STATE OF ILLINOIS

ILLINOIS POWER AGENCY

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Year Ended June 30, 2014

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TABLE OF CONTENTS

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TABLE OF CONTENTS

AGENCY OFFICIALS

Director	Mr. Anthony Star
Administrative Services	
Chief Financial Officer (04/01/14 – Present)	Mr. Charles Kudia
Chief Financial Officer (02/16/14 – 03/31/14)	Vacant
Chief Financial Officer (07/01/13 – 02/15/14)	Ms. Kristene Callanta
Chief Legal Counsel (05/01/14 – Present)	Mr. Brian Granahan
Chief Legal Counsel (07/01/13 – 04/30/14)	Mr. Michael Strong
Chief Operating Officer[1] (09/09/13 – Present)	Mr. Sanjay Patel
Planning and Procurement Bureau	
Bureau Chief	Mr. Mario Bohorquez
Resource Development Bureau	
Bureau Chief	Vacant

The Agency's office is located at:

Michael A. Bilandic Building
160 N. LaSalle Street, Suite C-504
Chicago, Illinois 60601

[1] The Chief Operating Officer position was created on September 9, 2013.

STATE COMPLIANCE EXAMINATION

MANAGEMENT ASSERTION LETTER

February 24, 2015

Honorable William G. Holland
Auditor General
State of Illinois
740 East Ash Street
Springfield, Illinois 62703-3154

Dear Mr. Holland:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Illinois Power Agency. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the State of Illinois, Illinois Power Agency's compliance with the following assertions during the one-year period ended June 30, 2014. Based on this evaluation, we assert that during the year ended June 30, 2014, the State of Illinois, Illinois Power Agency has materially complied with the assertions below.

A. The State of Illinois, Illinois Power Agency has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The State of Illinois, Illinois Power Agency has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The State of Illinois, Illinois Power Agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the State of Illinois, Illinois Power Agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by the State of Illinois, Illinois Power Agency on behalf of the State or held in trust by the State of Illinois, Illinois

Power Agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours very truly,

State of Illinois, Illinois Power Agency

Anthony Star, Director

Charles Kudia, Chief Financial Officer

Brian Granahan, Chief Legal Counsel

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANT'S REPORT

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contain a qualified opinion on compliance and identifies material weaknesses in internal control over compliance.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	9	23
Repeated findings	8	12
Prior recommendations implemented or not repeated	15	5

SCHEDULE OF FINDINGS

Item No.	Page	Description	Finding Type
		FINDINGS *(GOVERNMENT AUDITING STANDARDS)*	
2014-001	14	Inaccurate Financial Statements	Material Weakness
2014-002	18	Inadequate Controls over Alternative Compliance Payments	Material Weakness
		FINDINGS (STATE COMPLIANCE)	
2014-003	22	Failure to Establish a Resource Development Bureau	Material Weakness and Material Noncompliance
2014-004	24	Failure to Adopt Rules for Developing Prequalified Supplier Lists	Material Weakness and Material Noncompliance

Item No.	Page	Description	Finding Type
		FINDINGS (STATE COMPLIANCE)	
2014-005	25	Failure to Adopt Formal Administrative Rules	Material Weakness and Material Noncompliance
2014-006	26	Inadequate Controls over Equipment	Material Weakness and Material Noncompliance
2014-007	29	Inadequate Controls over the Procurement Event	Significant Deficiency and Noncompliance
2014-008	32	Inadequate Controls over Reconciliations	Significant Deficiency and Noncompliance
2014-009	34	Noncompliance with the Fiscal Control and Internal Auditing Act	Significant Deficiency and Noncompliance

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

2014-001	14	Inaccurate Financial Statements	Material Weakness and Material Noncompliance
2014-002	18	Inadequate Controls over Alternative Compliance Payments	Material Weakness and Material Noncompliance

Item No.	Page	Description
		PRIOR FINDINGS NOT REPEATED
A	36	Noncompliance with the Investment Income Transfer Limitations of the State Finance Act
B	36	Inadequate Controls over the Purchase of Renewable Energy Credits
C	37	Inadequate Controls over the Agency's Information Systems
D	37	Failure to Adopt Administrative Rules for Fees and Charges

Item No.	Page	Description	Finding Type
		PRIOR FINDINGS NOT REPEATED	
E	37	Inadequate Controls over Voucher Processing	
F	38	Noncompliance with Appropriation Laws	
G	38	Failure to Properly Approve Contractual Agreements	
H	38	Failure to Timely File Contractual Agreements	
I	39	Avoidable Use of an Emergency Contract	
J	39	Failure to Enter into Written Interagency Agreements	
K	39	Inadequate Controls over Employee Attendance	
L	40	Inadequate Controls over Accounts Receivable	
M	40	Inadequate Controls over Cash Receipts	
N	40	Inaccurate Travel Headquarters Reports	
O	41	Inadequate Controls over Personal Services	

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on February 20, 2015. Attending were:

Illinois Power Agency
Anthony Star - Director
Charles L. Kudia - Chief Financial Officer
Sanjay Patel - Chief Operating Officer

Office of the Auditor General
Daniel J. Nugent, CPA - Audit Manager
Julianne C. Rauch, CPA - Audit Supervisor
Ryan O. Goerres, CPA - State Auditor

The responses to the recommendations were provided by Anthony Star, Director, in a correspondence dated February 24, 2015.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have examined the State of Illinois, Illinois Power Agency's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2014. The management of the State of Illinois, Illinois Power Agency is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Illinois Power Agency's compliance based on our examination.

A. The State of Illinois, Illinois Power Agency has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The State of Illinois, Illinois Power Agency has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The State of Illinois, Illinois Power Agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the State of Illinois, Illinois Power Agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by the State of Illinois, Illinois Power Agency on behalf of the State or held in trust by the State of Illinois, Illinois Power Agency have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

INTERNET ADDRESS: OAG.AUDITOR@ILLINOIS.GOV

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Illinois Power Agency's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Illinois Power Agency's compliance with specified requirements.

As described in items 2014-003 through 2014-005 in the accompanying schedule of findings, the State of Illinois, Illinois Power Agency did not comply with requirements regarding obligating, expending, receiving, and using public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use. As described in items 2014-001 and 2014-006 in the accompanying schedule of findings, the State of Illinois, Illinois Power Agency did not comply with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. As described in item 2014-002 in the accompanying schedule of findings, the State of Illinois, Illinois Power Agency did not comply with applicable laws and regulations concerning the collection of State revenues and receipts and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law. Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Illinois Power Agency to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois, Illinois Power Agency complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2014. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2014-007 through 2014-009.

Internal Control

Management of the State of Illinois, Illinois Power Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Illinois Power Agency's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2014-001 through 2014-006 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2014-007 through 2014-009 to be significant deficiencies.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter.

The State of Illinois, Illinois Power Agency's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the State of Illinois, Illinois Power Agency's responses and, accordingly, we express no opinion on the responses.

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

Bruce L. Bullard

BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
February 24, 2015

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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 financial statements of the governmental activities and the aggregate remaining fund information of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Power Agency's basic financial statements, and have issued our report thereon dated February 24, 2015. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment - an internal investment pool of the State of Illinois - as described in our report on the State of Illinois, Illinois Power Agency's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Power Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Power Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Power 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 were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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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 items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Power Agency'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*.

State of Illinois, Illinois Power Agency's Response to Findings

The State of Illinois, Illinois Power Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings. The State of Illinois, Illinois Power 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 State of Illinois, Illinois Power 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, Illinois Power Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bruce L. Bullard

BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
February 24, 2015

2014-001. **<u>FINDING</u>** (Inaccurate Financial Statements)

The Illinois Power Agency (Agency) did not prepare accurate financial statements. These financial reporting problems, if not identified and corrected, would have resulted in a material misstatement of the Agency's financial statements.

During testing, the auditors noted the following:

- The Agency improperly classified unavailable revenue, totaling $7.271 million, as liabilities as opposed to deferred inflows of resources within its draft financial statements on the Balance Sheet - Governmental Funds. The auditors proposed an adjustment to correct this error, which the Agency recorded in its financial statements.

  Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, paragraph 30, states the Agency should report a deferred inflow of resources for measurable assets within the governmental fund financial statements until such time as the revenue becomes available.

- The Agency continued to have difficulty in establishing a written relationship with the Illinois Commerce Commission (Commission) that sufficiently described the functions and responsibilities of each party to allow for the proper accounting and financial reporting of Alternative Compliance Payments (see more information in Finding 2014-002). The auditors noted the following regarding the Agency's financial statements:

  - The auditors identified two Alternative Electric Retail Suppliers (ARES) who had been billed by the Commission for failing to pay the full amount due for its Alterative Compliance Payments (ACPs), totaling $132,491. This amount was not reported by the Commission to the Agency for consideration in determining the accounts receivable balance of ACPs at June 30, 2014. Based on subsequent cash collections, the two ARES paid $132,522 in November 2014.

  - The auditors identified one ARES where the amount recorded as paid by the Agency differed from the amount recorded as paid by the Commission, totaling $24,010. In following up on this exception, Agency management stated they needed to estimate the amount due to the Agency because the Commission had not received payment from the ARES and the ARES had not responded to Commission inquiries about the lack of payment as of October 1, 2014.

2014-001. **FINDING** (Inaccurate Financial Statements) (continued)

The ARES eventually paid its ACPs, totaling $127,686, on October 14, 2014, 43 days late.

The auditors proposed adjustments to correct these errors; however, these amounts were deemed immaterial by Agency management and were not adjusted in the financial statements.

The Agency is ultimately responsible for the activities the Commission conducts on its behalf. The State Records Act (5 ILCS 160/8) requires the Agency's Director make and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Agency designed to furnish information to protect the legal and financial rights of the State.

- The Agency did not initially disclose exemptions claimed, totaling $295 thousand, by an Alternative Retail Electric Supplier within its notes to the Agency's financial statements. As of the end of fieldwork, the Commission had not completed its adjudication process to determine whether to accept or deny the claimed exemptions. After receiving notification from the auditors of this condition, the Agency prepared an additional footnote disclosure to describe the existence of this matter within the Agency's financial statements.

  Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements*, paragraph 113, states the Agency's notes to the financial statements should communicate information essential for the fair presentation of the financial statements not displayed on the face of the financial statements.

- The Agency did not properly report net position, totaling $161.077 million, in the Agency's draft financial statements on the Statement of Net Position. Initially, the Agency classified permanent fund principle amounts required to be retained in perpetuity as *nonspendable net position - endowments and similar funds* and amounts restricted due to constraints placed on the net position by external parties or imposed by law as *restricted net position*. The auditors proposed an adjustment to correct this error, which the Agency recorded in its financial statements.

2014-001. **FINDING** (Inaccurate Financial Statements) (continued)

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements*, paragraphs 34-35, states the Agency should report restricted net position in two components: *nonexpendable* for permanent fund principle amounts required to be retained in perpetuity and *expendable* for amounts restricted due to constraints placed on the net position by external parties or imposed by law.

- The Agency improperly classified amounts due to the Department of Central Management Services at June 30, 2014, totaling $3 thousand, as accounts payable as opposed to due to other State funds. The auditors proposed an adjustment to correct this error, which the Agency recorded in its financial statements.

  Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements*, paragraph 112, requires the presentation of unpaid amounts of reciprocal interfund activity as interfund payables on the balance sheet.

- The Agency improperly classified payroll and benefits expenditures related to the Agency's Director paid by the State Comptroller during Fiscal Year 2014, totaling $179 thousand, as "employment and economic development" as opposed to "general government". The auditors proposed an adjustment to correct this error, which the Agency recorded in its financial statements.

  National Council on Governmental Accounting Statement No. 1, *Governmental Accounting and Financial Reporting Principles*, paragraph 111, requires the presentation of expenditures by major classification. The Statewide Accounting Management System (Procedure 27.50.20) requires expenditures related to the administrative functions of State government accrue to the general government expenditure account.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of fiscal and administrative controls to provide reasonable assurance transactions applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Agency officials stated these errors were due to oversight and human error.

2014-001. **FINDING** (Inaccurate Financial Statements) (continued)

Failure to properly record transactions and prepare accurate financial statements could have, if not detected and corrected, resulted in a material misstatement of the Agency's financial statements, reducing the overall reliability of Statewide financial reporting. (Finding Code No. 2014-001, 2013-001, 12-1)

RECOMMENDATION

We recommend the Agency enhance its accounting and financial reporting procedures to ensure its accounting records are accurate and allow for the accurate preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Further, Agency personnel should obtain training in the financial reporting standards set by the Governmental Accounting Standards Board.

AGENCY RESPONSE

The Agency agrees with the finding. Fiscal Year 2014 was the first year in which the Agency prepared its financial statements internally rather than using an outside accounting firm. The Agency hired a well-qualified and experienced Chief Financial Officer (CFO) during Fiscal Year 2014 to ensure the accuracy and transparency of all Agency financial records. The CFO has now gained additional knowledge and experience in preparing the Agency's financial statements in a timely and accurate manner.

2014-002. **FINDING** (Inadequate Controls over Alternative Compliance Payments)

The Illinois Power Agency (Agency) did not have an adequate interagency agreement with the Illinois Commerce Commission (Commission).

During testing, the auditors noted the Commission collected, processed, and performed all recordkeeping functions for Alternative Compliance Payments (ACPs) for the Agency. Additionally, the Commission performed certain reporting tasks and estimations of accounts receivable from ACPs on behalf of the Agency. While the Agency entered into a formal interagency agreement with the Commission during Fiscal Year 2014, the agreement lacked a formal framework identifying the specific functions, duties, and responsibilities of both agencies for the processing, accounting, recordkeeping, and reporting for transactions. Further, performing these tasks exceeds the amount of effort the Commission would have otherwise had to expend to enforce compliance with the State's Renewable Energy Standard.

