

STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND

FINANCIAL AUDIT  
For the Year Ended June 30, 2014

STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
FINANCIAL AUDIT  
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STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2014

**AGENCY OFFICIALS**

Director	Lisa Bonnett
Deputy Director	Vacant
Chief Legal Counsel	John J. Kim
Chief Financial Officer	Carol Radwine
Chief Internal Auditor	Rusti Cummings

Agency Headquarters offices are located at:

1021 North Grand Avenue East  
Springfield, IL 62794

STATE OF ILLINOIS  
ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 - WATER REVOLVING FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2014

**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 the Office of the Auditor General.

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

**SUMMARY OF FINDINGS**

The auditors did not identify matters involving the Agency's internal controls over financial reporting.

**EXIT CONFERENCE**

The Agency waived having an exit conference in a letter dated December 18, 2014, from the Agency's Chief Internal Auditor, Ms. Rusti Cummings.

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency, as of June 30, 2014, and the changes in 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.

### ***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 the State of Illinois or the State of Illinois, Environmental Protection Agency, as of June 30, 2014, and its changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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

The combining financial statements listed as supplementary information in the table of contents are 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 combining financial statements listed as supplementary information in the table of contents are fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the State of Illinois, Environmental Protection Agency's internal control over financial reporting of the Water Revolving Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Environmental Protection Agency's internal control over financial reporting of the Water Revolving Fund and its compliance.

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

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



BRUCE L. BULLARD, CPA

Director of Financial and Compliance Audits

Springfield, Illinois  
December 19, 2014

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

**STATEMENT OF NET POSITION**

**June 30, 2014  
(amounts in \$000's)**

	<b>Water Revolving Fund (270 Fund)</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 307,558
Securities lending collateral equity with State Treasurer	155,860
Loans and notes receivable	52,421
Other receivables	8,954
Due from federal government	56,462
Due from component unit	54,344
Restricted assets - accrued interest receivable	4,945
Restricted assets - loans receivable	109,718
Total current assets	750,262
Noncurrent assets	
Loans and notes receivable, net of current portion	740,644
Restricted assets - loans receivable	1,584,736
Capital assets, net of accumulated depreciation	58
Total noncurrent assets	2,325,438
<b>TOTAL ASSETS</b>	<b>3,075,700</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amount on refunding of long-term obligation	1,532
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>3,077,232</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	364
Due to component units	45
Due to federal governments	5
Due to local governments	8
Due to other funds	15
Obligations under securities lending of State Treasurer	155,860
Compensated absences	145
Total current liabilities	156,442
Noncurrent liabilities	
Long-term obligations	65,239
Compensated absences	1,403
Total noncurrent liabilities	66,642
<b>TOTAL LIABILITIES</b>	<b>223,084</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred amount on refunding of long-term obligation	560
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>223,644</b>
<b>NET POSITION</b>	
Net investment in capital assets	58
Restricted for	
Debt service	1,699,399
Other purposes	1,104,620
Unrestricted	49,511
<b>TOTAL NET POSITION</b>	<b>\$ 2,853,588</b>

See accompanying notes to 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, 2014  
(amounts in \$000's)**

	<b>Water Revolving Fund (270 Fund)</b>
<b>OPERATING REVENUES</b>	
Interest income on loans - unpledged	\$ 29,454
Interest income on loans - pledged	14,369
Total operating revenues	43,823
<b>OPERATING EXPENSES</b>	
General and administrative	22,777
Principal forgiveness	9,877
Depreciation	25
Total operating expenses	32,679
<b>OPERATING INCOME</b>	11,144
<b>NONOPERATING REVENUES</b>	
Interest and investment income	5,781
Federal government	207,422
Total nonoperating revenues	213,203
<b>NONOPERATING EXPENSES</b>	
Interest	2,211
Other nonoperating expenses	2,465
Total nonoperating expenses	4,676
<b>CHANGE IN NET POSITION</b>	219,671
<b>NET POSITION, BEGINNING OF YEAR</b>	
As originally reported	2,634,178
Prior period adjustment	(261)
As restated	2,633,917
<b>NET POSITION, END OF YEAR</b>	\$ 2,853,588

