

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT
INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

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For the Year Ended June 30, 2016

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STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT
INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

AGENCY OFFICIALS

Director Mr. Anthony Star

Administrative Services

Chief Financial Officer Mr. Charles L. Kudia

Chief Legal Counsel Mr. Brian Granahan

Chief Operating Officer Mr. Sanjay Patel

Planning and Procurement Bureau

Bureau Chief Mr. Mario Bohorquez

The Agency's office is located at:

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

STATE OF ILLINOIS
ILLINOIS POWER AGENCY
FINANCIAL AUDIT
INDIVIDUAL NONSHARED GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund of the State of Illinois, Illinois Power Agency was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed unmodified opinions on the financial statements of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund.

EXIT CONFERENCE

This report was discussed with Agency personnel at an exit conference on January 25, 2017.
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

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OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the June 30, 2016, financial statements of the Illinois State Board of Investment - an internal investment pool of the State of Illinois - which statements reflect total assets constituting 100 percent of the total assets on the Balance Sheet and 100 percent of the total revenues on the Statement of Revenues, Expenditures, and Changes in Fund Balances within the Illinois Power Agency Trust Fund for the year ended June 30, 2016. 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.

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 financial position of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund of the State of Illinois, Illinois Power Agency, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Illinois Power Agency, as of June 30, 2016, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, on our consideration of the State of Illinois, Illinois Power Agency's internal control over financial reporting of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Power Agency's internal control over financial reporting of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund and its compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

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

Springfield, Illinois
January 27, 2017

State of Illinois
Illinois Power Agency
Individual Nonshared Governmental Funds
Balance Sheet
June 30, 2016
(Expressed in Thousands)

	<u>Special Revenue</u>		<u>Permanent Trust</u>
	<u>Illinois Power Agency Operations 0425</u>	<u>Illinois Power Agency Renewable Energy Resources 0836</u>	<u>Illinois Power Agency Trust 0424</u>
Assets			
Cash equity in State Treasury	\$ 7,540	\$ 117,684	\$ -
Investments	-	-	32,833
Other receivables, net	165	71,606	-
Due from other Agency funds	-	-	-
Total assets	<u>\$ 7,705</u>	<u>\$ 189,290</u>	<u>\$ 32,833</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 1,773	\$ 2,155	\$ -
Due to other Agency funds	-	-	-
Due to other State funds	527	88	-
Total liabilities	<u>2,300</u>	<u>2,243</u>	<u>-</u>
Deferred Inflows of Resources (DIR)			
Unavailable revenue	-	40,794	-
Total DIR	<u>-</u>	<u>40,794</u>	<u>-</u>
Fund Balances			
Nonspendable - endowments and similar funds	-	-	32,833
Committed			
Employment and economic development	5,405	146,253	-
Total fund balances	<u>5,405</u>	<u>146,253</u>	<u>32,833</u>
Total liabilities, DIR, and fund balances	<u>\$ 7,705</u>	<u>\$ 189,290</u>	<u>\$ 32,833</u>

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

**State of Illinois
 Illinois Power Agency
 Individual Nonshared Governmental Funds
 Statements of Revenues,
 Expenditures and Changes in Fund Balances
 For the Year Ended June 30, 2016
 (Expressed in Thousands)**

	<u>Special Revenue</u>		<u>Permanent Trust</u>
	<u>Illinois Power Agency Operations 0425</u>	<u>Illinois Power Agency Renewable Energy Resources 0836</u>	<u>Illinois Power Agency Trust 0424</u>
Revenues			
Licenses and fees	\$ 1,337	\$ -	\$ -
Interest and other investment income	-	-	(281)
Other revenues	-	48,585	-
Total revenues	<u>1,337</u>	<u>48,585</u>	<u>(281)</u>
Expenditures			
Employment and economic development	2,584	801	-
Interest	28	13	-
Total expenditures	<u>2,612</u>	<u>814</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,275)</u>	<u>47,771</u>	<u>(281)</u>
Other sources (uses) of financial resources			
Transfers in	-	-	-
Transfers out	-	-	-
Net other sources (uses) of financial resources	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(1,275)</u>	<u>47,771</u>	<u>(281)</u>
Fund balances, July 1, 2015	<u>6,680</u>	<u>98,482</u>	<u>33,114</u>
Fund Balances, June 30, 2016	<u>\$ 5,405</u>	<u>\$ 146,253</u>	<u>\$ 32,833</u>