During testing, the auditors noted the following exceptions:

- The interagency agreement between the Agency and Commission does not sufficiently describe the functions assigned to each party to allow for the proper accounting and financial reporting of ACPs. For example, the Commission did not report to the Agency potential underpayments of $132 thousand by Alternative Retail Electric Suppliers (ARES). After receiving notification from the auditors of this condition, the Agency prepared additional footnote disclosures to describe the existence of this matter within the Agency's financial statements.

  Prior to the conclusion of fieldwork, the Agency received notification from the Commission these accounts receivable had been collected in November 2014. This amount was deemed immaterial by Agency management and was not adjusted in the financial statements.

  In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be properly recorded in the proper fund in the financial statements. Governmental Accounting Standards Board Statement No. 33, Paragraph 29, *Accounting and Financial Reporting for Nonexchange Transactions,* states the Agency should recognize revenues "in the accounting period when they become available and measurable" under the modified accrual basis of accounting within the governmental funds.

2014-002. **FINDING** (Inadequate Controls over Alternative Compliance Payments) (continued)

The Agency is ultimately responsible for the activities other State agencies conduct on its behalf. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of fiscal and administrative controls to provide reasonable assurance transactions applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

- The Agency does not have a mechanism to identify any potential credit carry-forwards or refunds of ACPs for financial reporting purposes. During testing of subsequent cash collections to verify accounts receivable from ACPs at June 30, 2014, the auditors noted the Commission reported the existence of two overpayments from retail electric suppliers to the auditors, totaling $108,793.

  The Illinois Administrative Code (Code) (83 Ill. Admin. Code 455.130(g)) requires the Commission to carry forward to subsequent years the amount of excess ACPs, unless and to the extent to which the retail electric supplier petitions for and is granted permission to apply to the Agency for a refund. Further, the Code (83 Ill. Admin. Code 455.150(b)) provides that an ARES may petition the Commission for a refund of ACPs recognized by the Commission to be in excess of the statutory requirements.

- The Agency has not coordinated with the Commission to establish a process and procedure for the refund of excess ACPs. Additionally, the auditors noted the Agency does not have any appropriation authority to actually pay a refund if the Commission allowed an ARES to apply to the Agency for a refund.

  The Code (83 Ill. Admin Code 455.150(b)) requires the Commission to coordinate with the Agency in developing a process and procedure to refund payments in excess of the statutory requirements. Public Act 098-0681 appropriated $50,000,000 to the Agency from the Illinois Power Agency Renewable Energy Resources Fund for funding purchases of renewable energy or Renewable Energy Credits during Fiscal Year 2015 and did not include an appropriation for the payment of ACP refunds.

2014-002. **FINDING** (Inadequate Controls over Alternative Compliance Payments) (continued)

- The interagency agreement does not provide for, and the Agency did not, reimburse the Commission for the time spent by employees working on the Agency's tasks. By paying the employees solely from State appropriations to the Commission, the parties to the agreement circumvented the appropriation authority of the General Assembly as provided for under the State Finance Act (30 ILCS 105/9.03).

  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 obligations and costs are in compliance with applicable law. The State Finance Act (30 ILCS 105/9.03) requires State agencies on every payroll voucher certify "that the results of the work performed by these employees and that substantially all of their working time is directly related to the objectives, functions, goals, and policies of the organizational unit for which the appropriation is made."

Agency officials stated they are continuing to work with the Commission to resolve these issues in the next interagency agreement entered into by the Commission and Agency.

Failure to have clear duties and responsibilities for the processing and reporting of ACPs within an interagency agreement with the Commission could result in a material misstatement of the Agency's financial statements. Additionally, failure to develop formal, written policies and procedures detailing the relationship between the Agency and the Commission led to noncompliance with State laws, rules, and regulations. (Finding Code No. 2014-002, 2013-003, 12-2, 11-1)

RECOMMENDATION

We recommend the Agency work with the Commission to obtain the information necessary to properly report ACPs in the Agency's financial statements. Further, the Agency should work with the Commission to address the issuance of, and financial reporting for, refunds and credit carry-forwards, or seek a legislative remedy. In addition, the Agency should work with the Commission to develop a reimbursement process for shared employees which allocates costs between the two agencies based on the employee's timekeeping reports.

2014-002. **FINDING** (Inadequate Controls over Alternative Compliance Payments) (continued)

AGENCY RESPONSE

The Agency agrees with the finding. The Agency is in the process of updating the interagency agreement with the Illinois Commerce Commission to address the audit findings and is additionally requesting appropriations authorization for Fiscal Year 2016 to address the issue of potential ACP refunds.

2014-003. **FINDING** (Failure to Establish a Resource Development Bureau)

The Illinois Power Agency (Agency) has not established a Resource Development Bureau.

During testing, the auditors noted the following:

- The Agency did not establish a Resource Development Bureau.

  The Illinois Power Agency Act (Act) (20 ILCS 3855/1-70(b)) requires the Agency establish a Resource Development Bureau within the Agency.

- The Agency's Director did not appoint a Chief of the Resource Development Bureau.

  The Act (20 ILCS 3855/1-70(d)) requires the Agency's Director appoint a Chief of the Resource Development Bureau who has at least five years of direct experience in electric generation project development and an advanced degree in economics, engineering, law, business, or a related field.

Agency officials stated the Agency has not established the Resource Planning and Development Bureau nor hired the Bureau's Chief because they do not anticipate a need for these functions for, at least, several years.

Failure to establish a Resource Development Bureau represents noncompliance with the Illinois Power Agency Act. (Finding Code No. 2014-003, 2013-010, 12-9, 11-17, 10-12, 09-7)

RECOMMENDATION

We recommend the Agency establish a Resource Development Bureau, or seek a legislative remedy.

2014-003. **FINDING** (Failure to Establish a Resource Development Bureau) (continued)

AGENCY RESPONSE

The Agency agrees with the finding. However, as previously noted in the Agency's response to Fiscal Year 2011 Finding 11-17, Fiscal Year 2012 Finding 12-9, and Fiscal Year 2013 Finding 2013-10, the Agency respectfully submits that although Section 1-70 of the Illinois Power Agency Act requires hiring of a Chief of the Resource Development Bureau, the Agency believes that hiring for this position would not be a prudent use of State resources at this time. This is because there is, and will be, no need for the Agency to develop generation pursuant to Section 1-80 of the Illinois Power Agency Act in the short to medium term. As a result, the Agency believes there would be no substantive work for the Resource Development Bureau to undertake for the foreseeable future.

The Agency continues to express its concern regarding the hiring of a Bureau Chief for the Resource Development Bureau.

2014-004. **FINDING** (Failure to Adopt Rules for Developing Prequalified Supplier Lists)

The Illinois Power Agency (Agency) has not promulgated rules as required by the Illinois Procurement Code.

During testing, the auditors noted the Agency did not promulgate rules for the development of prequalified supplier lists for construction and construction-related professional services.

The Illinois Procurement Code (30 ILCS 500/30-20(b)) requires the Agency to promulgate rules for "the development of prequalified supplier lists for construction and construction-related professional services and the periodic updating of those lists."

Agency officials stated they lack sufficient resources to promulgate the required rules and they do not anticipate a need for these functions for, at least, several years.

Failure to promulgate rules for the development of prequalified supplier lists for construction and construction-related professional services represents noncompliance with the Illinois Procurement Code. (Finding Code No. 2014-004, 2013-009, 12-12, 11-15, 10-18, 09-16)

RECOMMENDATION

We recommend the Agency establish rules for the development of prequalified supplier lists for construction and construction-related professional services, or seek a legislative remedy.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has initiated the drafting of the required rules.

2014-005. **FINDING** (Failure to Adopt Formal Administrative Rules)

The Illinois Power Agency (Agency) did not adopt rules and regulations for all phases of the Agency's operations as required by the Illinois Power Agency Act.

During testing, the auditors noted the Agency had not established procedures for monitoring the administration of contracts or established procedures for the recovery of costs incurred in connection with the development and construction of a facility.

The Illinois Power Agency Act (20 ILCS 3855/1-35) requires the Agency adopt rules establishing procedures for monitoring the administration of contracts administered, directly or indirectly, by the Agency and for the recovery of costs incurred in connection with the development or construction of a facility if the Agency cancels the construction process.

Agency officials stated they lack sufficient resources to promulgate the required rules for monitoring and administration of contracts and the recovery of costs. The Agency further stated that there is no project under development and construction, or even under consideration; as such, the procedures are not the priority of the Agency with its limited resources.

Formal administrative rules provide a basis to protect the Agency from legal challenges and give additional legitimacy to Agency actions and Agency requests of external parties. Failure to adopt formal rules represents noncompliance with the Illinois Power Agency Act and could result in a failure to establish and adequately monitor internal controls. (Finding Code No. 2014-005, 2013-007, 12-10, 11-18, 10-11, 09-6)

RECOMMENDATION

We recommend the Agency draft and adopt formal agency rules for monitoring the administration of contracts and procedures for the recovery of costs incurred in connection with the development and construction of a facility, or seek a legislative remedy.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has initiated the drafting of the required rules.

2014-006. **FINDING** (Inadequate Controls over Equipment)

The Illinois Power Agency (Agency) did not maintain sufficient control over the recording and reporting of State property.

During testing, the auditors noted the following:

- The Agency did not take appropriate measures to verify the completeness and accuracy of the Agency's property records.

    - 22 of 81 items (27%) on the property listing as of June 30, 2014, had its value recorded as either "unknown" or $0. According to Agency officials, many of these items were transferred to the Agency from the Department of Central Management Services.

      The Statewide Accounting Management System (SAMS) (Procedure 29.10.10) requires the Agency keep detail records with the original cost of the asset.

    - One of two (50%) property additions, a computer totaling $910, was understated by $10 because the Agency did not include the cost of a software license charge within the acquisition cost.

      SAMS (Procedure 03.30.20) notes that the basic cost of equipment consists of all costs necessary to acquire and place it into service.

    - The Agency had not noted within its property listing property tagged and tracked by the Agency, totaling 42 equipment items, that were "on loan" from the Department of Central Management Services.

      While good business practices require the tracking of all loaned inventory, the property listing should reflect the status of items on loan from other entities.

    - Two of 13 (15%) equipment items selected for verification from the property listing, totaling $288, were not found in the location on the property listing.

      One of these items, a Blackberry, was listed as being at the Agency's office, but the phone was actually with the Agency's part-time employee in Maryland. This discrepancy was originally communicated to management and reported on during the Agency's Fiscal Year 2013 compliance examination.

2014-006. **FINDING** (Inadequate Controls over Equipment) (continued)

SAMS (Procedure 29.10.10) requires the Agency keep detail records with the location of each asset. Further, the Illinois Administrative Code (Code) (44 Ill. Admin. Code 5010.400) requires the Agency adjust its property records within 30 days of a change or deletion of equipment items.

- The auditors noted 19 items were transferred to the Department of Central Management Services in May 2014; however, these items were not removed from the Agency's property listing. The Agency noted 18 of these items as transferred, but did not add any notation to the property listing for the other item. These items should have been removed from the listing.

  The Code (44 Ill. Admin. Code 5010.400) requires the Agency adjust its property records within 30 days of a change or deletion of equipment items.

- The auditors noted 15 property items with the notation "CMS Storage" or "MABB Storage" on the property listing. As these items had been returned to the Department of Central Management Services, they should have been removed from the Agency's property listing.

  The State Property Control Act (30 ILCS 605/6.02) requires the Agency maintain a permanent record of all items under the Agency's jurisdiction and control, including the proper location.

- The Agency did not properly code equipment expenditures to the proper detail object code. The auditors noted a computer warranty and DVD drive, totaling $72, were charged to an equipment detail object code, instead of the detail object codes for insurance and small durable electronic data processing equipment, respectively. Further, the auditors noted a cellular telephone warranty, totaling $11, was charged to an equipment detail object code, instead of the detail object code for insurance.

  The State Finance Act (30 ILCS 105/20) defines "equipment," when used in an appropriation act, to mean all expenditures having a unit value exceeding $100 for the acquisition of property of a nonconsumable nature. Further, the State Finance Act (30 ILCS 105/15b) defines "commodities," when used in an appropriation act, to mean all expenditures for the purchase of items with a consumable nature or having a unit value not exceeding $100 for the acquisition of property of a non-consumable nature.

2014-006. **FINDING** (Inadequate Controls over Equipment) (continued)

In addition, SAMS (Procedure 11.50.30) defines charges for insurance policies as a contractual service under the State Finance Act (30 ILCS 105/15a).

The State Property Control Act (30 ILCS 605/4) requires responsible officers at each State agency be accountable for the supervision, control, and inventory of property under their jurisdiction to ensure the proper accounting and safeguarding of assets.

Agency officials stated these conditions were due to staff error and the Agency using property obtained from the Department of Central Management Services without an original cost.

Due to these limitations, the auditors were unable to conclude whether the Agency's property records at June 30, 2014, were complete and appropriately reported.

Failure to properly record and report equipment transactions represents noncompliance with the State Property Control Act, the Illinois Administrative Code, and the Statewide Accounting Management System. (Finding Code No. 2014-006, 2013-013, 12-6)

RECOMMENDATION

We recommend the Agency ensure the property and equipment records are properly maintained and updated as required to allow for proper reporting of equipment transactions to the Office of the State Comptroller.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency has updated its property and equipment records.

2014-007. **FINDING** (Inadequate Controls over the Procurement Event)

The Illinois Power Agency (Agency) did not exercise adequate internal control over its 2014 Procurement Event.

During testing of the procurement requirements for the customers of ComEd and Ameren, the auditors noted the following:

- The Agency did not propose to procure any cost-effective demand-response products (reductions in a customer's consumption of electricity during periods of high power prices or when the grid's reliability is threatened) in the Agency's 2014 Procurement Plan.

  In the Agency's 2014 Procurement Plan (Section 7.5), the Agency noted the utilities have not filed energy efficiency and demand-response programs with the Commission for approval under the Public Utilities Act (220 ILCS 5/8-103), limiting the ability of the Agency to "have concrete information regarding how the utilities will meet their demand response goals." As such, the Agency did not propose any additional demand-response products in 2014 and recommended reconsideration in the 2016 plan.

