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

FINANCIAL AUDIT
For the Year Ended June 30, 2020

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

STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2020

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ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
FINANCIAL AUDIT
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AGENCY OFFICIALS

Director	Mr. John J. Kim
Deputy Director	Mr. Todd Rettig
Chief of Staff	Ms. Laura Roche
Chief Legal Counsel (05/19/20 – Present)	Mr. Charles Gunnarson
Chief Legal Counsel (Acting) (03/01/20 – 05/18/20)	Mr. Charles Gunnarson
Chief Legal Counsel (Acting) (07/01/19 – 02/29/20)	Ms. Dana Vetterhoffer
Chief Financial Officer (11/20/20 – Present)	Mr. Jacob Poeschel
Chief Financial Officer (11/01/20 – 11/19/20)	Vacant
Chief Financial Officer (07/01/19 – 10/31/20)	Ms. Courtney L. Bott
Chief Internal Auditor (01/01/21 – Present)	Ms. Ellen Jennings-Fairfield
Chief Internal Auditor (11/01/20 – 12/31/20)	Vacant
Chief Internal Auditor (07/01/19 – 10/31/20)	Mr. James Froehner

The Illinois Environmental Protection Agency's primary administrative office is located at:

1021 North Grand Avenue East
Springfield, Illinois 62794

STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2020

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

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

Item No.	Page	Last/First Reported	Description	Finding Type
			CURRENT FINDING	
2020-001	51	New	Inadequate Internal Controls over Census Data	Material Weakness
			PRIOR FINDING NOT REPEATED	
A	54	2019/2019	Inadequate Controls over Financial Reporting	

EXIT CONFERENCE

The Agency waived an exit conference in a correspondence from John J. Kim, Director, on April 20, 2021. The response to the recommendation was provided by Jacob Poeschel, Chief Financial Officer, in a correspondence dated April 30, 2021.

Roth&Co
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency (Agency), as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Revolving Fund of the Agency, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Water Revolving Fund and do not purport to, and do not, present fairly the financial position of either the State of Illinois or the Agency as of June 30, 2020, the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Water Revolving Fund of the Agency.

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

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021 on our consideration of the Agency's internal control over financial reporting of the Water Revolving Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting of the Water Revolving Fund and its compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 30, 2021

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

STATEMENT OF NET POSITION

June 30, 2020
(amounts in $000's)

	Water Revolving Fund (270 Fund)
ASSETS	
Current assets	
Cash and cash equivalents	$ 177,543
Securities lending collateral equity with State Treasurer	59,938
Loans and notes receivable	93,196
Other receivables	17,012
Due from federal government	582
Due from component unit	11,277
Restricted assets - accrued interest receivable	9,446
Restricted assets - loans receivable	212,561
Prepaid expenses	10
Total current assets	581,565
Noncurrent assets	
Loans and notes receivable, net of current portion	1,489,331
Restricted assets - loans receivable	2,865,036
Capital assets, net of accumulated depreciation	7
Total noncurrent assets	4,354,374
TOTAL ASSETS	4,935,939
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on pension liability	5,947
Deferred amount on OPEB liability	2,745
Total deferred outflows of resources	8,692
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	4,944,631
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	358
Due to component units	82
Due to federal governments	22
Due to other funds	218
Obligations under securities lending of State Treasurer	59,938
Total OPEB liability	828
Compensated absences	209
Total current liabilities	61,655
Noncurrent liabilities	
Long-term obligations	1,288,584
Compensated absences	787
Net pension liability	58,139
Total OPEB liability	34,196
Total noncurrent liabilities	1,381,706
TOTAL LIABILITIES	1,443,361
DEFERRED INFLOWS OF RESOURCES	
Deferred amount on pension liability	6,765
Deferred amount on OPEB liability	11,118
Unearned revenue	58
Total deferred inflows of resources	17,941
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,461,302
NET POSITION	
Net investment in capital assets	7
Restricted for:	
Debt service	3,087,043
Other purposes	835,163
Unrestricted (deficit)	(438,884)
TOTAL NET POSITION	$ 3,483,329

See accompanying notes to the financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2020
(amounts in $000's)

	Water Revolving Fund (270 Fund)
OPERATING REVENUES	
Interest income on loans - unpledged	$ 54,953
Interest income on loans - pledged	25,981
Total operating revenues	80,934
OPERATING EXPENSES	
General and administrative	15,141
Principal forgiveness	64,434
Depreciation	2
Total operating expenses	79,577
OPERATING INCOME	1,357
NONOPERATING REVENUES	
Interest and investment income	1,638
Federal government	113,935
Total nonoperating revenues	115,573
NONOPERATING EXPENSES	
Interest	29,630
Other nonoperating expenses	200
Total nonoperating expenses	29,830
CHANGE IN NET POSITION	87,100
NET POSITION, BEGINNING OF YEAR	3,396,229
NET POSITION, END OF YEAR	$ 3,483,329

See accompanying notes to the financial statements.