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

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(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 actively administers four individual nonshared governmental funds - the Illinois Power Agency Operations Fund, the Illinois Power Agency Trust Fund, the Illinois Power Agency Investment Fund, and the Illinois Power Agency Renewable Energy Resources Fund (collectively, "Funds") - described within these Notes to the Financial Statements. A nonshared fund is a fund in which a single agency of the State is responsible for administering substantially all of the financial transactions of the fund. Each of the Funds operate under a budget approved by the Illinois General Assembly in which resources are appropriated for the use of the Agency to meet each one of the Funds' specific mission and functions as described within the Illinois Compiled Statutes and the Illinois Administrative Code. All funds appropriated to the Agency from each one of the Funds and all cash received for each one of the Funds are under the custody and control of the State Treasurer.

The Agency, created in Fiscal Year 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. 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.

(2) Summary of Significant Accounting Policies

The financial statements of the Funds have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for governmental funds, as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate user understanding of the Funds' financial statements, significant accounting policies are summarized below.

(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.

The financial statements only present the Funds administered by the Agency and do not purport to, and do not, present fairly the financial position of the Agency or the State as of June 30, 2016, nor changes in the Agency or State's financial position for the year ended in conformity with GAAP.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(2) Summary of Significant Accounting Policies – Continued

(a) Financial Reporting Entity - Continued

The Funds are not legally separate from the State; therefore, the financial information of the Funds are included in the financial statements of the State. The State's 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.illinoiscomptroller.gov.

(b) Basis of Presentation

In government, the basic reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, inflows, outflows, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A balance sheet and statement of revenues, expenditures, and changes in fund balance have been presented for the Funds administered by the Agency.

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 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 2016.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation - Continued

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 2016.

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.

Permanent:

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 except for interest and investment income shall not be considered income, but shall be added to the principal of the Illinois Power Agency Trust 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).

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(2) Summary of Significant Accounting Policies – Continued

(b) Basis of Presentation - Continued

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 Illinois Power Agency Investment 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 Illinois Power Agency Investment Fund.

The Illinois Power Agency Investment Fund has been collapsed into the Illinois Power Agency Trust Fund for financial reporting purposes.

Funding sources for both permanent 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.

(c) Measurement Focus and Basis of Accounting

The 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.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(2) Summary of Significant Accounting Policies – Continued

(d) 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.

(e) 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).

(f) Interfund Transactions

The following types of interfund transactions between the 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 fund's balance sheet.

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 governmental funds making transfers and as other financing sources in the governmental funds receiving transfers.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(2) Summary of Significant Accounting Policies – Continued

(g) Fund Balances

Fund balances are classified 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 had a nonspendable fund balance as of June 30, 2016.

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. There were no restricted fund balances as of June 30, 2016.

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 and the Illinois Power Agency Renewable Energy Resources Fund had committed fund balances as of June 30, 2016.

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, 2016.

Unassigned – This consists of residual fund balance (deficit) that has not been designated for specific purposes within the Funds. There were no unassigned fund balances as of June 30, 2016.

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.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(2) Summary of Significant Accounting Policies – Continued

(h) 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, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(i) Future Adoption of GASB Statements

Effective for the year ending June 30, 2017, the Agency will adopt GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2018, the Agency will adopt GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Agency does not expect a material impact on the Funds' financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2017, the Agency will adopt GASB Statement No. 77, *Tax Abatement Disclosures*, which is to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2017, the Agency will adopt GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(2) Summary of Significant Accounting Policies – Continued

(i) Future Adoption of GASB Statements - Continued

Effective for the year ending June 30, 2017, the Agency will adopt GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2017, the Agency will adopt GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*, which is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2018, the Agency will adopt GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2017, the Agency will adopt GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2019, the Agency will adopt GASB Statement No. 83, *Certain Asset Retirement Obligations*, which is to address accounting and financial reporting for legally enforceable liability associated with the retirement of a tangible capital asset. The Agency has not yet determined the impact on the Funds' financial statements as a result of adopting this statement.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the Fund's deposits and investments for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer at June 30, 2016, including cash on hand and cash in transit, totaled \$7.540 million for the Illinois Power Agency Operations Fund and \$117.684 million for the Illinois Power Agency Renewable Energy Resources Fund. 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 Funds do not own individual securities. Details on the nature of these deposits are available within the State's Comprehensive Annual Financial Report.