  The Public Utilities Act (220 ILCS 5/16-111.5(b)(3)(ii)) requires the annual procurement plan include a proposed mix of demand-response products for the execution of contracts during the next energy year, which shall be procured when the cost is lower than procuring other comparable capacity products.

  Agency officials stated the utilities have begun adopting some demand-response programs, such as ComEd's residential central air conditioning cycling program, voluntary load reductions through the PJM Interconnection (ComEd's regional transmission organization responsible for moving electricity across multiple states), and peak-time rebate proposals from Ameren pending before the Commission. Further, Agency officials stated the Commission has rejected previous Agency plans to procure demand-response products outside of each utility working with its respective regional transmission organization to procure additional demand-response products.

2014-007. **FINDING** (Inadequate Controls over the Procurement Event) (continued)

- The Agency did not exercise adequate internal controls over documenting its agreement with the Procurement Administrator. Under the terms of the Memorandum of Understanding between the Agency and its Procurement Administrator, the contractual price provisions within the Request for Proposals and Request for Qualifications were not binding on either party and existed only to establish a maximum contractual obligation for filing with the State Comptroller. To set the price for specific services once it was known a service would be needed within the scope of the procurement event, the Agency and Procurement Administrator entered into task orders. Each task order represents a specific activity the Procurement Administrator would perform with either a good faith estimate for the total cost or a specified maximum payment agreed upon by both parties. The auditors noted the following:

    - Task Order #1, for work between February 17 - March 27, 2014, was not signed by the Agency until April 18, 2014. The Agency eventually paid $187,008 for work performed under this task order.

    - Task Order #2, for work between March 31 - May 7, 2014, was not signed by the Agency until April 11, 2014. The Agency eventually paid $126,198 for work performed under this task order.

    - Task Order #3, for work between May 15 - July 2, 2014, was not signed by the Agency as of October 15, 2014. The Agency eventually paid $1,068 for work performed under this task order on July 22, 2014.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain internal fiscal and administrative controls to provide assurance that obligations and costs are in compliance with applicable law. Good internal controls include ensuring all task orders are signed by all required Agency personnel prior to the commencement of services. Further, the State Finance Act (30 ILCS 105/9.02(a)(2)) provides the Agency shall not file any authorization for payment against the contract with the State Comptroller if the required signatures or approvals are lacking.

Agency officials stated this error was due to oversight and human error.

2014-007. **FINDING** (Inadequate Controls over the Procurement Event) (continued)

Failure to propose to procure any cost-effective demand response products represents noncompliance with the Public Utilities Act. Further, failure to approve task orders in a timely manner may result in an expenditure of State funds for unapproved purposes. (Finding Code No. 2014-007)

RECOMMENDATION

We recommend the Agency implement controls to ensure the annual procurement plan includes a proposal for cost-effective demand response products, or seek a legislative remedy. Further, the Agency should implement controls to approve task orders prior to the commencement of services by the Procurement Administrator.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency notes that its 2015 Procurement Plan (prepared during Fiscal Year 2015) included a proposal for a form of demand response measures. Further, the Agency will update its procedures and internal controls to ensure timely signing of corresponding contracts and related task orders.

2014-008. **FINDING** (Inadequate Controls over Reconciliations)

The Illinois Power Agency (Agency) did not perform timely reconciliations of the Agency's records to the State Comptroller's records.

During testing, the auditors noted the following:

- The Agency did not prepare monthly reconciliations for the Monthly Appropriations Status Report (SB01), Monthly Revenue Status Report (SB04), Monthly Object Expense/Expenditures by Quarter Report (SA02), Monthly Agency Contract Report (SC14), and Monthly Obligation Activity Report (SC15) until May 2014, eleven months into Fiscal Year 2014.

- The Agency did not prepare monthly reconciliations for the Monthly Cash Report (SB05) until April 2014, ten months into Fiscal Year 2014.

- The Agency's reconciliations of the SB01 reports during Fiscal Year 2014 did not include a comparison of the current unexpended budget authority between the Agency's records and the records of the State Comptroller.

- The Agency did not perform SB01 or SA02 reconciliations during the Fiscal Year 2014 Lapse Period.

The Statewide Accounting Management System (SAMS) (Procedure 07.30.20) notes "the effectiveness of any accounting and financial information system is very much dependent on the accuracy of data submitted and the confidence of its users that the system handled that data properly. Agency reconciliation is the primary control that insures these requirements are being satisfied." As such, SAMS (Procedures 11.40.10, 25.40.10, 09.40.10, 07.30.21, 15.30.10, and 15.30.20) establish processes for a monthly reconciliation of the SB01, SB04, SB05, SA02, SC14, and SC15 reports generated by the Office of the State Comptroller.

Agency officials stated the untimely reconciliations were due to the Agency not having sufficient expertise to prepare the reconciliations until the arrival of the new Chief Financial Officer. Further, the remaining exceptions were due to the new Chief Financial Officer's unfamiliarity with the SAMS reconciliation process.

Failure to properly reconcile the Agency's records to the State Comptroller's records in a timely manner represents noncompliance with the Statewide Accounting Management System and could result in incomplete or inaccurate financial information. (Finding Code No. 2014-008, 2013-005, 12-5, 11-7, 10-15)

2014-008. **FINDING** (Inadequate Controls over Reconciliations) (continued)

RECOMMENDATION

We recommend the Agency perform timely reconciliations of its internal records to the State Comptroller's records in accordance with the procedures of the Statewide Accounting Management System.

AGENCY RESPONSE

The Agency agrees with this finding. The Agency hired a well-qualified and experienced Chief Financial Officer during Fiscal Year 2014 to ensure the accuracy and transparency of all Agency financial records. The Agency is now performing all required reconciliations in a timely and accurate manner.

2014-009. **FINDING** (Noncompliance with the Fiscal Control and Internal Auditing Act)

The Illinois Power Agency (Agency) did not comply with the Fiscal Control and Internal Auditing Act (Act).

During testing, the auditors noted the Agency's Fiscal Year 2014 certification letter to the Auditor General reported management's evaluation of the Agency's internal fiscal and administrative controls in accordance with guidelines established by the State Comptroller in consultation with the Director of Central Management Services determined the Agency's internal controls fully complied with the Act. This report, however, did not agree with the Agency's documentation supporting its certification, as Agency management noted 24 weaknesses in its internal fiscal and administrative controls. As such, the Agency did not prepare and submit a report for the Auditor General describing the material weaknesses in the Agency's systems of internal fiscal and administrative controls and the plans and schedule for correcting the weaknesses, or a statement of the reasons why the weaknesses cannot be corrected.

The Act (30 ILCS 10/3003) requires the Agency's Director to, on the basis of an evaluation conducted in accordance with guidelines established by the State Comptroller in consultation with the Director of Central Management Services, prepare and transmit to the Auditor General by May 1 each year a certification that (1) the systems of internal fiscal and administrative controls of the Agency fully comply with the requirements of the Act; or (2) the systems of internal fiscal and administrative controls of the Agency do not fully comply with the requirements of the Act. In the event the Agency's internal fiscal and administrative controls do not meet the requirements of the Act, the Agency must also submit a report describing the material weaknesses in the Agency's systems of internal fiscal and administrative controls and the plans and schedule for correcting the weaknesses, or a statement of the reasons why the weaknesses cannot be corrected.

Agency officials stated the Agency's Chief Operating Officer was working on developing a summary reporting package to document internal controls over the Agency's financial position and operations as of May 1, 2014. The Agency's certification was completed on the basis that the Agency believed all necessary internal controls and corrective action would have been in place and operating by June 30, 2014, the end of the State's fiscal year.

Failure to properly prepare and submit accurate and complete reports to the Auditor General negatively impacts governmental oversight. (Finding Code No. 2014-009, 2013-018, 12-14)

2014-009. **FINDING** (Noncompliance with the Fiscal Control and Internal Auditing Act) (continued)

RECOMMENDATION

We recommend the Agency conduct, document, and report on its evaluation of the Agency's internal controls in accordance with the provisions of the Fiscal Control and Internal Auditing Act.

AGENCY RESPONSE

The Agency agrees with the finding. The Agency now has the requisite internal controls in place to ensure compliance with the Fiscal Control and Internal Auditing Act.

A. **FINDING** (Noncompliance with the Investment Income Transfer Limitations of the State Finance Act)

During the prior examination, the Illinois Power Agency (Agency) did not comply with statutory limitations on fund transfers from the Illinois Power Agency Trust Fund (Trust Fund) to the Illinois Power Agency Operations Fund (Operations Fund). (Finding Code No. 2013-002)

Status: Implemented

During the current examination, the auditors' testing indicated the Agency complied with statutory limitations on fund transfers from the Trust Fund to the Operations Fund.

B. **FINDING** (Inadequate Controls over the Purchase of Renewable Energy Credits)

During the prior examination, the Illinois Power Agency (Agency) did not comply with State laws and regulations regarding accounting for the Agency's expenditures from the Illinois Power Agency Renewable Energy Resources Fund. (Finding Code No. 2013-004)

Status: Not Repeated

During the current examination, the auditors noted the Agency could not lawfully procure Renewable Energy Credits (RECs) due to two regulatory and statutory barriers. First, the Illinois Power Agency Act (20 ILCS 3855/1-56(c)) requires all RECs purchased by the Illinois Power Agency Renewable Energy Resources Fund must be held "in conjunction with a procurement event for electric utilities." This did not occur during Fiscal Year 2014 because the procurement of these resources would have exceeded the rate cap for the renewable energy resource budgets for ComEd and Ameren set within the Illinois Power Agency Act (20 ILCS 3855/1-75(c)(2)(E)). Second, the price paid for RECs under the Illinois Power Agency Act (20 ILCS 3855/1-56(d)) "shall not exceed the winning bid prices paid for like resources procured for electric utilities." As the Agency's 2014 Procurement Event for the utilities did not include renewable energy resources, Agency officials deemed it was impossible to procure additional RECs using assets within the Illinois Power Agency Renewable Energy Resources Fund for the Energy Year that began on June 1, 2014.

C. **FINDING** (Inadequate Controls over the Agency's Information Systems)

During the prior examination, the Illinois Power Agency (Agency) had not established adequate controls over its computing environment. (Finding Code No. 2013-006)

Status: Implemented

During the current examination, the auditors noted the Agency improved its segregation of duties, established separate user accounts and passwords for accessing its financial reporting applications, and implemented reasonable controls to protect its data from loss in the event of a regional disaster.

D. **FINDING** (Failure to Adopt Administrative Rules for Fees and Charges)

During the prior examination, the Illinois Power Agency (Agency) did not adopt formal rules related to fees and charges it is authorized to collect and deposit. (Finding Code No. 2013-008, 12-8, 11-11, 10-16)

Status: Implemented

During the current examination, the auditors noted the Agency adopted rules related to fees and charges it is authorized to collect and deposit.

E. **FINDING** (Inadequate Controls over Voucher Processing)

During the prior examination, the Illinois Power Agency (Agency) did not maintain adequate controls over its expenditure and voucher processing functions. (Finding Code No. 2013-011)

Status: Implemented

During the current examination, the auditors' sample testing indicated significant improvement within the Agency's internal controls over its voucher processing and expenditure functions.

F. **<u>FINDING</u>** (Noncompliance with Appropriation Laws)

During the prior examination, the Illinois Power Agency (Agency) did not properly use appropriations within the Illinois Power Agency Trust Fund (Trust Fund). (Finding Code No. 2013-012)

Status: Implemented

During the current examination, the auditors' testing indicated the Agency did not circumvent the appropriations process or transfer excess cash from the Trust Fund to the Illinois Power Agency Operations Fund.

G. **<u>FINDING</u>** (Failure to Properly Approve Contractual Agreements)

During the prior examination, the Illinois Power Agency (Agency) did not properly approve contracts. (Finding Code No. 2013-014, 12-11)

Status: Moved to the Immaterial Letter

During the current examination, the auditors' testing indicated improvement within the Agency's controls over its approval of contractual agreements; however, the auditors did note smaller, immaterial conditions of noncompliance. As such, this issue will be reported in the Agency's *Report of Immaterial Findings*.

H. **<u>FINDING</u>** (Failure to Timely File Contractual Agreements)

During the prior examination, the Illinois Power Agency (Agency) did not maintain adequate internal control over compliance with the provisions of the Illinois Procurement Code. (Finding Code No. 2013-015, 12-13, 11-14, 10-17, 09-15)

Status: Implemented

During the current examination, the auditors' sample testing indicated the Agency timely filed contractual obligations with the State Comptroller and was not required to file late filing affidavits during Fiscal Year 2014.

I. **FINDING** (Avoidable Use of an Emergency Contract)

During the prior examination, the Illinois Power Agency (Agency) filed an emergency purchase affidavit for a purchase which was not an emergency, in violation of the Illinois Procurement Code. (Finding Code No. 2013-016)

Status: Not Repeated

During the current examination, the auditors noted the Agency did not report any emergency purchases during Fiscal Year 2014.

J. **FINDING** (Failure to Enter into Written Interagency Agreements)

During the prior examination, the Illinois Power Agency (Agency) did not enter into written interagency agreements with other State agencies performing functions on the Agency's behalf. (Finding Code No. 2013-017)

Status: Not Repeated

During the current examination, the Agency entered into a written interagency agreement with the Illinois Commerce Commission concerning Alternative Compliance Payments (ACP). However, the agreement was not comprehensive and did not allocate the specific functions, duties, and responsibilities of both agencies for the processing, accounting, recordkeeping, and reporting for ACP transactions as noted in Finding 2014-002.

K. **FINDING** (Inadequate Controls over Employee Attendance)

During the prior examination, the Illinois Power Agency (Agency) had not established adequate controls over employee attendance. (Finding Code No. 2013-019)

Status: Implemented

During the current examination, the results of the auditors' testing indicated the Agency documented each employee's start and end times within their personnel file.

