021, the Fund reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2020, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 161	\$ 248
Changes of assumptions	1,332	372
Net difference between projected and actual investment earnings on pension plan investments	350	-
Changes in proportion	1,764	2,536
Fund contributions subsequent to the measurement date	4,553	-
Total	\$ 8,160	\$ 3,156

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

13. Pension Plan (Continued)

\$4,553 thousand 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, 2022. 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):

Year ended June 30,	
2022	\$ (1,178)
2023	260
2024	817
2025	552
	<hr/>
Total	<u>\$ 451</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

13. Pension Plan (Continued)

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Projected salary increases: 2.75% - 7.17%, 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, 2019 valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

13. Pension Plan (Continued)

The long-term expected real rate of return on pension plan investments is 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, 2020, 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%	5.90%
Emerging Market Equity	8.0%	7.80%
Private Equity	7.0%	7.50%
Intermediate Investment Grade Bonds	14.0%	1.10%
Long-term Government Bonds	4.0%	1.10%
TIPS	4.0%	1.00%
High Yield and Bank Loans	5.0%	3.70%
Opportunistic Debt	8.0%	4.70%
Emerging Market Debt	2.0%	2.70%
Real Estate	10.0%	3.20%
Infrastructure	2.0%	3.90%
Total	<u>100%</u>	

Discount rate. A discount rate of 6.35% was used to measure the total pension liability as of the measurement date of June 30, 2020 as compared to a discount rate of 6.47% used to measure the total pension liability as of the prior year measurement date. The June 30, 2020 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 2.45%, 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, 2021**

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):

	1% Decrease 5.35%	Discount Rate 6.35%	1% Increase 7.35%
Fund's proportionate share of the net pension liability	\$ 76,249	\$ 63,077	\$ 52,251

Payables to the pension plan. At June 30, 2021, the Fund reported a payable of \$8 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

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 Agency’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). The eligibility provisions for each of the retirement systems are defined within Note 13 Defined Pension Plan. 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.

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 \$5,000.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

14. Other Post-employment Benefits (Continued)

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.

For fiscal year 2021, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$12,260.64 (\$6,910.32 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$15,224.16 (\$6,449.28 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

14. Other Post-employment Benefits (Continued)

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, 2021, was measured as of June 30, 2020, with an actuarial valuation as of June 30, 2019. At June 30, 2021, the Fund recorded a liability of \$30,835 thousand 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, 2020. As of the current year measurement date of June 30, 2020, the Fund’s proportion was 0.0737%, which was a decrease of 0.0061% from its proportion measured as of the prior year measurement date of June 30, 2019.

The Fund recognized OPEB expense for the year ended June 30, 2021, of \$433 thousand. At June 30, 2021, the Fund reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2020, 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	\$ 174	\$ 332
Changes of assumptions	843	3,097
Changes in proportion and differences between employer contributions and proportionate share of contributions	464	2,247
Fund contributions subsequent to the measurement date	819	-
Total	<u>\$ 2,300</u>	<u>\$ 5,676</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

14. Other Post-employment Benefits (Continued)

The amounts 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, 2022. 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):

Year ended June 30,		
2022	\$	(1,466)
2023		(1,113)
2024		(583)
2025		(907)
2026		(126)
Total	\$	(4,195)

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

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, 2019, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2019.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post-Medicare)	8.25% grading down 0.25% per year over 16 years to 4.25% in year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.
Retirees' share of benefit-related costs	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 2020 and 2021 are based on actual premiums. Premiums after 2021 were projected based on the same healthcare cost trend rates applied to per capita claim costs.
Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:	
Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical and Rx (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental and Vision	6.00% grading down 0.50% per year over 3 years to 4.50%
* 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, 2021**

14. Other Post-employment Benefits (Continued)

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2019 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study[^]	Mortality^{^^}
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	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
[^] The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.		
^{^^} 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 3.13% at June 30, 2019, and 2.45% at June 30, 2020, 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, 2021**

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 2.45%, 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 (3.45%) or lower (1.45%) than the current rate (amounts expressed in thousands):

	1% Decrease (1.45%)	Current Single Discount Rate Assumption (2.45%)	1% Increase (3.45%)
Fund's Proportionate share of total OPEB liability	36,296	30,835	26,480