See accompanying notes to 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, 2014  
(amounts in \$000's)**

	<b>Water Revolving Fund (270 Fund)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash payments to employees for services	\$ (16,663)
Other payments	(5,789)
Net cash used in operating activities	<u>(22,452)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating grants received	150,604
Interest and principal paid on borrowing	(18,893)
Proceeds from borrowings, net of issuance costs	59,291
Issuance costs paid on refunding	(751)
Arbitrage paid	(2,123)
Net cash provided by noncapital financing activities	<u>188,128</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	-
Net cash used in capital and related financing activities	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and investment income	46,302
Deposited with Illinois Finance Authority	(54,041)
Loans disbursed to governmental units	(271,725)
Loans repaid by governmental units	163,461
Net cash used in investing activities	<u>(116,003)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	49,673
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>257,885</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 307,558</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 11,144
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	25
Principal forgiveness	9,877
In-kind expense	610
Interest income	(43,823)
Change in assets and liabilities	
Decrease in accounts payable and accrued liabilities	(3)
Increase in due to component units	19
Decrease in intergovernmental payables	(131)
Decrease in due to other funds	(95)
Decrease in compensated absences	(75)
Net cash used in operating activities	<u><u>\$ (22,452)</u></u>

See accompanying notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**1. Description of Funds**

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 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 FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

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

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

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, 2014, 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 FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**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 FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**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	3-25

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

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

Deferred Outflows of Resources: The Agency reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statement of net position. The only deferred outflow of resources reported in this year's financial statements is a deferred amount arising from the refunding of an agreement with the Illinois Finance Authority (IFA) related to the Series 2004 bond issue. (See note 9). This deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

Deferred Inflows of Resources: The Agency reports increases in net position that relate to future periods as deferred inflows of resources in a separate section of its statement of net position. The only deferred inflow of resources reported in this year's financial statements is a deferred amount arising from the refunding of an agreement with the Illinois Finance Authority (IFA) related to the Series 2002 bond issue. (See note 9). This deferred refunding amount is being amortized over the remaining life of the refunding bonds as a credit to interest expense.

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

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

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

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.

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, 2014, were \$307,558. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11).

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

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

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**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 Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During Fiscal Year 2014, Deutsche Bank Group 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 market 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 Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

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 Group 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, 2014, arising from securities lending agreements to the various funds of the State. The total allocated to the Water Revolving Fund at June 30, 2014, was \$155,860.

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

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**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.

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 3.36%.

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

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

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

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

Estimated minimum repayments of the loans receivable and interest thereon, are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 162,141	\$ 37,976	\$ 200,117
2016	159,884	34,857	194,741
2017	160,599	31,835	192,434
2018	158,230	28,725	186,955
2019	154,685	25,713	180,398
2020-2024	713,860	87,145	801,005
2025-2029	525,135	31,996	557,131
2030-2034	<u>211,840</u>	<u>4,936</u>	<u>216,776</u>
	<u>\$ 2,246,374</u>	<u>\$ 283,183</u>	<u>\$ 2,529,557</u>

In addition, at June 30, 2014, outstanding loans of \$241,145 have not been scheduled for repayment.

Restricted Loans Receivable

At June 30 2013, \$203,686 of loans receivable were pledged as security for revenue bonds outstanding from two previous bond sales. In December of 2013, the Agency (through the Illinois Finance Authority) issued new bonds that refinanced the previous debt and issued new debt in the form of state match bonds (see note 9). The Agency also plans on issuing future leveraged bond debt and, in planning for the future issuance of debt, has pledged loans receivable in the amount of \$1,694,454 at June 30, 2014. During the year ended June 30, 2014, the Agency received \$100,331 and \$10,759 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 FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**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, 42.09% of loan funds made under the Clean Water Program have been made to MWRDGC and municipalities in its service area.

As of June 30, 2014, the outstanding balance of loans to MWRDGC amounted to \$639,344 which exceeds 5% of total loans receivable of the fund. This represents approximately 25.7% of total loans receivable.

As of June 30, 2014, the outstanding balance of loans to the City of Chicago amounted to \$128,097 which exceeds 5% of the total loans receivable of the fund. This represents approximately 5.15% of the total loans receivable.