L. **FINDING** (Inadequate Controls over Accounts Receivable)

During the prior examination, the Illinois Power Agency (Agency) did not maintain sufficient control over collecting and reporting accounts receivable. (Finding Code No. 2013-020, 12-7)

Status: Moved to the Immaterial Letter

During the current examination, the auditors' testing indicated improvement within the Agency's controls over its collection and reporting of accounts receivable; however, the auditors did note smaller, immaterial conditions of noncompliance. As such, this issue will be reported in the Agency's *Report of Immaterial Findings*.

M. **FINDING** (Inadequate Controls over Cash Receipts)

During the prior examination, the Illinois Power Agency (Agency) did not properly record the date cash receipts were received by the Agency within the Agency's accounting system. (Finding Code No. 2013-021)

Status: Implemented

During the current examination, the auditors' sample testing indicated the Agency recorded the date cash receipts were received by the Agency within the Agency's accounting system.

N. **FINDING** (Inaccurate Travel Headquarters Reports)

During the prior examination, the auditors noted Illinois Power Agency (Agency) did not file accurate Travel Headquarters Reports (Form TA-2) with the Legislative Audit Commission (Commission). (Finding Code No. 2013-022)

Status: Implemented

During the current examination, the auditors' testing indicated the Agency filed complete Form TA-2s with the Commission.

O. **FINDING** (Inadequate Controls over Personal Services)

During the prior examination, the Illinois Power Agency (Agency) did not maintain adequate controls over personal services. (Finding Code No. 2013-023)

Status: Moved to the Immaterial Letter

During the current examination, the auditors' testing indicated the Agency withheld the proper amount for withholding taxes and retained new employee applications within the employee's personnel file; however, the auditors did note smaller, immaterial conditions of noncompliance. As such, this issue will be reported in the Agency's *Report of Immaterial Findings*.

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Illinois Power Agency was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed an unmodified opinion on the State of Illinois, Illinois Power Agency's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the State of Illinois, Illinois Power Agency's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings on pages 14-21 of this report as item 2014-001, *Inaccurate Financial Statements*, and item 2014-002, *Inadequate Controls over Alternative Compliance Payments*.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on February 20, 2015. Attending were:

Illinois Power Agency
Anthony Star - Director
Charles L. Kudia - Chief Financial Officer
Sanjay Patel - Chief Operating Officer

Office of the Auditor General
Daniel J. Nugent, CPA - Audit Manager
Julianne C. Rauch, CPA - Audit Supervisor
Ryan O. Goerres, CPA - State Auditor

The responses to the recommendations were provided by Anthony Star, Director, in a correspondence dated February 24, 2015.

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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 governmental activities and the aggregate remaining fund information of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Power Agency's basic 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 opinions on these financial statements based on our audit. We did not audit the June 30, 2014, financial statements of the Illinois State Board of Investment - an internal investment pool of the State of Illinois - which statements reflect total assets constituting 19.21 percent of the total assets on the Statement of Net Position, 6.11 percent of the total revenues on the Statement of Activities, 19.04 percent of the total assets on the Balance Sheet - Governmental Funds, and 6.02 percent of the total revenues on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the year ended June 30, 2014. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the investment activities of the Illinois State Board of Investment within the Illinois Power Agency Trust Fund, is based solely on the report of the other auditors. 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.

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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 opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information for the State of Illinois, Illinois Power Agency, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2, the financial statements of the State of Illinois, Illinois Power Agency are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the State of Illinois, Illinois Power Agency. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2, in Fiscal Year 2014, the State of Illinois, Illinois Power Agency adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit for the year ended June 30, 2014, was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Illinois Power Agency's basic financial statements. The accompanying supplementary information in the combining and individual nonmajor fund financial statements, the State Compliance Schedules 1 through 10, and the Analysis of Operations Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information for the year ended June 30, 2014, in the combining and individual nonmajor fund financial statements and the State Compliance Schedules 1 through 10 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2014, in the combining and individual nonmajor fund financial statements and the State Compliance Schedules 1 through 10 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 for the year ended June 30, 2014, in the combining and individual nonmajor fund financial statements and the State Compliance Schedules 1 through 10 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the State of Illinois, Illinois Power Agency's basic financial statements as of and for the year ended June 30, 2013 (not presented herein), and have issued our report thereon dated July 9, 2014, which contained unmodified opinions on the respective financial statements of the governmental activities and the aggregate remaining fund information. The accompanying supplementary information for the year ended June 30, 2013, in Schedules 2 through 10 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2013, financial statements. The accompanying supplementary information for the year ended June 30, 2013, in Schedules 2 through 10 has been subjected to the auditing procedures applied in the audit of the June 30, 2013, basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic 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 for the year ended June 30, 2013 in Schedules 2 through 10 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

As reported in Finding 2014-006, we were not able to determine whether the State of Illinois, Illinois Power Agency’s property records at June 30, 2014, were complete and appropriately reported. Therefore, we were unable to conclude whether the Schedule of Changes in State Property was complete.

The accompanying supplementary information in the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic 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 February 24, 2015, on our consideration of the State of Illinois, Illinois Power Agency’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Power Agency’s internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

Bruce L. Bullard

BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois
February 24, 2015

State of Illinois
Illinois Power Agency
Statement of Net Position
June 30, 2014
(Expressed in Thousands)

	Governmental Activities
Assets	
Cash equity in State Treasury	$ 60,016
Investments	32,622
Securities lending collateral equity of State Treasurer	44
Other receivables, net	77,095
Total assets	169,777
Liabilities	
Accounts payable and accrued liabilities	1,924
Due to other State funds	3
Obligations under securities lending of State Treasurer	44
Long term obligations:	
Due subsequent to one year	9
Total liabilities	1,980
Net Position	
Restricted net position	
Nonexpendable	32,622
Expendable	128,455
Unrestricted net position	6,720
Total net position	$ 167,797

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Statement of Activities
For the Year Ended June 30, 2014
(Expressed in Thousands)

		Program Revenues	Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Governmental Activities**
Governmental activities			
Employment and economic development	$ 2,823	$ 520	$ (2,303)
General government	179	-	(179)
Total governmental activities	3,002	520	(2,482)
General revenues			
Interest and investment income			5,034
Other revenue			76,881
Total general revenues			81,915
Change in net position			79,433
Net position, July 1, 2013			88,364
Net position, June 30, 2014			$ 167,797

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Balance Sheet - Governmental Funds
June 30, 2014
(Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
Assets		
Cash equity in State Treasury	$ 60,016	$ 60,016
Investments	32,622	32,622
Securities lending collateral equity of State Treasurer	44	44
Other receivables, net	77,095	77,095
Due from other agency funds	1,593	1,593
Total assets	$ 171,370	$ 171,370
Liabilities		
Accounts payable and accrued liabilities	$ 1,924	$ 1,924
Due to other Agency funds	1,593	1,593
Due to other State funds	3	3
Obligations under securities lending of State Treasurer	44	44
Total liabilities	3,564	3,564
Deferred Inflows of Resources (DIR)		
Unavailable revenue	7,271	7,271
Total DIR	7,271	7,271
Fund Balances		
Nonspendable - endowments and similar funds	32,622	32,622
Restricted		
Employment and economic development	121,233	121,233
Committed		
Employment and economic development	6,680	6,680
Total fund balances	160,535	160,535
Total liabilities, DIR, and fund balances	$ 171,370	$ 171,370

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2014
(Expressed in Thousands)

Total fund balances-governmental funds	$	160,535
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		7,271
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Compensated absences		(9)
Net position of governmental activities	$	167,797

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2014
(Expressed in Thousands)

	Nonmajor funds	Total Governmental Funds
Revenues		
Licenses and fees	$ 1,556	$ 1,556
Interest and other investment income	5,034	5,034
Other revenues	77,044	77,044
Total revenues	83,634	83,634
Expenditures		
Employment and economic development	2,825	2,825
General government	179	179
Total expenditures	3,004	3,004
Excess (deficiency) of revenues over (under) expenditures	80,630	80,630
Other sources (uses) of financial resources		
Transfers in	915	915
Transfers out	(915)	(915)
Net other sources (uses) of financial resources	-	-
Net change in fund balances	80,630	80,630
Fund balances, July 1, 2013	79,905	79,905
Fund Balances, June 30, 2014	$ 160,535	$ 160,535

The accompanying notes to financial statements are an integral part of this statement.

State of Illinois
Illinois Power Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2014
(Expressed in Thousands)

Net change in fund balances	$	80,630
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase (decrease) in unavailable revenue over the prior year.		(1,199)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.		
Decrease in compensated absence		2
Change in net position of governmental activities	$	79,433

The accompanying notes to financial statements are an integral part of this statement.

(1) Organization

The Illinois Power Agency (Agency) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Agency operates under a budget approved by the Illinois General Assembly in which resources are appropriated for the use of the Agency. The Agency is an independent agency subject to the oversight of the Executive Ethics Commission and its activities are subject to the authority of certain departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Agency and all other cash received are under the custody and control of the State Treasurer.

The Agency, created in 2008, is dedicated to capturing the benefits of competitive energy markets and facilitating the development of alternative energy technologies for the benefit of Illinois consumers. The Agency meets these objectives by planning and managing competitive procurements and participating in the development of new power generation assets and approaches in Illinois.

(2) Summary of Significant Accounting Policies

The financial statements of 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.

(a) Financial 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 and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the Agency has no component units and is not a component unit of any other entity. However, because the Agency is not legally separate from the State of Illinois, the financial statements of the Agency are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871, or accessing its website at www.ioc.state.il.us.

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation

The financial statements of the State of Illinois, Illinois Power Agency are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2014, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Government-wide Statements*:**

The government-wide Statement of Net Position and Statement of Activities report the overall financial activity of the Agency, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Agency. The financial activities of the Agency consist only of governmental activities, which are primarily supported by interest and investment income, contract compliance, and procurement activity fees.

The Statement of Net Position presents the assets and liabilities of the Agency's governmental activities with the difference being reported as net position. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The Statement of Activities presents a comparison between direct expenses and program revenues for the employment and economic development function of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all taxes and other revenues consisting of Alternative Compliance Payments, are presented as general revenues.

***Fund Financial Statements*:**

The fund financial statements provide information about the Agency's funds. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Agency does not administer any major governmental funds, or portions thereof in the case of shared funds, of the State of Illinois as described in the State of Illinois' Comprehensive Annual Financial Report.

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation – Continued

The Agency administers the following fund types:

Governmental Fund Type:

Special Revenue:

These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

Illinois Power Agency Operations Fund – **425**

This fund was created as a special fund in the State Treasury. The fund is administered by the Agency for Agency operations as specified in the Illinois Power Agency Act. Funding sources include charges for services through fee reimbursements as provided by the Illinois Power Agency Act and transfers of interest and investment income from the Illinois Power Agency Trust Fund.

Illinois Power Agency Facilities Fund – 426

This fund was created as a special fund in the State Treasury. The fund shall be administered by the Agency for costs incurred in connection with the development and construction of a power facility by the Agency as well as costs incurred in connection with the operation and maintenance of an Agency facility. There was no activity in this fund during Fiscal Year 2014.

Illinois Power Agency Debt Service Fund – 427

This fund was created as a special fund in the State Treasury. The fund shall be administered by the Agency for retirement of revenue bonds issued for any Agency facility. There was no activity in this fund during Fiscal Year 2014.

Illinois Power Agency Renewable Energy Resources Fund – 836

This fund was created as a special fund in the State Treasury. This fund is administered by the Agency for the procurement of renewable energy resources. This fund’s funding source is Alternative Compliance Payments remitted by Alternative Retail Electric Suppliers to comply with the State’s Renewable Portfolio Standard established by the Public Utilities Act.

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation – Continued

Permanent Trust:

These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens.

Illinois Power Agency Trust Fund – 424

This fund was created as a special fund in the State Treasury. This fund has two distinct purposes:

1) This fund may accept, receive, and administer any grants, loans, or other funds made available to it by any source. Any funds received by the Fund shall not be considered income, but shall be added to the principal of the Fund. These amounts shall be interfund cash transferred to the Illinois Power Agency Investment Fund to be held for investment by the Illinois State Board of Investment for the purpose of obtaining a total return on investments for the long term as described in the State Finance Act (30 ILCS 105/6z-75).

2) This fund may accept cash transfers of investment income from the Illinois Power Agency Investment Fund for interfund cash transfer, subject to appropriations from the Illinois General Assembly, to the Illinois Power Agency Operations Fund as described in the State Finance Act (30 ILCS 105/6z-75).

Illinois Power Agency Investment Fund – 1408

This fund was created as a locally held fund held by the Illinois State Board of Investment outside of the State Treasury. Any funds received by the Fund from the Illinois Power Agency Trust Fund shall not be considered income, but shall be added to the principal of the Fund. In addition, the Agency may interfund cash transfer, subject to the maximum appropriation for the Illinois Power Agency Trust Fund from the Illinois General Assembly, up to 90% of the annual investment income to the Illinois Power Agency Trust Fund for interfund cash transfer to the Illinois Power Agency Operations Fund. Any investment income not interfund cash transferred to the Illinois Power Agency Trust Fund for interfund cash transfer to the Illinois Power Agency Operations Fund shall not be considered income, but shall be added to the principal of the Fund.

This fund has been collapsed into the Illinois Power Agency Trust Fund for financial reporting purposes.

Funding sources for both funds include interest accumulations deposited by the State Treasurer, investment income received through the Illinois State Board of Investment, and any grants, loans, or other funds made available to it by any source.

(2) Summary of Significant Accounting Policies – Continued

(c) Measurement Focus and Basis of Accounting

The government-wide financial statements are 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 income taxes, excise taxes, wealth taxes, Alternative Compliance Payments, grants, entitlements, and donations. On an accrual basis, revenues are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of formal debt issues and acquisitions under capital leases and installment purchases are reported as other financing sources. Significant revenue sources which are susceptible to accrual include charges for services and interest and investment income. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received.

During Fiscal Year 2014, the Agency adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The effect of adopting this accounting principle was to reclassify unavailable revenue from a liability to a deferred inflow of resources, which did not impact beginning net position.