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 8.25% in 2021 decreasing to an ultimate trend rate of 4.25% in 2037.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Fund's Proportionate share of total OPEB liability	25,814	30,835	37,420

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

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

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. Restatement

During Fiscal Year 2021, an error correction resulted in a restatement to beginning net position, as follows (amounts expressed in thousands):

	Water Revolving Fund (270 Fund)
07/01/2020, as previously reported	\$ 3,483,329
Error Correction	8,800
07/01/2020, as restated	\$ 3,492,129

This error correction occurred due to the Illinois State Toll Highway Authority (Tollway) and the State of Illinois, Department of Central Management Services not separately stating OPEB balances for Tollway employees who only partake in the State Employees Group Insurance Program (SEGIP) upon their retirement from the Tollway from other employees accounted for within SEGIP's cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP's cost-sharing proportionate share allocation, which is used by the State of Illinois' agencies and public universities to record their OPEB activity. At the Agency, this correction also impacted the beginning OPEB liability and the related deferred inflows of resources and deferred outflows of resources.

17. 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, 2021
(amounts in \$000's)

	Drinking Water	Waste Water	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 171,919	\$ 64,561	\$ 236,480
Securities lending collateral equity with State Treasurer	65,060	23,241	88,301
Loans and notes receivable	5,004	47,363	52,367
Other receivables	2,855	10,359	13,214
Due from federal government	474	-	474
Due from component unit	1,604	4,933	6,537
Restricted assets - accrued interest receivable	5,060	9,283	14,343
Restricted assets - loans receivable	92,137	174,427	266,564
Prepaid expenses	1	9	10
Total current assets	<u>344,114</u>	<u>334,176</u>	<u>678,290</u>
Noncurrent assets			
Loans and notes receivable, net of current portion	66,040	659,728	725,768
Restricted assets - loans receivable	1,273,660	2,449,191	3,722,851
Capital assets, net of accumulated depreciation	-	5	5
Total noncurrent assets	<u>1,339,700</u>	<u>3,108,924</u>	<u>4,448,624</u>
TOTAL ASSETS	<u>1,683,814</u>	<u>3,443,100</u>	<u>5,126,914</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on pension liability	1,435	6,725	8,160
Deferred amount on OPEB liability	404	1,896	2,300
Total deferred outflows of resources	<u>1,839</u>	<u>8,621</u>	<u>10,460</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>1,685,653</u>	<u>3,451,721</u>	<u>5,137,374</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	164	45	209
Due to component units	112	80	192
Due to federal government	3,749	31	3,780
Due to other funds	10	81	91
Obligations under securities lending of State Treasurer	65,060	23,241	88,301
Total OPEB liability	144	675	819
Compensated absences	15	68	83
Total current liabilities	<u>69,254</u>	<u>24,221</u>	<u>93,475</u>
Noncurrent liabilities			
Long-term obligations	542,526	800,033	1,342,559
Compensated absences	170	799	969
Net pension liability	11,095	51,982	63,077
Total OPEB liability	5,280	24,736	30,016
Total noncurrent liabilities	<u>559,071</u>	<u>877,550</u>	<u>1,436,621</u>
TOTAL LIABILITIES	<u>628,325</u>	<u>901,771</u>	<u>1,530,096</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on pension liability	555	2,601	3,156
Deferred amount on OPEB liability	998	4,678	5,676
Total deferred inflows of resources	<u>1,553</u>	<u>7,279</u>	<u>8,832</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>629,878</u>	<u>909,050</u>	<u>1,538,928</u>
NET POSITION			
Net investment in capital assets	-	5	5
Restricted for:			
Debt service	1,370,857	2,632,901	4,003,758
Unrestricted (deficit)	<u>(315,082)</u>	<u>(90,235)</u>	<u>(405,317)</u>
TOTAL NET POSITION	<u>\$ 1,055,775</u>	<u>\$ 2,542,671</u>	<u>\$ 3,598,446</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, 2021
(amounts in \$000's)**