Principal Forgiveness

As of June 30, 2014, the Federal loan commitments included ARRA federal funds of \$256,781, of which \$129,077 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  
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FUND 270 – WATER REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**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 \$76,386 and the total maximum amount is \$198,955. The 2014 Federal grants for both the Clean Water and Drinking Water programs had not been received as of June 30, 2014. The principal forgiveness required under these grants will be provided through a methodology to be determined at a later date to assure that the program meets the minimum principal forgiveness amount. The Clean Water Program exceeded the maximum principal forgiveness allowed after the 2011 grant by \$11,903. This amount will be paid from the Clean Water Loan Support Program. The Drinking Water minimum has been met and no issues have resulted from the maximum amount for the Drinking Water Program. Following is a summary of Post-ARRA loan principal forgiveness:

	<b>Clean Water Program</b>		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010 Grant	\$ 13,801	\$ 46,003	\$ 46,002
2011 Grant	6,189	20,629	20,625
2012 Grant	3,552	5,329	3,552
2013 Grant	2,844	4,266	2,844
2014 Grant (to be issued)	3,451	5,176	-
Principal forgiveness to be charged to Loan Support Program	-	-	11,903
<b>Total Principal Forgiveness Post ARRA</b>	<b>\$ 29,837</b>	<b>\$ 81,403</b>	<b>\$ 84,926</b>

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**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

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

	<u>Drinking Water Program</u>		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010 Grant	\$ 15,369	\$ 51,230	\$ 15,605
2011 Grant	10,665	35,549	11,202
2012 Grant	6,776	10,164	9,694
2013 Grant	6,357	9,536	6,357
2014 Grant (to be issued)	7,382	11,073	-
Principal forgiveness to be charged to Loan Support Program	-	-	-
<b>Total Principal Forgiveness Post ARRA</b>	<u>\$ 46,549</u>	<u>\$ 117,552</u>	<u>\$ 42,858</u>
	<u>Total</u>		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010 Grant	\$ 29,170	\$ 97,233	\$ 61,607
2011 Grant	16,854	56,178	31,827
2012 Grant	10,328	15,493	13,246
2013 Grant	9,201	13,802	9,201
2014 Grant (to be issued)	10,833	16,249	-
Principal forgiveness to be charged to Loan Support Program	-	-	11,903
<b>Total Principal Forgiveness Post ARRA</b>	<u>\$ 76,386</u>	<u>\$ 198,955</u>	<u>\$ 127,784</u>

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FUND 270 – WATER REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**6. Due from Component Unit**

The amount due from component unit represents unpledged loan repayments received and State Match held in certain trust accounts in the name of the Illinois Finance Authority (IFA) in connection with the bonds (See note 9). Instead of these unpledged amounts being transferred periodically to the State Treasury, the Agency has determined these amounts will remain in the trust accounts in an effort to earn a better rate of return on them.

**7. Interfund Balances and Transfers**

Balances Due to Other Funds: The following balances at June 30, 2014, represent amounts due to other Agency and State of Illinois funds:

Due to Central Management Services for:		
Facilities management revolving payments	\$	7
Group insurance premium payments		<u>8</u>
Total Due to Other Funds	\$	<u><u>15</u></u>

**8. Capital Assets**

Capital asset activities for the year ended June 30, 2014, were as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets being depreciated				
Equipment	\$ 424	\$ -	\$ -	\$ 424
Less: accumulated depreciation	<u>341</u>	<u>25</u>	<u>-</u>	<u>366</u>
Total capital assets being depreciated	<u>\$ 83</u>	<u>\$ (25)</u>	<u>\$ -</u>	<u>\$ 58</u>

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FUND 270 – WATER REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**9. Long-Term Obligations**