During Fiscal Year 2014, the Agency adopted GASB Statement No. 66, *Technical Corrections – 2012 (an amendment of GASB Statements No. 10 and No. 62)*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of this accounting principle did not impact beginning net position.

(2) Summary of Significant Accounting Policies – Continued

(c) Measurement Focus and Basis of Accounting – Continued

During Fiscal Year 2014, the Agency adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the objective of which is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when it is more likely than not that the government will be required to make a payment on the guarantee. Additionally, the statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The adoption of this accounting principle did not impact beginning net position.

(d) Eliminations

Eliminations have been made in the government-wide Statement of Net Position to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Agency. As a result, amounts reported in the governmental funds balance sheet as interagency interfund receivables and payables are eliminated in the government-wide Statement of Net Position. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds are included in the government-wide Statement of Net Position as receivable from and payable to external parties, rather than as internal balances. During Fiscal Year 2014, the Agency did not have receivables from or payables to fiduciary funds.

(e) Cash Equity in State Treasury

Cash equity in the State Treasury includes deposits held in the State Treasury. It also includes cash received and deposited in the Agency's clearing account and in process to the State Treasurer.

(f) Investments

Investments are reported at fair value. The Illinois State Board of Investment holds investments for the Illinois Power Agency Trust Fund within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75).

(2) Summary of Significant Accounting Policies – Continued

(g) Interfund Transactions

The following types of interfund transactions between the Agency's funds and funds of other State agencies may occur:

Interfund Loans are amounts provided with a requirement for repayment made in accordance with State law, which are reported as interfund receivables in lender funds and interfund payables in borrower funds. When interfund loan repayments are not expected within a reasonable time, the interfund balances are reduced and the amount that is not expected to be repaid is reported as a transfer from the fund that made the loan to the fund that received the loan.

Services provided and used are 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 governmental funds balance sheet or the government-wide and proprietary fund statements of net position.

Reimbursements are 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 are flows of assets (such as cash or goods) between funds without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

(h) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Agency employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are 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 taxes).

(2) Summary of Significant Accounting Policies – Continued

(h) Compensated Absences – 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 twelve 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.

(i) Fund Balances

For the year ended June 30, 2014, the governmental funds reported fund balances in the following categories:

Nonspendable – This consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The Illinois Power Agency Trust Fund (424) had nonspendable fund balance as of June 30, 2014.

Restricted – This consists of amounts that are restricted to specific purposes, which is when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The Illinois Power Agency Renewable Energy Resources Fund (836) had a restricted fund balance as of June 30, 2014.

Committed – This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Agency's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Agency removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Agency's highest level of decision-making authority rests with the Illinois General Assembly and the Governor. The State passes "Public Acts" to commit its fund balances. The Illinois Power Agency Operations Fund (425) had committed fund balance as of June 30, 2014.

Assigned – This consists of net amounts that are constrained by the Agency's intent to be used for specific purposes, but that are neither restricted nor committed. Fund balance assignments can only be removed or changed by action of the General Assembly. There were no assigned fund balances as of June 30, 2014.

(2) Summary of Significant Accounting Policies – Continued

(i) Fund Balances – Continued

Unassigned – This consists of residual fund balance (deficit) that has not been restricted, committed, or assigned within the Agency's governmental funds. There were no unassigned fund balances as of June 30, 2014.

The Agency has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the policy is to use committed resources first, then assigned. Unassigned amounts are only used after the other resources have been used.

(j) Net Position

For the year ended June 30, 2014, the governmental activities reported net position in the following categories:

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The nonexpendable restricted resources are subject to a requirement they be maintained intact by the Agency indefinitely. The expendable restricted resources represent amounts that can be spent by the Agency, but are restricted by legislation to procure renewable energy resources.

Unrestricted – This consists of net position that does not meet the definition of "restricted."

(k) 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.

(2) Summary of Significant Accounting Policies – Continued

(l) 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 is to improve financial reporting by state and local governmental pensions. The Agency has not yet determined the impact on the Agency's 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 the Agency's 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*, 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.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the Agency's deposits and investments for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer, including cash on hand and cash in transit, totaled $60.016 million at June 30, 2014. These deposits 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. Detail on the nature of these deposits is available within the State of Illinois' Comprehensive Annual Financial Report.

(3) Deposits and Investments – Continued

(b) Investments

The Illinois State Board of Investment, an internal investment pool of the State of Illinois, holds the investments within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75). At June 30, 2014, total investments were $32.622 million.

The Illinois State Board of Investment manages all assets held by them within a single commingled fund. Disclosures pertaining to these investments are included in the financial statements of the Illinois State Board of Investment. A copy of the financial statements of the Illinois State Board of Investment may be obtained by writing to the Illinois State Board of Investment, 180 North LaSalle Street, Suite 2015, Chicago, Illinois, 60601.

(c) Securities Lending Transactions

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 fair value to 100%.

The State Treasurer did not impose any restrictions during Fiscal Year 2014 on the amount of the loans of available or the 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 Fiscal Year 2014, 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. The securities lending collateral invested in repurchase agreements and the securities on loan are reported at fair value.

(3) Deposits and Investments – Continued

(c) Securities Lending Transactions – Continued

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 Agency was $44 thousand at June 30, 2014.

(4) Other Receivables

The balance of Other Receivables on the Statement of Net Position includes amounts owed to the Agency for Alternative Compliance Payments (ACP) and reimbursements from vendors.

Additionally, one supplier has requested an exemption for payment of ACPs under various provisions of the Public Utilities Act, totaling approximately $295 thousand. The ICC is reviewing those requested exceptions and will adjudicate them appropriately. In the opinion of the Agency's management, these exemptions are likely to be granted and thus no accounts receivable is required for this amount.

(5) Accounts Payable and Accrued Liabilities

The balance of the Agency's accounts payable and accrued liabilities includes $497 thousand that the Agency will ultimately have to pay into the State's General Fund. In Fiscal Year 2009, the Agency received appropriations from the General Fund to pay for its operational expenses, subject to a requirement to repay all amounts expended by the Agency during either Fiscal Year 2010 or Fiscal Year 2011. On March 7, 2011, a vendor filed claim against the Agency within the Court of Claims for failure to pay an invoice. The Court of Claims entered an order on November 22, 2011, concluding the vendor's claim was a standard lapsed appropriation claim which should be paid pursuant to a stipulation entered into by the Attorney General.

The Court of Claims paid the vendor for the full amount due from the State's General Fund on June 14, 2012. The Agency must now repay the General Fund for the amount paid by the Court of Claims from its Fiscal Year 2009 lapsed appropriations. As the State law authorizing the repayment expired in Fiscal Year 2011, the Agency did not record this amount as an interfund balance or activity.

The Agency intends to seek a legislative remedy to allow it to repay the full amount due to the State's General Fund from the Illinois Power Agency Operations Fund.

(6) Interfund Balances and Activity

Balances Due from/to Other Funds

The following presents the Agency's interfund balances and activities at June 30, 2014:

The following balances (amounts expressed in thousands) at June 30, 2014, represent amounts due from other Agency funds.

Fund	Due from Other Agency Funds	Description/Purpose
Nonmajor governmental	$ 1,593	Due from other Agency funds for investment income transfers
Total	$ 1,593	

The following balances (amounts expressed in thousands) at June 30, 2014, represent amounts due to other Agency funds.

	Due to		
Fund	Other Agency Funds	Other State Funds	Description/Purpose
Nonmajor governmental:	$ 1,593	$ -	Due from other Agency funds for investment income transfers
Nonmajor governmental:	$ -	$ 3	Due to other State funds for services
Total	$ 1,593	$ 3	

Eliminations have been made in the government-wide Statement of Net Position to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Agency. As a result, amounts reported in the governmental funds balance sheet as interagency interfund due to and due from amounts, totaling $1,593 thousand, were eliminated in the government-wide Statement of Net Position.

(6) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2014, were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Compensated Absences	$ 11	$ 13	$ 15	$ 9	$ -
Total	$ 11	$ 13	$ 15	$ 9	$ -

(7) Pension Plan

Substantially all of the Agency's full-time employees 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.

The Agency pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For Fiscal Year 2014, the employer contribution rate was 40.312%.

(8) Post-employment Benefits

The State 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 post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. 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. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System do not contribute towards health, dental, 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, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

However, Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs will be assessed beginning July 1, 2013.

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 State of 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 benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established is 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.

(9) Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation; and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

The Agency's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Agency; and accordingly, have not been reported in the Agency's financial statements for the year ended June 30, 2014.

(10) Commitments and Contingencies

(a) Operating Leases

The Agency leases various real property and equipment under terms of noncancelable operating lease agreements that require the Agency to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $17 thousand for the year ended June 30, 2014.

(b) Renewable Energy Credits

During Fiscal Year 2013, the Agency entered into contracts with a total value of $2.24 million with seven energy companies, committing to the purchase of Long-Term Renewable Energy Credits (REC) if the energy companies chose to exercise their rights to sell the credits to the Agency by July 20, 2014. In Fiscal Year 2014, two energy companies indicated that they might exercise their rights to sell credits totaling $97 thousand from June, 2013; therefore, $97 thousand was included in Accounts Payable in the Fiscal Year 2013 Statement of Net Position. Those two companies that indicated their intent to sell credits from June, 2013 ultimately did not delivery any credits from June, 2013 to the Agency and the $97 thousand in Accounts Payable has been reversed. Ultimately the only credits delivered from the seven companies were delivered during Fiscal Year 2014. The total value of the credits delivered (and paid for by the Agency) in Fiscal Year 2014 was $1.72 million. The remaining balance on the contracts has expired.

(11) Subsequent Events

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

State of Illinois
Illinois Power Agency
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2014
(Expressed in Thousands)

	Special Revenue		Permanent Trust	
	Illinois Power Agency Operations 0425	**Illinois Power Agency Renewable Energy Resources 0836**	**Illinois Power Agency Trust 0424**	**Total**
Assets				
Cash equity in State Treasury	$ 6,560	$ 52,803	$ 653	$ 60,016
Investments	-	-	32,622	32,622
Securities lending collateral equity of State Treasurer	-	-	44	44
Other receivables, net	214	76,881	-	77,095
Due from other agency funds	1,123	-	470	1,593
Total assets	$ 7,897	$ 129,684	$ 33,789	$ 171,370
Liabilities				
Accounts payable and accrued liabilities	$ 695	$ 1,229	$ -	$ 1,924
Due to other Agency funds	470	-	1,123	1,593
Due to other State funds	3	-	-	3
Obligations under securities lending of State Treasurer	-	-	44	44
Total liabilities	1,168	1,229	1,167	3,564
Deferred Inflows of Resources (DIR)				
Unavailable revenue	49	7,222	-	7,271
Total DIR	49	7,222	-	7,271
Fund Balances				
Nonspendable - endowments and similar funds	-	-	32,622	32,622
Restricted				
Employment and economic development	-	121,233	-	121,233
Committed				
Employment and economic development	6,680	-	-	6,680
Total fund balances	6,680	121,233	32,622	160,535
Total liabilities, DIR, and fund balances	$ 7,897	$ 129,684	$ 33,789	$ 171,370

State of Illinois
Illinois Power Agency
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Year Ended June 30, 2014
(Expressed in Thousands)

	Special Revenue		Permanent Trust	
	Illinois Power Agency Operations 0425	**Illinois Power Agency Renewable Energy Resources 0836**	**Illinois Power Agency Trust 0424**	**Total**
Revenues				
Licenses and fees	$ 1,556	$ -	$ -	$ 1,556
Interest and other investment income	-	-	5,034	5,034
Other revenues	-	77,044	-	77,044
Total revenues	1,556	77,044	5,034	83,634
Expenditures				
Employment and economic development	1,201	1,622	2	2,825
General government	179	-	-	179
Total expenditures	1,380	1,622	2	3,004
Excess (deficiency) of revenues over (under) expenditures	176	75,422	5,032	80,630
Other sources (uses) of financial resources				
Transfers in	915	-	-	915
Transfers out	-	-	(915)	(915)
Net other sources (uses) of financial resources	915	-	(915)	-
Net change in fund balances	1,091	75,422	4,117	80,630
Fund balances, July 1, 2013	5,589	45,811	28,505	79,905
Fund Balances, June 30, 2014	$ 6,680	$ 121,233	$ 32,622	$ 160,535

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
  - Schedule of Appropriations, Expenditures, and Lapsed Balances – Fiscal Year 2014
  - Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
  - Schedule of Changes in State Property
  - Comparative Schedule of Cash Receipts and Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
  - Analysis of Significant Variations in Expenditures
  - Analysis of Significant Variations in Receipts
  - Analysis of Significant Lapse Period Spending
  - Analysis of Accounts Receivable
  - Analysis of Significant Variations in Asset, Liability, and Deferred Inflows of Resources Accounts
  - Analysis of Significant Variations in Revenue and Expenditure Accounts

- Analysis of Operations (Unaudited):
  - Agency Functions and Planning Program (Unaudited)
  - Procurement of Renewable Energy Resources (Unaudited)
  - Average Number of Employees (Unaudited)
  - Service Efforts and Accomplishments (Unaudited)

The auditor's report that covers the Supplementary Information for State Compliance Purposes presented in the Financial Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditor's opinion, it is fairly stated, in all material respects, in relation to the basic financial statements as a whole from which it has been derived. The auditor's report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, the auditors do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

SCHEDULE 1

SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES

Appropriations for Fiscal Year 2014

For the Fourteen Months Ended August 31, 2014

Public Act 98-0050	Appropriations	Expenditures Through June 30, 2014	Lapse Period Expenditures July 1 to August 31, 2014	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
Illinois Power Agency Operations Fund - 425					
Lump Sums - Ordinary and Contingent Expenses of the Illinois Power Agency	$ 2,626,500	$ 1,058,914	$ 180,438	$ 1,239,352	$ 1,387,148
Subtotal, Illinois Power Agency Operations Fund	$ 2,626,500	$ 1,058,914	$ 180,438	$ 1,239,352	$ 1,387,148
Illinois Power Agency Trust Fund - 424					
Lump Sums - For Deposit into the Illinois Power Agency Operations Fund	$ 914,900	$ -	$ 914,900	$ 914,900	$ -
Subtotal, Illinois Power Agency Trust Fund	$ 914,900	$ -	$ 914,900	$ 914,900	$ -
Illinois Power Agency Renewable Energy Resources Fund - 836					
Lump Sums - Purchase of Renewable Energy or Renewable Energy Credits	$ 51,000,000	$ 490,202	$ 1,228,940	$ 1,719,142	$ 49,280,858
Subtotal, Illinois Power Agency Renewable Energy Resources Fund	$ 51,000,000	$ 490,202	$ 1,228,940	$ 1,719,142	$ 49,280,858
TOTAL - ALL APPROPRIATED FUNDS	$ 54,541,400	$ 1,549,116	$ 2,324,278	$ 3,873,394	$ 50,668,006

Note 1: The data in this schedule was taken from the State Comptroller's records and reconciled to the Agency's records.
Note 2: Expenditure amounts are vouchers approved for payment by the Agency and submitted to the State Comptroller for payment to the vendor.