	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Total</u>
OPERATING REVENUES			
Interest income on loans - unpledged	\$ 13,468	\$ 32,917	\$ 46,385
Interest income on loans - pledged	11,560	24,059	35,619
Total operating revenues	<u>25,028</u>	<u>56,976</u>	<u>82,004</u>
OPERATING EXPENSES			
General and administrative	5,679	14,401	20,080
Principal forgiveness	29,554	25,172	54,726
Depreciation	-	2	2
Total operating expenses	<u>35,233</u>	<u>39,575</u>	<u>74,808</u>
OPERATING INCOME	<u>(10,205)</u>	<u>17,401</u>	<u>7,196</u>
NONOPERATING REVENUES			
Interest and investment income	525	855	1,380
Federal government	25,692	70,946	96,638
Total nonoperating revenues	<u>26,217</u>	<u>71,801</u>	<u>98,018</u>
NONOPERATING EXPENSES			
Interest	17,060	24,751	41,811
Other nonoperating expenses	398	2,688	3,086
Total nonoperating expenses	<u>17,458</u>	<u>27,439</u>	<u>44,897</u>
TRANSFERS			
Transfers-in	119,493	29,400	148,893
Transfers-out	-	(102,893)	(102,893)
Total transfers	<u>119,493</u>	<u>(73,493)</u>	<u>46,000</u>
CHANGE IN NET POSITION	<u>118,047</u>	<u>(11,730)</u>	<u>106,317</u>
NET POSITION, BEGINNING OF YEAR			
As originally reported	936,306	2,547,023	3,483,329
Prior period adjustment	1,422	7,378	8,800
As restated	<u>937,728</u>	<u>2,554,401</u>	<u>3,492,129</u>
NET POSITION, END OF YEAR	<u>\$ 1,055,775</u>	<u>\$ 2,542,671</u>	<u>\$ 3,598,446</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, 2021
(amounts in \$000's)**

	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash payments to employees for services	\$ (3,542)	\$ (14,333)	\$ (17,875)
Cash payments to internal service providers	(581)	(2,722)	(3,303)
Other payments	(382)	363	(19)
Net cash used in operating activities	<u>(4,505)</u>	<u>(16,692)</u>	<u>(21,197)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating grants received	28,439	71,871	100,310
Transfers	119,493	(73,493)	46,000
Proceeds from revenue bonds, net of underwriter's discount	90,752	103,990	194,742
Net cash provided by noncapital financing activities	<u>238,684</u>	<u>102,368</u>	<u>341,052</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and investment income	12,934	52,007	64,941
Loans disbursed to governmental units	(141,159)	(362,541)	(503,700)
Loans repaid by governmental units	2,426	175,415	177,841
Net cash used in investing activities	<u>(125,799)</u>	<u>(135,119)</u>	<u>(260,918)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	108,380	(49,443)	58,937
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>63,539</u>	<u>114,004</u>	<u>177,543</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 171,919</u>	<u>\$ 64,561</u>	<u>\$ 236,480</u>
Reconciliation of operating income to net cash used in operating activities:			
Operating income	\$ (10,205)	\$ 17,401	\$ 7,196
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation expense	-	2	2
Principal forgiveness	29,554	25,172	54,726
Interest income	(25,028)	(56,976)	(82,004)
Interest expense	74	119	193
Change in assets and liabilities			
(Increase) decrease in prepaid expenses	(2)	2	-
(Increase) decrease in deferred outflows of resources	(434)	(1,334)	(1,768)
Increase (decrease) in accounts payable and accrued liabilities	(51)	(98)	(149)
Increase (decrease) in due to component units	68	171	239
Increase (decrease) in intergovernmental payables	(1)	10	9
Increase (decrease) in due to other funds	(43)	(84)	(127)
Increase (decrease) in unearned revenues	-	(58)	(58)
Increase (decrease) in other liabilities	24	32	56
Increase (decrease) in net pension liability	1,700	3,238	4,938
Increase (decrease) in net OPEB liability	1,176	3,425	4,601
Increase (decrease) in deferred inflows of resources	(1,337)	(7,714)	(9,051)
Net cash used in operating activities	<u>\$ (4,505)</u>	<u>\$ (16,692)</u>	<u>\$ (21,197)</u>
Noncash investing, capital, and financing activities			
Loan repayments held at Trustee	\$ 85,491	\$ 82,249	\$ 167,740



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

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, 2021, and the related notes to the financial statements, and we have issued our report thereon dated May 3, 2022.