Changes in Long-Term Obligations: Changes in long-term obligations for the year ended June 30, 2014, were as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Due to Illinois Finance Authority	\$ 21,519	\$ 60,938	\$ 17,218	\$ 65,239	\$ -
Compensated absences	<u>1,623</u>	<u>815</u>	<u>890</u>	<u>1,548</u>	<u>145</u>
	<u>\$ 23,142</u>	<u>\$ 61,753</u>	<u>\$ 18,108</u>	<u>\$ 66,787</u>	<u>\$ 145</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 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 of outstanding Series 2002 and 2004 bonds, with interest rates ranging from 3.25% to 5.5%, and to provide \$58,526 of State Match required under the program's capitalization grants for the grant years 2011-2013. The net proceeds from the 2013 bond issue totaled \$157,911 (after payment of underwriting fees of \$664), and included \$16,875 in bond premiums. Of the net proceeds, \$98,620 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 and 2004 bonds, \$58,526 was for State Match purposes, and \$765 for other bond issuance costs.

In addition to the deposit of \$98,620 from the 2013 bond issue proceeds, an additional \$5,101 was required to be deposited into the irrevocable trust from Agency resources to retire the prior bonds. As a result, the 2002 and 2004 Series bonds are considered to be defeased, as is the Agency's obligation to IFA for those bonds. The liability has been removed from the Agency's statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the Agency's obligation, creating a deferred outflow of resources of \$1,768 for the 2004 bonds and a deferred inflow of resources of \$676 for the 2002 bonds. These differences are being amortized through fiscal year 2023 for the 2004 bonds and 2020 for the 2002 bonds, using the effective-interest method. The advance refunding was completed to reduce total debt service payments over the next ten years by \$8,421 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$8,097.

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**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

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

Prior to issuance of the 2013 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 2014, \$1,694,455 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 2013 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. 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, plus the unamortized bond premium, adjusted for excess amounts held by IFA in certain restricted accounts.

The amounts required to repay the obligation due to IFA are as follows:

<u>Year Ending June 30</u>	<u>Obligation</u>	<u>Interest</u>
2015	\$ -	\$ -
2016	-	2,197
2017	-	4,590
2018	-	3,578
2019	17,332	2,623
2020-2024	40,365	3,841
	<u>\$ 57,697</u>	<u>\$ 16,829</u>

**STATE OF ILLINOIS  
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FUND 270 – WATER REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**10. Restricted Net Position**

Portions of net position at June 30, 2014, are restricted for:

Low interest loans to local governments, net of loans pledged for debt service	\$ 1,104,620
Debt service	<u>1,699,399</u>
Total restricted net position	<u>\$ 2,804,019</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. (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, \$1,694,646 for Waste Water and \$630,960 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, 2014, with respect to costs in connection with loans made under the Waste Water and Drinking Water Loan Programs.

The remaining Capital Grant Facility as of June 30, 2014, is summarized below:

	<u>Waste Water</u>	<u>Drinking Water</u>	<u>Total</u>
Total Capital Grants	\$ 1,694,646	\$ 630,960	\$ 2,325,606
Less: Cumulative drawdowns	<u>(1,594,551)</u>	<u>(589,371)</u>	<u>(2,183,922)</u>
Capital Grant Facility	<u>\$ 100,095</u>	<u>\$ 41,589</u>	<u>\$ 141,684</u>

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

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**11. Capitalization Grants (Continued)**

Included in the above table are the following amounts awarded under the ARRA:

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

**12. General and Administrative Costs**

The Agency is authorized to utilize up to 4% of the total Clean Water Capitalization Grants received for administration of the loan program. In order to allow the maximum amount of grant dollars for loan disbursements, the Agency currently funds administrative costs for the Clean Water Program from sources other than the grant. The Drinking Water Grant Program sets aside and restricts 4% of each grant for the administrative costs of running the program. As of June 30, 2014, the Agency had \$2,539 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.