STATE OF ILLINOIS **SCHEDULE 2**
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
For the Fiscal Year Ended June 30,

	Fiscal Year	
	2014	2013
	P.A. 98-0050	P.A. 97-0731
Illinois Power Agency Operations Fund - 425		
Appropriations	$ 2,626,500	$ 3,913,500
Expenditures		
Lump Sums - Ordinary and Contingent Expenses of the Illinois Power Agency	$ 1,239,352	$ 1,069,832
Total Illinois Power Agency Operations Fund Expenditures	$ 1,239,352	$ 1,069,832
Lapsed Balances	$ 1,387,148	$ 2,843,668
Illinois Power Agency Trust Fund - 424		
Appropriations	$ 914,900	$ 300,000
Expenditures		
Lump Sums - For Deposit into the Illinois Power Agency Operations Fund	$ 914,900	$ 36,324
Total Illinois Power Agency Trust Fund Expenditures	$ 914,900	$ 36,324
Lapsed Balances	$ -	$ 263,676
Illinois Power Agency Renewable Energy Resources Fund - 836		
Appropriations	$ 51,000,000	$ 8,000,000
Expenditures		
Lump Sums - Purchase of Renewable Energy or Renewable Energy Credits	$ 1,719,142	$ -
Total Illinois Power Agency Renewable Energy Resource Fund Expenditures	$ 1,719,142	$ -
Lapsed Balances	$ 49,280,858	$ 8,000,000

STATE OF ILLINOIS **SCHEDULE 2**

ILLINOIS POWER AGENCY

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES

For the Fiscal Year Ended June 30,

	Fiscal Year	
	2014	2013
GRAND TOTAL - ALL FUNDS		
Total Appropriations	$ 54,541,400	$ 12,213,500
Total Appropriated Expenditures	$ 3,873,394	$ 1,106,156
Lapsed Balances	$ 50,668,006	$ 11,107,344
STATE OFFICERS' SALARIES		
Illinois Power Agency Operations Fund - 425 (State Comptroller)		
Appropriations `	$ 103,800	$ 103,800
Expenditures		
Payroll for the Director of the Illinois Power Agency	$ 103,800	$ 103,966
Total Illinois Power Agency Operations Fund Expenditures	$ 103,800	$ 103,966
Lapsed Balances	$ -	$ (166)

Note 1: The data in this schedule was taken from the State Comptroller's records and reconciled to the Agency's records.

Note 2: Expenditure amounts are vouchers approved for payment by the Agency and submitted to the State Comptroller for payment to the vendor.

Note 3: During Fiscal Year 2013, the Agency's Director was paid by the State Comptroller from the General Revenue Fund; therefore, it was not audited in relation to the Agency's financial statements for the Fiscal Year Ended June 30, 2013.

STATE OF ILLINOIS **SCHEDULE 3**
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2014

		Equipment
Balance at July 1, 2013	$	11,190
Additions		1,294
Deletions		-
Net Transfers		-
Balance at June 30, 2014	$	12,484

Note 1: This schedule was derived from the Illinois Power Agency's records, which were reconciled to property reports submitted to the Office of the State Comptroller.

Note 2: The Illinois Power Agency has 22 property items at June 30, 2014, with no recorded value (see Finding 2014-006).

Note 3: The Illinois Power Agency transferred 19 property items to the Department of Central Management Services with no recorded value during the year ended June 30, 2014 (see Finding 2014-006).

COMPARATIVE SCHEDULE OF CASH RECEIPTS AND RECONCILIATION OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

For the Fiscal Year Ended June 30,

	Fiscal Year 2014	Fiscal Year 2013
Illinois Power Agency Operations Fund - 425		
Procurement Operations	$ 1,483,329	$ 2,437,036
Total Receipts - Fund 425	$ 1,483,329	$ 2,437,036
Receipts, per Agency Records	$ 1,483,329	$ 2,437,036
Add: Deposits in Transit, Beginning of the Fiscal Year	4,499	1,165,003
Subtract: Deposits in Transit, End of the Fiscal Year	-	4,499
Deposits, Recorded by the State Comptroller	$ 1,487,828	$ 3,597,540
Illinois Power Agency Trust Fund - 424		
Generating Companies	$ 655,333	$ -
Total Receipts - Fund 424	$ 655,333	$ -
Receipts, per Agency Records	$ 655,333	$ -
Add: Deposits in Transit, Beginning of the Fiscal Year	-	-
Subtract: Deposits in Transit, End of the Fiscal Year	-	-
Deposits, Recorded by the State Comptroller	$ 655,333	$ -

Note: The Agency's receipts within the Illinois Power Agency Trust Fund were derived from transfers of interest and investment income from the Agency's investments held at the Illinois State Board of Investment, which were earned off assets initially contributed by the generating companies in Fiscal Year 2008.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2014 AND 2013

Illinois Power Agency Trust Fund - 424

For Deposit into the Illinois Power Agency Operations Fund

During Fiscal Year 2014, the General Assembly increased the potential amount for transfer from the interest and investment income of the Illinois Power Agency Trust Fund to $914.9 thousand from $300 thousand under the State Finance Act (30 ILCS 105/6z-75). During Fiscal Year 2014, the interest and investment income was $5.034 million, allowing the Agency to transfer the entire amount appropriated from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund.

Illinois Power Agency Renewable Energy Resources Fund - 836

Purchase of Renewable Energy or Renewable Energy Credits

During Fiscal Year 2014, the Agency took delivery of the first renewable energy credits paid for by the Illinois Power Agency Renewable Energy Resources Fund from the Energy Year Ended May 31, 2014. Previously, the Agency had not been able to purchase any renewable energy or renewable energy credits.

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Year Ended June 30, 2014

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2014 AND 2013

Illinois Power Agency Trust Fund - 424

Generating Companies
The Agency's cash deposits charged to this receipt source were not derived from generating companies; rather, these receipts represent transfers of interest and investment income from the Agency's investments held at the Illinois State Board of Investment.

The increase was due to two reasons. First, Fiscal Year 2014 was the first year where the Agency deposited all interest and investment income from its investments held at the Illinois State Board of Investment into the Illinois Power Agency Trust Fund as required by State law. After deposit, these moneys are transferred to either the Illinois Power Agency Operations Fund as provided for in the State Finance Act (30 ILCS 105/6z-75) or to the Audit Expense Fund as provided for in the State Finance Act (30 ILCS 105/6z-27). Second, the General Assembly increased the potential amount for transfer from the interest and investment income of the Illinois Power Agency Trust Fund to $914.9 thousand from $300 thousand under the State Finance Act (30 ILCS 105/6z-75). During Fiscal Year 2014, the interest and investment income was $5.034 million, allowing the Agency to transfer the entire amount appropriated from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund. However, the actual deposits into the fund from the Illinois State Board of Investment were reduced by the net effect of prior year errors. These errors were corrected by the Agency and State Comptroller during the State's Lapse Period on July 17, 2014.

Illinois Power Agency Operations Fund - 425

Procurement Operations
The Agency's Procurement Operations Fees include fees recovered from bidders and suppliers in the Agency's procurement events, fees assessed to each affected utility to recover the costs incurred in preparation of the annual procurement plan, and fees assessed to the utilities for overhead expenses to the extent not recovered by the transfer of funds from the interest and investment income of the Illinois Power Agency Trust Fund.

The variation between Fiscal Year 2013 and Fiscal Year 2014 receipts reflects (1) lower procurement planning expenses that were recovered from the utilities in Fiscal Year 2014; (2) lower recoveries of overhead expenses from the utilities in Fiscal Year 2014 (rather, the Agency's overhead expenses were offset by higher transfers from the Illinois Power Agency Trust Fund); (3) there were no procurement events in Fiscal Year 2013 so no supplier fees were charged or collected; and, (4) Fiscal Year 2013 receipts reflect receipt of certain supplier fees from procurements that occurred in Fiscal Year 2012.

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the Year Ended June 30, 2014

FISCAL YEAR 2014

Illinois Power Agency Trust Fund - 424

For Deposit into the Illinois Power Agency Operations Fund
As this transfer must be calculated using interest and investment income earned during the fiscal year, the Agency does not have a complete understanding of the amount available for transfer until either the very end of the fiscal year or after the fiscal year has ended. During Fiscal Year 2014, the Agency performed the transfer during the State's Lapse Period.

Illinois Power Agency Renewable Energy Resources Fund - 836

Purchase of Renewable Energy or Renewable Energy Credits
During Fiscal Year 2014, the Agency took delivery of the first renewable energy credits paid for by the Illinois Power Agency Renewable Energy Resources Fund from the Energy Year Ended May 31, 2014. The Agency's contracts allowed vendors to submit invoices for payment up to and including July 20, 2014. As such, some vendors presented their invoices during the State's Lapse Period.

STATE OF ILLINOIS **SCHEDULE 8**
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Fiscal Year Ended June 30,

	Fiscal Year	
Illinois Power Agency Operations Fund - 425	2014	2013
NOT IN PROTEST (in thousands)		
Receivables Not Past Due	$ 214	$ 1,004
1 - 90 Days	-	23
91 - 180 Days	-	-
181 Days - 1 Year	-	58
1 Year <= 2 Years	-	-
2 Years <= 3 Years	-	-
3 Years <= 4 Years	-	-
4 Years <= 5 Years	-	-
5 Years <= 10 Years	-	-
> 10 Years	-	-
Gross Receivables - Fund 425	$ 214	$ 1,085
Less: Allowance for Doubtful Accounts	-	-
Net Receivables - Fund 425	$ 214	$ 1,085

These amounts represent both billed receivables and accrued fees earned by the Agency from amounts charged to third parties for energy procurement planning and administration and administrative costs related to the purchase of Renewable Energy Credits.

In addition to collecting fees, the Agency is responsible for the financial reporting of Alternative Compliance Payments (ACPs). At the conclusion of each Energy Year (June through May), each Alternative Retail Electric Supplier calculates its liability by preparing a spreadsheet to self-report amounts due to the Illinois Commerce Commission (Commission) and remits the calculated amount due by September 1. During Fiscal Year 2014, the processing of all ACPs was administered by the Commission. The Commission accepted payments, verified the payment's accuracy to the self-reported spreadsheet, and deposited the cash receipts into the Illinois Power Agency Renewable Energy Resources Fund. The Agency reported accounts receivable of $76.881 million at June 30, 2014, and $38.382 million at June 30, 2013, for ACPs.

STATE OF ILLINOIS **SCHEDULE 9**
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET, LIABILITY, AND DEFERRED INFLOWS OF RESOURCES ACCOUNTS
For the Year Ended June 30,
(Expressed in Thousands)

	Fiscal Year			
	2014	2013	Dollar Change	Percentage Change
Illinois Power Agency Operations Fund - 425				
Assets				
Cash equity in State Treasury	$ 6,560	$ 6,422	$ 138	2%
Other receivables, net	214	1,085	(871)	-80%
Due from other Agency funds	1,123	300	823	274%
Liabilities				
Accounts payable and accrued liabilities	$ 695	$ 660	$ 35	5%
Due to other Agency funds	470	470	-	0%
Due to other State funds	3	3	-	0%
Deferred Inflows of Resources				
Unavailable Revenue	$ 49	$ 1,085	$ (1,036)	-95%
Illinois Power Agency Trust Fund - 424				
Assets				
Cash equity in State Treasury	$ 653	$ -	$ 653	100%
Securities lending collateral of State Treasurer	44	-	44	100%
Investments	32,622	28,335	4,287	15%
Due from other Agency funds	470	470	-	0%
Liabilities				
Due to other Agency funds	$ 1,123	$ 300	$ 823	274%
Obligations of securities lending of State Treasurer	44	-	44	100%

Note 1: Agency management’s explanations for the significant variations noted above are described on pages 84-85.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

SCHEDULE 9

ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET, LIABILITY, AND DEFERRED INFLOWS OF RESOURCES ACCOUNTS

For the Year Ended June 30,
(Expressed in Thousands)

	Fiscal Year			
	2014	2013	Dollar Change	Percentage Change
Illinois Power Agency Renewable Energy Resources Fund - 836				
<u>Assets</u>				
Cash equity in State Treasury	$ 52,803	$ 14,911	$ 37,892	254%
Other receivables, net	76,881	38,382	38,499	100%
<u>Liabilities</u>				
Accounts payable and accrued liabilities	$ 1,229	$ 97	$ 1,132	1167%
<u>Deferred Inflows of Resources</u>				
Unavailable Revenue	$ 7,222	$ 7,385	$ (163)	-2%

Note 1: Agency management's explanations for the significant variations noted above are described on pages 84-85.

ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET, LIABILITY, AND DEFERRED INFLOWS OF RESOURCES ACCOUNTS
For the Year Ended June 30, 2014

ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET, LIABILITY, AND DEFERRED INFLOWS OF RESOURCES ACCOUNTS BETWEEN FISCAL YEARS 2014 AND 2013

Illinois Power Agency Operations Fund - 425

Other receivables, net
The net decrease of approximately $871 thousand was due to an $848 thousand decrease in the Agency's reimbursement costs and the collection of $23 thousand of service fee accounts receivable from Fiscal Year 2013.