(b) Investments

The Illinois State Board of Investment, an internal investment pool of the State, holds the investments within the Illinois Power Agency Investment Fund pursuant to the State Finance Act (30 ILCS 105/6z-75). At June 30, 2016, total investments were \$32.833 million.

The Illinois State Board of Investment manages all assets held by it 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.

(4) Other Receivables

The balance of Other Receivables for the Illinois Power Agency Renewable Energy Resources Fund includes amounts owed to the Agency for Alternative Compliance Payments (ACPs), totaling \$71.606 million. In addition, the balance of Other Receivables for the Illinois Power Agency Operations Fund includes reimbursements owed to the Agency, totaling \$165 thousand.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(5) Interfund Balances and Activity

The following presents the Funds' interfund balances and activities at June 30, 2016:

The following balances (in thousands) represents amounts due to other funds:

Due From	Due to Other State Funds	Description/Purpose
Illinois Power Agency Operations Fund	527	Repayments and Payment for Services
Illinois Power Agency Renewable Energy Resources Fund	88	Payment for Services
Total:	\$ 615	

(6) 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 2016 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2016. 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 2016, the employer contribution rate was 45.598%.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(7) 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.

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's 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.

(8) Risk Management

The Funds are 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 Funds' 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 Funds; and accordingly, have not been reported in the Funds' financial statements for the year ended June 30, 2016.

**STATE OF ILLINOIS
ILLINOIS POWER AGENCY**

Individual Nonshared Governmental Funds
Notes to the Financial Statements

June 30, 2016

(9) Commitments and Contingencies

(a) Operating Leases

The Illinois Power Agency Operations Fund leases various real property and equipment under terms of noncancellable operating lease agreements that require the Illinois Power Agency Operations Fund to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$18 thousand for the year ended June 30, 2016.

(b) Renewable Energy Credits

During Fiscal Year 2016, under the Supplemental Photovoltaic Procurement Plan developed pursuant to Public Act 98-0672, the Agency held procurements to purchase up to \$25 million in Renewable Energy Credits (RECs) from new photovoltaic distributed energy generation devices. This was in addition to the procurement held late in Fiscal Year 2015 to purchase up to \$5 million in RECs from new photovoltaic distributed energy generation devices.

A total of 18 companies have contracts to sell RECs to the Agency with contracts that started on or after, July 1, 2016, and with terms that allow for up to nine months to identify individual projects, one year to develop projects, and then five years for delivery of RECs as they are created.

(10) Subsequent Events

Effective June 1, 2017, Public Act 099-0906 will have a significant impact on the Agency's financial condition and results of operations. The Agency's operations will be impacted by a new requirement related to the procurement of Zero Emissions Credits and significant changes to the planning and administration of procurements and programs related to renewable energy resources. Additionally, Public Act 099-0906's impact on the Agency's administration of the Illinois Power Agency Operations Fund and Illinois Power Agency Renewable Energy Resources Fund, while not fully analyzed by the Agency at this time, is expected to be significant.

For example, two major changes are the elimination of the requirement for Alternative Retail Electric Suppliers (ARES) to pay annual Alternative Compliance Payments (ACPs) into the Illinois Power Agency Renewable Energy Resources Fund and the adoption of a plan to use the Illinois Power Agency Renewable Energy Resources Fund's remaining fund balance. Another issue the Agency and the Illinois Commerce Commission are currently reviewing is whether ACPs related to the current Energy Year (June 1, 2016 through May 31, 2017) will be paid into the Illinois Power Agency Renewable Energy Resources Fund.

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.

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OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

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 Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund of the State of Illinois, Illinois Power Agency, as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated January 27, 2017, which contained an emphasis of matter paragraph stating the financial statements present only the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Illinois Power Agency, as of June 30, 2016, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. 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 Illinois Power Agency Trust Fund of 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) of the Illinois Power Agency Operations Fund, the Illinois Power Agency Renewable Energy Resources Fund, and the Illinois Power Agency Trust Fund 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.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, 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.

SIGNED ORIGINAL ON FILE

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

Springfield, Illinois
January 27, 2017