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FUND 270 – WATER REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

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

The Administrative Revenues and Expenses reported in the Water Revolving Fund for the year ended June 30, 2014, are as follows:

Revenues	
Administrative grants	\$ 2,477
Loan Support	<u>19,714</u>
	<u>22,191</u>
Expenses	
Payroll and insurance	16,630
Other general expenses	<u>6,147</u>
	<u>22,777</u>
Deficiency of revenues over expenses	<u>\$ (586)</u>

**13. Pension Plan**

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 pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for Fiscal Year 2014 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

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ENVIRONMENTAL PROTECTION AGENCY  
FUND 270 – WATER REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**13. Pension Plan (Continued)**

The Agency pays employer retirement contributions in the individual nonshared proprietary funds based upon an actuarially determined percentage of their payrolls. For Fiscal Year 2014, the employer contribution rate was 40.312%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Agency) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the Fiscal Year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Agency) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pick-up, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

Public Act 98-0599, signed into law by the Governor on December 5, 2013, provides for significant pension reform, and was scheduled to become effective on June 1, 2014. Several lawsuits were subsequently filed to challenge the constitutionality of Public Act 98-0599 and in May 2014, the court issued a temporary injunction that delays the implementation of the new law until the court rules on the consolidated lawsuit.

**14. Post-employment Benefits**

The State, under the State Employees Group Insurance Act of 1971 ("Act") provides health, dental, vision and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for these other postemployment benefits ("OPEB") if they eventually become annuitants of one of the State sponsored pension plans. Historically, the health, dental, and vision benefits provided to and contribution amounts required from annuitants have been 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 the limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Annuitants may be required to contribute towards health, dental, 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. The State also provides 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.

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FUND 270 – WATER REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

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

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefits provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62706-4100.

**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 the Agency.

**16. Prior Period Adjustment**

During the year ended June 30, 2014, the Agency adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement requires bond issuance costs be shown as current period outflows of resources (expenses). As a result, \$261 of unamortized costs from previous bond issues has been charged to prior periods, thereby decreasing the beginning net position in the Statement of Revenues, Expenses and Changes in Net Position.

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FUND 270 – WATER REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS - Continued  
For the Year Ended June 30, 2014  
(amounts in \$000's)**

**17. Future Adoption of GASB Statements**

Effective for the year ending June 30, 2015, the Agency will adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, which was established to set standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, expenses, and expenditures. The statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Agency has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2015, the Agency will adopt GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes standards related to government combinations and disposals of government operations, including combinations in which no consideration is provided, such as government mergers and transfers of operations, and combinations in which consideration is provided, such as disposal of government operations. The Agency has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2015, the Agency will adopt GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, which addresses an issue regarding the application of the transition provisions of GASB Statement No. 68. The statement clarifies the accounting for contributions to a defined benefit pension plan after the measurement date of a government's beginning net pension liability. The Agency has not yet determined the impact on its financial statements as a result of adopting this statement.

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

COMBINING STATEMENT OF NET POSITION BY PROGRAM

June 30, 2014  
(amounts in \$000's)