Due from other Agency funds
The net increase of approximately $823 thousand was due to the collection of $92 thousand from the Illinois Power Agency Trust Fund and an increase of $915 thousand from the accounting for an interfund cash transfer that will be paid in Fiscal Year 2015 from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund.

Unavailable revenue
The net decrease of approximately $1.0 million was due to net decrease of approximately $871 thousand in other receivables from Fiscal Year 2013 to Fiscal Year 2014 and the timing of the collection of the other receivables. A larger amount of receivables were collected before the end of the Lapse Period than the previous year.

Illinois Power Agency Trust Fund - 424

Cash Equity in State Treasury
The increase of approximately $653 thousand was due to the transfer of investment income from the Illinois State Board of Investment to the Illinois Power Agency Trust Fund was paid in Fiscal Year 2015 during the Fiscal Year 2014 Lapse Period from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund.

Securities lending collateral of State Treasurer
The increase of approximately $44 thousand was because the State Treasurer lent approximately $44 thousand in securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. In Fiscal Year 2013, there were no outstanding agreements.

Investments
The net increase of approximately $4.287 million in Investments from Fiscal Year 2013 to Fiscal Year 2014 is due to net investment income of $5.035 million and withdrawals of $748 thousand by the Agency from the Illinois State Board of Investment.

ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSET, LIABILITY, AND DEFERRED INFLOWS OF RESOURCES ACCOUNTS BETWEEN FISCAL YEARS 2014 AND 2013 (continued)

Illinois Power Agency Trust Fund - 424 (continued)

Due to other Agency funds
The net increase of approximately $823 thousand was due to the payment of $92 thousand to the Illinois Power Agency Operations Fund and an increase of $915 thousand from the accounting for an interfund cash transfer that will be paid in Fiscal Year 2015 from the Illinois Power Agency Trust Fund to the Illinois Power Agency Operations Fund.

Obligations of securities lending of State Treasurer
The increase of approximately $44 thousand was because State Treasurer lent approximately $44 thousand in securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. In Fiscal Year 2013, there were no outstanding agreements.

Illinois Power Agency Renewable Energy Resources Fund - 836

Cash Equity in State Treasury
The net increase of approximately $37.9 million was due to the collection of $38.4 million in Alternative Compliance Payments outstanding at the end of Fiscal Year 2013 and the payment of $490 thousand for Renewable Energy Credits prior to the end of Fiscal Year 2014.

Other receivables, net
The net increase of approximately $38.5 million was due to an increase in accounts receivable from Alternative Compliance Payments of $76.9 million during Fiscal Year 2014 and a decrease of $38.4 million from the collection of outstanding receivables at the end of Fiscal Year 2013.

Accounts payable and accrued liabilities
The net increase of approximately $1.1 million was due to an increase of $1.2 million in Renewable Energy Credits payable during Fiscal Year 2014 and a decrease of $0.1 million in Renewable Energy Credits paid during Fiscal Year 2014 that were outstanding at the end of Fiscal Year 2013.

Unavailable revenue
The net decrease of approximately $163 thousand was due to the timing of the collection of Alternative Compliance Payments. A larger amount of accounts receivable were collected by the Illinois Commerce Commission before the end of the Lapse Period than the previous year.

STATE OF ILLINOIS **SCHEDULE 10**
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
ANALYSIS OF SIGNIFICANT VARIATIONS
IN REVENUE AND EXPENDITURE ACCOUNTS
For the Year Ended June 30,
(Expressed in Thousands)

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Percentage Change
Illinois Power Agency Operations Fund - 425				
Revenues				
Licenses and fees	$ 1,556	$ 726	$ 830	114%
Expenditures				
Employment and economic development	$ 1,201	$ 1,264	$ (63)	-5%
General government	179	-	179	100%
Other sources and uses of financial resources				
Transfers in	$ 915	$ 300	$ 615	205%
Illinois Power Agency Trust Fund - 424				
Revenues				
Interest and other investment income	$ 5,034	$ 3,435	$ 1,599	47%
Expenditures				
Employment and economic development	$ 2	$ (5)	$ 7	-140%
Other sources and uses of financial resources				
Transfers out	$ 915	$ 300	$ 615	205%
Illinois Power Agency Renewable Energy Resources Fund - 836				
Revenues				
Other revenues	$ 77,044	$ 31,349	$ 45,695	146%
Expenditures				
Employment and economic development	$ 1,622	$ 97	$ 1,525	1572%

Note 1: Agency management’s explanations for the significant variations noted above are described on pages 87-88.

ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUE AND EXPENDITURE ACCOUNTS BETWEEN FISCAL YEARS 2014 AND 2013

Illinois Power Agency Operations Fund - 425

Licenses and fees

In Fiscal Year 2014, licenses and fees revenue increased approximately $830 thousand from Fiscal Year 2013. Program reimbursement revenue increased approximately $860 thousand, mainly due to Fiscal Year 2013 unavailable program reimbursement revenue being recognized in Fiscal Year 2014. Additionally, there was also a decrease of approximately $30 thousand in supplier fee revenue from the prior fiscal year.

Employment and economic development

In Fiscal Year 2014, employment and economic development expenditures increased approximately $116 thousand from Fiscal Year 2013. There was an increase in salaries and related benefits of approximately $119 thousand due to the Agency increasing its head count by two. In addition, there was a decrease in fees (audit/legal/management) of approximately $182 thousand from the prior fiscal year as more functions were performed by the Agency's employees.

General government

In Fiscal Year 2014, general government expenditures increased by approximately $179 thousand from Fiscal Year 2013 because the State Comptroller began paying the Director's salary and benefits from the Illinois Power Agency Operations Fund, as opposed to the General Revenue Fund, in Fiscal Year 2014.

Transfers in

In Fiscal Year 2014, transfers in increased approximately $615 thousand from Fiscal Year 2013. For Fiscal Year 2014, the General Assembly appropriated $915 thousand for interfund cash transfer to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund. For Fiscal Year 2013, the General Assembly appropriated $300 thousand for interfund cash transfer to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund.

Illinois Power Agency Trust Fund - 424

Interest and other investment income

In Fiscal Year 2014, interest and other investment income increased approximately $1.6 million from Fiscal Year 2013. The increase in investment income of approximately $1.6 million in Fiscal Year 2014 represents an increased return due to positive market conditions from the investments managed by the Illinois State Board of Investment.

ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUE AND EXPENDITURE ACCOUNTS BETWEEN FISCAL YEARS 2014 AND 2013 (continued)

Illinois Power Agency Trust Fund - 424 (continued)

Transfers out
In Fiscal Year 2014, transfers out increased approximately $615 thousand from Fiscal Year 2013. For Fiscal Year 2014, the General Assembly appropriated $915 thousand for interfund cash transfer to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund. For Fiscal Year 2013, the General Assembly appropriated $300 thousand for interfund cash transfer to the Illinois Power Agency Operations Fund from the Illinois Power Agency Trust Fund.

Illinois Power Agency Renewable Energy Resources Fund - 836

Other revenues
In Fiscal Year 2014, other revenues increased approximately $45.7 million from Fiscal Year 2013. This was due to an increase in revenue from Alternative Compliance Payments (ACPs). ACPs are collected from Alternative Retail Electric Suppliers as part of their compliance obligations for the Renewable Portfolio Standard on a charge per megawatt hour of energy delivered to their customers. The charge rate increased between Fiscal Year 2013 and Fiscal Year 2014 and the total number of megawatt hours sold by the Alternative Retail Electric Suppliers increased significantly.

Employment and economic development
In Fiscal Year 2014, employment and economic development expenditures increased approximately $1.5 million. This was due to the Agency accepting delivery of, and paying for, Renewable Energy Credits contracted for delivery during the Energy Year Ended May 31, 2014.

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Year Ended June 30, 2014

(UNAUDITED)

Agency Functions

The Illinois Power Agency (Agency) was established in Fiscal Year 2008 by the Illinois Power Agency Act (20 ILCS 3855).

The Agency's mission is to (a) develop procurement plans to ensure adequate, reliable, affordable, efficient and environmentally sustainable electric service at the lowest cost over time; (b) conduct competitive procurement processes to procure the supply resources identified in the procurement plan; (c) develop electric generation and co-generation facilities that use indigenous coal or renewable resources, or both, financed with bonds issued by the Illinois Finance Authority; and, (d) supply electricity from the Agency’s facilities at cost to one or more of the following: municipal electric systems, governmental aggregators, or rural electric cooperatives in the State of Illinois.

During Fiscal Year 2014, the Agency developed a Procurement Plan, which was approved by the Illinois Commerce Commission (Commission) in December 2013. The Agency held an electricity procurement event in April 2014 in accordance with the approved Procurement Plan. The results of that procurement were approved by the Commission. There were no renewable resource procurements in Fiscal Year 2014. For the procurement event, bidder participation fees were assessed, as determined by the Agency. In addition, successful bidders were assessed supplier fees, which were determined by a formula based upon the volume awarded to each winning bidder and a unit price. The unit price was determined by the Procurement Administrators in collaboration with the Agency and is designed to recoup the costs of conducting the Procurement Event, including the amount paid by the Agency to the Procurement Administrators. All bidder and supplier fees were paid. The results of all previous procurement events are available on the Agency’s website.

Additionally, during Fiscal Year 2014 the Agency received Alternative Compliance Payments (ACPs). By law, all alternative retail energy suppliers (ARES) are required to produce or procure a certain amount of renewable energy resources in order to meet Renewable Portfolio Standard (RPS) targets. ARES can meet their obligations by either producing or purchasing energy from renewable sources or making ACPs.

At least 50% of an ARES' base RPS compliance must come from making ACP payments. The compliance period for energy suppliers is June 1 to May 31. At the end of each compliance period, each ARES must produce a report documenting its retail sales for the compliance period. The report is used to calculate the amount due. The report and payment are submitted to the Commission, which then deposits the payment into the Illinois Power Agency Renewable Energy Resources Fund maintained by the Agency. All ACPs are due September 1st.

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Year Ended June 30, 2014

(UNAUDITED)

The Director is responsible for all functions of the Illinois Power Agency and completion of the statutory and contractually assigned duties and responsibilities of the Agency. The Agency maintains an office at 160 N. LaSalle, Suite C-504, Chicago, Illinois, 60601.

The Illinois Power Agency Act (20 ILCS 3855/1-70) required the Agency to establish a Planning and Procurement Bureau and a Resource Development Bureau; however, the Resource Development Bureau has not been established.

Planning Program

While the Agency does not have a formal planning program, the Agency's goals are spelled out in various provisions of the Illinois Power Agency Act. Those provisions effectively comprise the Agency's annual formal planning program, and are considered and implemented through the process of the developing and receiving approval of the annual procurement plan and the subsequent procurement events conducted by the Agency. The Agency also conducts a monthly review of its financial condition and results of operations among its staff. The Director and Chief Financial Officer work collaboratively to ensure the accuracy and transparency of all Agency financial information.

Additionally, the Agency's planning activities are further supplemented by the Director's frequent consultation with members of the executive management team, outside consultants, and a monthly all-staff meeting, where the Agency's current activities, immediate and pending needs, and future plans are reviewed and discussed. As a small Agency, staff members meet regularly on a daily basis to collaboratively discuss the administration of duties, deadlines, schedules, and progress towards goals.

PROCUREMENT OF RENEWABLE ENERGY RESOURCES

For the Year Ended June 30, 2014

(UNAUDITED)

Overall Procurement Process

The Illinois Power Agency (Agency) has two distinct procurement requirements for renewable energy resources. The first requirement is to procure energy for retail customers of ComEd and Ameren using moneys from ratepayer funds, which is overseen by the Illinois Commerce Commission (Commission). During Fiscal Year 2014, the Procurement Plan developed by the Agency during Calendar Year 2013 was approved by the Commission on December 18, 2013. This plan, known as the 2014 Procurement Plan, served as the guide for the Agency's 2014 Procurement Events.

The second requirement is to procure renewable energy resources using moneys paid into the Illinois Power Agency Renewable Energy Resources Fund (RERF) from the customers of Alternative Retail Electric Suppliers (ARES). These moneys are collected by the Commission on the Agency's behalf from the ARES through annual Alternative Compliance Payments (ACPs). The Commission does not regulate or oversee the procurement of renewable energy resources from the RERF, which is under the control of the Agency. All Renewable Energy Credits (RECs) procured using the RERF do not count towards ComEd, Ameren, or the ARES' purchases of renewable energy.

Renewable Energy Procured for ComEd and Ameren

Section 1-75 of the Illinois Power Agency Act (20 ILCS 3855) contains provisions related to the content of the annual procurement plan developed by the Agency, including provisions related to the procurement of renewable energy resources on behalf of utilities. In particular, Section 1-75(c)(1) reads in part:

> The procurement plans shall include cost-effective renewable energy resources. A minimum percentage of each utility's total supply to serve the load of eligible retail customers, as defined in Section 16-111.5(a) of the Public Utilities Act, procured for each of the following years shall be generated from cost-effective renewable energy resources: ... at least 9% by June 1, 2014; at least 10% by June 1, 2015; and increasing by at least 1.5% each year thereafter to at least 25% by June 1, 2025. To the extent that it is available, at least 75% of the renewable energy resources used to meet these standards shall come from wind generation and, beginning on June 1, 2011, at least the following percentages of the renewable energy resources used to meet these standards shall come from photovoltaics on the following schedule: ... 3% by June 1, 2014; and 6% by June 1, 2015 and thereafter. Of the renewable energy resources procured pursuant to this Section, at least the following percentages shall come from distributed renewable energy generation devices: ... 0.75% by June 1, 2014, and 1% by June 1, 2015 and thereafter.