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 financial statements. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings as item 2021-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings as item 2021-002 to be a significant deficiency.

Agency's Responses to the Findings

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
May 3, 2022



**STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDING
For the Year Ended June 30, 2021**

2021-001. **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 testing, we noted the following:

- The loan data file generated from the Agency’s loan tracking system, as of June 30, 2021, was not adjusted to correctly classify loans based on the December 2020 bond issuance. This resulted in the overstatement of Loans and Notes Receivable, Long-Term by \$1.036 billion and a corresponding understatement of Restricted Assets – Loans and Notes Receivable, Long-Term by the same amount. An adjusting entry was required.

The Statewide Accounting Management System (SAMS) (Procedure 03.60.10) requires restricted assets be separately reported and identified as “restricted” in the applicable statement of financial position if the restriction changes the nature or perception of the availability of the asset for future operations.

- The Agency recorded capitalized interests for three loans which were not yet completed and due to be amortized as of June 30, 2021. This resulted in an overstatement of Loans and Notes Receivable, Long-Term by \$405 thousand and Restricted Assets – Loans and Notes Receivable, Long-Term by \$1,097 thousand and overstatement of Interest and Other Investment Income by \$1,502 thousand. An adjusting entry was required.

SAMS (Procedure 03.30.20) requires capital assets be reported at actual or estimated historical cost or, if donated, at their estimated fair value at the time of acquisition. Historical cost includes the amount paid for the asset, capitalized interest for constructed proprietary fund assets, and ancillary charges necessary to place the asset into its intended location and condition for use.

**STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS* FINDING
For the Year Ended June 30, 2021**

- Three of 18 (17%) disclosures in the draft Notes to the Financial Statements did not agree to supporting documentation.

Good internal controls require financial reporting procedures to include proper checks and balances and an adequate supervisory review of all fiscal related activities to ensure proper financial reporting.

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.

Agency officials stated the pledged loan report query in the loan system was not updated; therefore, the loans were not distinctly categorized as pledged or non-pledged. Additionally, Agency officials stated there were multiple system updates which led to miscalculation of interest.

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. 2021-001)

RECOMMENDATION

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

AGENCY RESPONSE

The Agency agreed with the finding and stated the issue was resolved with management's implementation of a written procedure.

**STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDING
For the Year Ended June 30, 2021**

2021-002. **FINDING** (Inadequate Internal Controls over Census Data)

The Environmental Protection Agency (Agency) did not reconcile the census data submitted to its pension and other postemployment benefits (OPEB) plans that were used in its Fiscal Year 2021 Water Revolving Fund (Fund) financial statements.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Agency's employees within the Fund are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, we noted CMS' actuaries use SERS' census data records to prepare the OPEB actuarial valuation.

During testing, we noted the Agency performed an initial complete reconciliation of its census data recorded by SERS with a base year of June 30, 2021. However, the completed reconciliation had no impact on the Fund's financial statements as of June 30, 2021, as the census data used to calculate the Fund's pension and OPEB balances was as of June 30, 2020, and June 30, 2019, respectively.

For employers participating in plans with multiple-employer and cost-sharing characteristics, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for

**STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS* FINDING
For the Year Ended June 30, 2021**

OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, 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 funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

During the prior audit period, the Agency had not documented why student interns were paid on regular, as opposed to contractual payroll vouchers. During the current audit period, the Agency provided documentation to substantiate their method of paying interns.

Agency officials stated the annual census data reconciliation guidance from SERS required the State agencies to validate the employees' participation in the retirement plan and verify accuracy of each of the census demographics for each employee as of June 30, 2021.

Failure to reconcile active members' census data reported to and held by SERS to the Agency's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Fund's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2021-002, 2020-001)

RECOMMENDATION

We recommend the Agency ensure reconciliation of its active members' census data from its underlying records to a report of the census data submitted to each plan's actuary is timely performed.

AGENCY RESPONSE

The Agency agreed with the finding. During the current audit period, the Agency provided documentation to substantiate IEPA's method of paying interns. In addition, the Agency performed an initial complete reconciliation of its census data on August 27, 2021, recorded by the State Employees' Retirement System and Central Management Services to resolve this finding. IEPA acknowledges the need for ongoing reconciliation with SERS for changes in members' census data.