	Drinking Water	Waste Water	Subtotal	Eliminating Entries	Total
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 107,426	\$ 303,483	\$ 410,909	\$ (103,351)	\$ 307,558
Securities lending collateral equity with State Treasurer	-	-	-	155,860	155,860
Investments	14,078	33,478	47,556	(47,556)	-
Loans and notes receivable	6,585	45,836	52,421	-	52,421
Other receivables	1,535	7,635	9,170	(216)	8,954
Due from federal government	9,837	46,625	56,462	-	56,462
Due from component unit	-	-	-	54,344	54,344
Restricted assets - accrued interest receivable	1,101	3,844	4,945	-	4,945
Restricted assets - loans receivable	27,466	82,252	109,718	-	109,718
Total current assets	<u>168,028</u>	<u>523,153</u>	<u>691,181</u>	<u>59,081</u>	<u>750,262</u>
Noncurrent assets					
Loans and notes receivable, net of current portion	156,284	584,360	740,644	-	740,644
Restricted assets - loans receivable	390,466	1,194,270	1,584,736	-	1,584,736
Capital assets, net of accumulated depreciation	16	42	58	-	58
Total noncurrent assets	<u>546,766</u>	<u>1,778,672</u>	<u>2,325,438</u>	<u>-</u>	<u>2,325,438</u>
<b>TOTAL ASSETS</b>	<u>714,794</u>	<u>2,301,825</u>	<u>3,016,619</u>	<u>59,081</u>	<u>3,075,700</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred amount on refunding of long-term obligation	587	945	1,532	-	1,532
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>715,381</u>	<u>2,302,770</u>	<u>3,018,151</u>	<u>59,081</u>	<u>3,077,232</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and accrued liabilities	2,125	3,730	5,855	(5,491)	364
Due to component units	45	-	45	-	45
Due to federal governments	5	-	5	-	5
Due to local governments	8	-	8	-	8
Due to other funds	5	10	15	-	15
Obligations under securities lending of State Treasurer	-	-	-	155,860	155,860
Compensated absences	38	107	145	-	145
Revenue bonds	8,010	14,540	22,550	(22,550)	-
Unamortized premium on revenue bonds	1,350	2,420	3,770	(3,770)	-
Total current liabilities	<u>11,586</u>	<u>20,807</u>	<u>32,393</u>	<u>124,049</u>	<u>156,442</u>
Noncurrent liabilities					
Long-term obligations	-	-	-	65,239	65,239
Compensated absences	363	1,040	1,403	-	1,403
Revenue bonds	42,596	76,554	119,150	(119,150)	-
Unamortized premium on revenue bonds	3,950	7,107	11,057	(11,057)	-
Total noncurrent liabilities	<u>46,909</u>	<u>84,701</u>	<u>131,610</u>	<u>(64,968)</u>	<u>66,642</u>
<b>TOTAL LIABILITIES</b>	<u>58,495</u>	<u>105,508</u>	<u>164,003</u>	<u>59,081</u>	<u>223,084</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred amount on refunding of long-term obligation	187	373	560	-	560
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>58,682</u>	<u>105,881</u>	<u>164,563</u>	<u>59,081</u>	<u>223,644</u>
<b>NET POSITION</b>					
Net investment in capital assets	16	42	58	-	58
Restricted for					
Debt service	419,032	1,280,367	1,699,399	-	1,699,399
Other purposes	227,067	877,553	1,104,620	-	1,104,620
Unrestricted	10,584	38,927	49,511	-	49,511
<b>TOTAL NET POSITION</b>	<u>\$ 656,699</u>	<u>\$ 2,196,889</u>	<u>\$ 2,853,588</u>	<u>\$ -</u>	<u>\$ 2,853,588</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, 2014  
(amounts in \$000's)**

	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Subtotal</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>OPERATING REVENUES</b>					
Interest income on loans - unpledged	\$ 6,052	\$ 23,402	\$ 29,454	\$ -	\$ 29,454
Interest income on loans - pledged	<u>3,793</u>	<u>10,576</u>	<u>14,369</u>	<u>-</u>	<u>14,369</u>
Total operating revenues	<u>9,845</u>	<u>33,978</u>	<u>43,823</u>	<u>-</u>	<u>43,823</u>
<b>OPERATING EXPENSES</b>					
General and administrative	5,290	17,487	22,777	-	22,777
Principal forgiveness	7,101	2,776	9,877	-	9,877
Depreciation	<u>7</u>	<u>18</u>	<u>25</u>	<u>-</u>	<u>25</u>
Total operating expenses	<u>12,398</u>	<u>20,281</u>	<u>32,679</u>	<u>-</u>	<u>32,679</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(2,553)</u>	<u>13,697</u>	<u>11,144</u>	<u>-</u>	<u>11,144</u>
<b>NONOPERATING REVENUES</b>					
Interest and investment income	2,585	5,170	7,755	(1,974)	5,781
Federal government	<u>69,901</u>	<u>137,521</u>	<u>207,422</u>	<u>-</u>	<u>207,422</u>
Total nonoperating revenues	<u>72,486</u>	<u>142,691</u>	<u>215,177</u>	<u>(1,974)</u>	<u>213,203</u>
<b>NONOPERATING EXPENSES</b>					
Interest	1,860	3,296	5,156	(2,945)	2,211
Other nonoperating expenses	<u>579</u>	<u>915</u>	<u>1,494</u>	<u>971</u>	<u>2,465</u>
Total nonoperating expenses	<u>2,439</u>	<u>4,211</u>	<u>6,650</u>	<u>(1,974)</u>	<u>4,676</u>
<b>CHANGE IN NET POSITION</b>	67,494	152,177	219,671	-	219,671
<b>NET POSITION, BEGINNING OF YEAR</b>					
As originally reported	589,302	2,044,876	2,634,178	-	2,634,178
Prior period adjustment	<u>(97)</u>	<u>(164)</u>	<u>(261)</u>	<u>-</u>	<u>(261)</u>
As restated	<u>589,205</u>	<u>2,044,712</u>	<u>2,633,917</u>	<u>-</u>	<u>2,633,917</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 656,699</u>	<u>\$ 2,196,889</u>	<u>\$ 2,853,588</u>	<u>\$ -</u>	<u>\$ 2,853,588</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, 2014  
(amounts in \$000's)