(UNAUDITED)

In developing the 2014 Procurement Plan, the Agency concluded it would not include proposals for the additional procurement of renewable resources beyond what had been procured by the Agency as part of prior procurement plans. These prior procurements, primarily the 20-year long-term power purchase agreements (LTPPAs) for wind and photovoltaic (solar) resources entered into following the 2010 Procurement Event, were expected to continue to provide RECs for the utilities to count toward each subsequent Energy Year's (June 1 - May 31) obligations. The prices to be paid for these RECs at delivery were established in the prior procurement events.

The chart below translates the percentage-based procurement obligations referenced in Section 1-75(c)(1) into RECs for the 2014-2015 Energy Year. As shown in the chart (based on the 2014 Procurement Plan), the prior procurements conducted by the Agency resulted in procurements sufficient to meet the wind-specific targets referenced in Section 1-75(c)(1), but not the solar or distributed generation targets. These legacy procurement totals were sufficient to meet the "total renewables" target (the overall "minimum percentage . . . [that] shall be generated from cost-effective renewable resources" used at the start of Section 1-75(c)(1) above) for Ameren, but were not sufficient to meet ComEd's overall target.

	Wind	Solar	Distributed Generation	Total Renewables
Ameren				
Purchased (MWh)	949,672	8,694	0	1,025,366
Target (MWh)	711,773	28,471	7,118	949,030
Surplus or (Shortage)	237,899	(19,777)	(7,118)	76,336
ComEd				
Purchased (MWh)	1,809,000	29,394	0	1,885,302
Target (MWh)	1,501,309	60,053	15,014	2,001,744
Surplus or (Shortage)	307,691	(30,659)	(15,014)	(116,442)

The reason for the Agency's decision not to procure additional renewable energy resources to meet the required minimums for ComEd and Ameren was the rate cap in Section 1-75(c)(2)(E) of the Illinois Power Agency Act. This section requires:

> [T]he amount of renewable energy resources procured pursuant to the procurement plan for any single year shall be reduced by an amount necessary to limit the estimated average net increase due to the cost of these resources included in the amounts paid by eligible retail customers in connection with electric service to no more than the greater of 2.015% of the amount paid per kilowatthour by those customers during the year ending May 31, 2007 or the incremental amount per kilowatthour paid for these resources in 2011.

(UNAUDITED)

The 2014 Procurement Plan listed the calculated budgets available to procure new renewable energy resources given the limitations imposed by Section 1-75(c)(2)(E)'s rate impact cap. As payments required to fulfill these long-term obligations count against that Energy Year's available budget, the chart below describes how each utility's cost of RECs already under contract for purchase was expected to exceed the maximum allowable budget under Section 1-75(c)(2)(E).

Utility	Contractual RECs Cost	RPS Budget	Required Reduction
Ameren	$ 9,167,145	$ 8,547,742	$ 619,403
ComEd	$ 24,272,678	$ 19,716,565	$ 4,556,113

As demonstrated in the second and third columns above, for both ComEd and Ameren, renewable energy resources already under contract exceeded the available budget given Section 1-75(c)(2)(E)'s rate impact cap constraint. Indeed, as demonstrated in the fourth column above, the existing contracts—specifically, the long-term power purchase agreements (LTPPAs), mentioned above and discussed further below—needed to be curtailed (reduced) to remain under Section 1-75(c)(2)(E)'s budget cap requirement. As sufficient budget space was unavailable to meet even existing obligations, it was not possible for the Agency to procure additional resources to meet the requirements of Section 1-75(c)(1) without violating the requirements of Section 1-75(c)(2)(E).

The underlying cause of this mismatch is the rapidly changing competitive retail electric market within the State of Illinois. In its 2010 Procurement Plan, the Agency proposed and the Commission approved a plan for long-term renewable resource procurement. This procurement was for 20-year contracts between the suppliers of the renewable resources and the utilities, known as LTPPAs. Those contracts were unique among the Agency's renewable energy procurements to date in that they were designed to incentivize the development of new resources and were for the purchase of both RECs (like other renewable energy procurements conducted by the Agency) and the associated electricity. This plan was developed as the Waxman-Markey bill to address weather climate change was progressing through Congress (the bill had passed the U.S. House in June 2009) and a federal cap and trade program for carbon dioxide seemed likely. According to Agency officials, a major commitment by the State of Illinois for wind resources would have been beneficial to the State in meeting both the State's Renewable Portfolio Standard and the goals of the Waxman-Markey bill. While that bill ultimately died in June 2010 well after the Commission's approval of the 2010 Procurement Plan, this context is crucial to understanding why the Agency proposed and the Commission approved, such a significant commitment to long-term renewable resources that emphasized the development of new resources while also providing a price hedge for power through the use of resources that have no fuel cost.

(UNAUDITED)

Similarly, at the time of the development of the 2010 Procurement Plan, retail competition for electricity for residential and small business customers was barely existent. At the time of the development of the 2010 Procurement Plan, the 2010 Procurement Plan's long-term procurement of renewable resources would have only met about 3.5% of the future load forecast for ComEd in Energy Year 2012-2013 (as compared to that year's target of 7%). But within only a few years, the retail environment changed dramatically through the rapid adoption of customer switching, largely through municipal aggregation programs. By late 2013, nearly 70% of residential customers were receiving electric service from an ARES. As the Agency procures renewable resources on behalf of utilities to meet percentages of "eligible retail customer" (i.e., utility customers, not the customers of ARES) load, the shrinking utility load resulted in both shrinking quantities of RECs necessary to meet the load percentage-based targets expressed in Section 1-75(c)(1) and the available budget to purchase these resources.

As a result of increased customer switching, the 2010 LTPPAs served a much larger portion of the load than had been anticipated. Those commitments alone fully satisfied the overall targets of the State's Renewable Portfolio Standard. In fact, for the 2013 Procurement Plan and the 2014 Procurement Plan, provisions of the long-term contracts that allowed for the curtailment of the delivery volumes were invoked for ComEd in order to keep total spending on renewable energy resources below the cost cap of Section 1-75(c)(2)(E).

In 2011, new provisions were added to the State's Renewable Portfolio Standard by adding the requirements for the procurement of RECs from distributed generation systems starting in Energy Year 2013-2014. However, due to the rate cap described above, it was not possible for the Agency to procure any additional renewable resources while maintaining consistency with Section 1-75(c)(2)(E)'s rate impact cap—including RECs from distributed generation facilities. As funds for procurement of those resources were not available, the Agency could not procure distributed generation resources.

<u>Future Renewable Energy Procurement Plans for ComEd and Ameren</u>

Due to the ongoing evolution of the retail electricity markets and the decline in participation in municipal aggregation, the 2015 Procurement Plan developed for implementation during Calendar Year 2015 indicates that there are now funds available in the renewable resources budget for both Ameren and ComEd. As a result, the Agency proposed and the Commission approved procurements of solar resources scheduled for April 2015 and distributed generation resources scheduled for September 2015.

(UNAUDITED)

Renewable Energy Procured from the Illinois Power Agency Renewable Energy Resources Fund

The RERF is intended to be used by the Agency to purchase additional renewable energy resources above and beyond those it procures for the utilities. The resources procured using RERF funds do not count toward the ARES or the utilities' Section 1-75(c)(1) procurement targets for renewable resources, including the targets for the procurement of wind, solar, and distributed generation. As the portion of the load served by ARES as well as the State's Renewable Portfolio Standard percentage goals has increased, the resources available within the RERF have also increased.

The following chart summarizes the RERF's available cash balance over time:

Date	Transaction	Amount	Available Cash Balance
Fall 2010	ACPs Received	$ 7,148,262	$ 7,148,262
September 2010	Transfer Out*	(2,000,000)	5,148,262
October 2010	Transfer Out*	(4,710,000)	438,262
Fall 2011	ACPs Received	5,606,245	6,044,507
March 2012	Transfer In*	2,000,000	8,044,507
April 2012	Transfer In*	4,710,000	12,754,507
Fall 2012	ACPs Received	2,156,778	14,911,285
Fall 2013	ACPs Received	38,382,346	53,293,631
2013-2014^	Curtailed RECs Purchase	(1,719,142)	51,574,489
Fall 2014	ACPs Received**	77,037,128	128,611,617

*pursuant to the State Finance Act (30 ILCS 105/5h(a))
**net of overpayments applied to future periods
^Energy Year 2013-2014

It is important to note that in 2010 the General Assembly borrowed nearly the entire balance of the fund and later repaid it. This prevented the Agency from using the RERF in 2011 or 2012 when renewable energy procurements were last held because the low available balance precluded the cost-effective acquisition of resources. Once the funds were repaid, a new challenge to the use of the fund by the IPA emerged. Section 1-56(c) reads:

> The Agency shall procure renewable energy resources at least once each year in conjunction with a procurement event for electric utilities required to comply with Section 1-75 of the Act and shall, whenever possible, enter into long-term contracts on an annual basis for a portion of the incremental requirement for the given procurement year.

(UNAUDITED)

As described above, because of the rate caps imposed on the utility renewable energy resources budget, no procurement of renewable energy resources for the utilities was conducted during 2013 or 2014. As a result, there was no utility procurement event to be held "in conjunction with" the use of funds from the RERF. This was further exacerbated by subsection (d), which reads:

> The price paid to procure renewable energy credits using monies from the Illinois Power Agency Renewable Energy Resources Fund shall not exceed the winning bid prices paid for like resources procured for electric utilities required to comply with Section 1-75 of this Act.

The lack of a procurement event for the utilities meant that there were no "like resources" to use to compare prices—which is an essential aspect of the use of the RERF, as it ensures that the money is not spent imprudently. As a result of these two provisions, the Agency has not been able to spend funds from the RERF other than for a limited purchase of RECs from long-term contracts curtailed by ComEd, as described above.

As of June 30, 2014, the Agency had $128.455 million in restricted expendable net position within the RERF. Agency officials anticipate this balance to continue to grow when the ARES remit additional moneys collected from consumers on September 1, 2015.

Future Renewable Energy Procurement Plans

According to Agency officials, the Agency has a limited ability to use the growing available cash balance to "procure renewable energy resources" from the RERF as required by Section 1-56(b) of the Illinois Power Agency Act. The Agency was authorized by Public Act 098-0672 to use up to $30 million of the RERF through the development and implementation of a supplemental solar procurement plan. That plan was approved by the Commission on January 21, 2015, and the Agency expects the first procurement event under Public Act 098-0672 to occur in June 2015.

Further, the 2015 Procurement Plan developed for implementation during Calendar Year 2015 indicates that there are now funds available in the renewable resources budget for both Ameren and ComEd. As a result, the Agency proposed and the Commission approved procurements of photovoltaic (solar) resources scheduled for April 2015 and distributed generation resources scheduled for September 2015. This may enable the Agency to procure additional renewable energy resources for payment from the RERF; however, the Agency will not be able to procure sufficient wind resources to meet the 75% requirement for the procurement of renewable energy resources until, at least, June 2016 from the RERF described in Section 1-56(b) of the Illinois Power Agency Act.

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
AVERAGE NUMBER OF EMPLOYEES
For the Year Ended June 30, 2014

(UNAUDITED)

The following table, prepared from the Agency's records, presents the average number of employees, by function, for the Fiscal Year Ended June 30,

Division	2014	2013
Director	1	1
Administrative Services	4	3
Resource Development Bureau	0	0
Planning and Procurement Bureau	1	1
Total Full-Time Equivalent Employees	6	5

SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Year Ended June 30, 2014

(UNAUDITED)

Mission Statement:

To execute the required advisory, planning, and procurement processes necessary to implement the provisions of the Illinois Power Agency Act.

Program Goals:

Objectives:

1) Develop annual electricity plans for ComEd and Ameren eligible retail customers and submit the plans to the Illinois Commerce Commission for approval.
    a. Include cost effective renewable resources sufficient to meet the standards specified in the Illinois Power Agency Act.
    b. Include clean coal resources to the extent provided for in the Illinois Power Agency Act.
    c. Develop a diverse supply portfolio plan, including consideration of demand response and energy efficiency as provided by law, to assist with achieving the lowest total cost to consumers over time, taking into account the benefits of price stability.
2) Conduct competitive procurement processes to procure the resources identified in the plan and as approved by the Illinois Commerce Commission.
    a. Ensure appropriate price benchmarks are established.
    b. Secure qualified procurement administrators.
    c. Assess compliance with plans and provide expert advice to the Illinois Commerce Commission and the procurement administrators.
3) Develop and facilitate clean coal investment as provided for by law.
    a. Facilitate Synthetic Natural Gas (SNG) sourcing agreements between producers and the applicable gas utilities.
    b. Develop staff expertise in project financing, gas and coal markets and risk analysis.

Funds:

Illinois Power Agency Operations Fund

Statutory Authority:

Illinois Power Agency Act (20 ILCS 3855)

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Year Ended June 30, 2014

(UNAUDITED)

	2013 Actual	2014 Target/ Projected	2014 Actual	2015 Target/ Projected
Input Indicators				
Total expenditures - State appropriated funds (in thousands)	$ 1,106.2	$ 4,866.5	$ 3,873.4	$ 3,827.2
Average monthly full-time equivalents	4.5	6.0	6.0	7.0
Output Indicators				
Number of residential customers in the Ameren region taking fixed price supply as of May	480,758	N/A	371,178	N/A
Number of residential customers in the ComEd region taking fixed price supply as of May	1,093,713	N/A	1,075,353	N/A
Outcome Indicators				
Procurement Plan approved by the Illinois Commerce Commission	Yes	Yes	Yes	Yes
All required Procurement Event outcomes approved by the Illinois Commerce Commission	N/A	Yes	Yes	Yes
Efficiency/Cost-Effectiveness Indicators				
Renewable energy resource targets met within the constraints of the mandated cost caps	Yes	Yes	Yes	Yes

(a) The total actual expenditures for Fiscal Year 2013 ($1,106.2 thousand) includes an interfund cash transfer ($36.3 thousand).
(b) The total actual expenditures for Fiscal Year 2014 ($3,873.4 thousand) includes an interfund cash transfer ($914.9 thousand) and renewable energy expenditures ($1,719.1 thousand).
(c) The projected expenditures for Fiscal Year 2015 includes an anticipated interfund cash transfer of up to $1,913.6 thousand.