	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Subtotal</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash payments to employees for services	\$ (4,350)	\$ (12,313)	\$ (16,663)	\$ -	\$ (16,663)
Other payments	(660)	(5,129)	(5,789)	-	(5,789)
Net cash used in operating activities	<u>(5,010)</u>	<u>(17,442)</u>	<u>(22,452)</u>	<u>-</u>	<u>(22,452)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating grants received	60,013	90,591	150,604	-	150,604
Interest and principal paid on borrowing	(4,130)	(7,364)	(11,494)	(2,298)	(13,792)
Proceeds from bonds issued, net of bond issuance costs	56,403	101,508	157,911	(98,620)	59,291
Bond issuance costs paid	(269)	(482)	(751)	-	(751)
Required escrow deposit to refund prior bonds	(37,703)	(66,018)	(103,721)	98,620	(5,101)
Arbitrage paid	(332)	(450)	(782)	(1,341)	(2,123)
Net cash provided by noncapital financing activities	<u>73,982</u>	<u>117,785</u>	<u>191,767</u>	<u>(3,639)</u>	<u>188,128</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition of capital assets	-	-	-	-	-
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investment securities	136,518	447,527	584,045	(584,045)	-
Purchase of investments	(131,106)	(446,728)	(577,834)	577,834	-
Interest and investment income	13,000	35,276	48,276	(1,974)	46,302
Deposited with Illinois Finance Authority	-	-	-	(54,041)	(54,041)
Loans disbursed to governmental units	(89,759)	(181,966)	(271,725)	-	(271,725)
Loans repaid by governmental units	38,969	124,492	163,461	-	163,461
Net cash used in investing activities	<u>(32,378)</u>	<u>(21,399)</u>	<u>(53,777)</u>	<u>(62,226)</u>	<u>(116,003)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	36,594	78,944	115,538	(65,865)	49,673
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>70,832</u>	<u>224,539</u>	<u>295,371</u>	<u>(37,486)</u>	<u>257,885</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 107,426</u>	<u>\$ 303,483</u>	<u>\$ 410,909</u>	<u>\$ (103,351)</u>	<u>\$ 307,558</u>
<b>Reconciliation of operating income to net cash used in operating activities</b>					
Operating income (loss)	\$ (2,553)	\$ 13,697	\$ 11,144	\$ -	\$ 11,144
Adjustments to reconcile operating income to net used in operating activities					
Depreciation expense	7	18	25	-	25
Principal forgiveness	7,101	2,776	9,877	-	9,877
In-kind expense	305	305	610	-	610
Interest income	(9,845)	(33,978)	(43,823)	-	(43,823)
Change in assets and liabilities					
Increase (decrease) in accounts payable and accrued liabilities	6	(9)	(3)	-	(3)
Increase in due to component units	19	-	19	-	19
Decrease in intergovernmental payables	(1)	(130)	(131)	-	(131)
Decrease in due to other funds	(12)	(83)	(95)	-	(95)
Decrease in compensated absences	(37)	(38)	(75)	-	(75)
Net cash used in operating activities	<u>\$ (5,010)</u>	<u>\$ (17,442)</u>	<u>\$ (22,452)</u>	<u>\$ -</u>	<u>\$ (22,452)</u>

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

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 William G. Holland  
Auditor General  
State of Illinois

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 Water Revolving Fund of the State of Illinois, Environmental Protection Agency, as of June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2014.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **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 State of Illinois, Environmental Protection Agency'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 State of Illinois, Environmental Protection Agency internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRUCE L. BULLARD, CPA

Director of Financial and Compliance Audits

Springfield, Illinois  
December 19, 2014