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2020
(amounts in $000's)

	Water Revolving Fund (270 Fund)
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to employees for services	$ (16,310)
Cash payments to internal service providers	(2,722)
Other payments	(1,357)
Net cash used in operating activities	(20,389)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	113,439
Operating grants paid	(70)
Proceeds from revenue bonds, net of underwriter's discount	377,756
Net cash provided by noncapital financing activities	491,125
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment income	49,387
Loans disbursed to governmental units	(557,398)
Loans repaid by governmental units	107,093
Net cash used in investing activities	(400,918)
NET INCREASE IN CASH AND CASH EQUIVALENTS	69,818
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	107,725
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 177,543
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$ 1,357
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation expense	2
Principal forgiveness	64,434
In-kind expense	22
Interest income	(80,934)
Change in assets and liabilities	
Decrease in prepaid expenses	7
Increase in deferred outflows of resources	(602)
Decrease in accounts payable and accrued liabilities	(225)
Decrease in due to component units	(64)
Decrease in intergovernmental payables	(122)
Decrease in due to other funds	(183)
Increase in unearned revenue	58
Increase in other liabilities	38
Decrease in net pension liability	(1,429)
Increase in net OPEB liability	3,751
Decrease in deferred inflows of resources	(6,499)
Net cash used in operating activities	$ (20,389)
Noncash investing, capital, and financing activities	
Loan repayments held at Trustee	$ 235,220

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

1. Description of Fund

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

(2) Fiscal dependency on the primary government.

2. Summary of Significant Accounting Policies (Continued)

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

The financial statements present only the Water Revolving Fund (270) administered by the Illinois Environmental Protection Agency and do not purport to, and do not, present fairly the financial position of the Illinois Environmental Protection Agency as of June 30, 2020, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

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

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

> ***Loans*** - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e., due from other funds) in lender funds and interfund payables (i.e., due to other funds) in borrower funds.
>
> ***Services Provided and Used*** - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund statement of net position.
>
> ***Reimbursements*** - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
>
> ***Transfers*** - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

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

2. Summary of Significant Accounting Policies (Continued)

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

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

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Equipment	$5,000	3-25

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements: Effective for the year ending June 30, 2020, the Agency adopted the following GASB statements:

Statement No. 92, *Omnibus 2020*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan, the applicability of Statement No. 73 and Statement No. 74 to reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, measurement of liabilities and assets related to asset retirement obligations in a government acquisition, and reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature. The topics within this Statement that were not effective for the Agency's fiscal year ended June 30, 2020 were, upon the Agency's adoption of GASB Statement No. 95, delayed for the Agency until the fiscal year ended June 30, 2022.

Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to (1) increase consistency and comparability related to the reporting of fiduciary component units when a potential component unit does not have a governing board and the primary government performs those duties; (2) mitigate costs associated with reporting; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. The topics within this Statement that were not effective for the Agency's fiscal year ended June 30, 2020 are effective for the Agency's fiscal year ended June 30, 2022.

2. Summary of Significant Accounting Policies (Continued)

Future Adoption of New Accounting Pronouncements: Effective for the year ending June 30, 2021, the Agency will adopt the following GASB statements:

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

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

Statement No. 93, *Replacement of Interbank Offered Rates*, the primary provision of which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate.

Effective for the year ending June 30, 2022, the Agency will adopt the following GASB statements:

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

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

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

<u>Use of Estimates</u>: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

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

Deposits in the custody of the State Treasurer (or in transit) at June 30, 2020, were $177,543 thousand. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11).

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

4. Securities Lending Transaction

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

During Fiscal Year 2020, Deutsche Bank AG lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

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

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

In accordance with GASB Statement No. 28, paragraph 9, the State Treasurer has allocated the assets and obligations at June 30, 2020, arising from securities lending agreements to the various funds of the State. The total allocated to the Water Revolving Fund at June 30, 2020, was $59,938 thousand.

5. Loans and Notes Receivable

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

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

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

5. Loans and Notes Receivable (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

5. Loans and Notes Receivable (Continued)

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

Year ending June 30	Principal*	Interest	Total
2021	$ 305,528	$ 76,265	$ 381,793
2022	302,835	75,000	377,835
2023	303,924	70,045	373,969
2024	305,571	64,930	370,501
2025	296,428	59,408	355,836
2026-2030	1,408,136	221,000	1,629,136
2031-2035	1,120,945	108,761	1,229,706
2036-2040	564,009	25,841	589,850
2041-2052	57,439	3,101	60,540
	$ 4,664,815	$ 704,351	$ 5,369,166

*Repayments include planned future interest capitalization in the amount of: $4,259 (based on actual disbursements).

Restricted Loans Receivable

At June 30, 2020, the Agency has pledged loans receivable in the amount of $3,077,597 thousand. This amount is to finance present and future issuances of leveraged bond debt (see note 9). During the year ended June 30, 2020, the Agency received $232,544 thousand and $28,252 thousand pledged principal and interest, respectively, on these loans. After bond payment, any excess of the principal and interest received over the 1.2 coverage ratio is released from restriction.

5. Loans and Notes Receivable (Continued)

Loan Commitments and Concentrations

Per the Environmental Protection Agency Procedures and Requirements for Determining Loan Priorities (35 Illinois Administrative Code, Section 366.105: Funding Allocations), loan funds available from State and Federal appropriations during the capitalization period authorized by the Clean Water Act to capitalize the Clean Water portion of the fund will be subject to an equal division between the service area of the Metropolitan Water Reclamation District of Greater Chicago (MWRDGC) and the area which is comprised of the geographical balance of the State of Illinois, to the extent that projects in either area in any fiscal year have qualified to receive loan assistance and are ready to proceed in accordance with the criteria for loan award. The service area of MWRDGC also includes several municipalities that may receive loans directly from the fund. Any imbalance in the division of the total loan funds shall be carried forward from year to year and shall be applied as projects are able to complete a loan application to achieve an accumulatively equal distribution. Currently, 40.79% of loan funds made under the Clean Water Program have been made to MWRDGC and municipalities in its service area.

As of June 30, 2020, the outstanding balance of loans to MWRDGC amounted to $1,004,191 thousand which exceeds 5% of total loans receivable of the fund. This represents approximately 21.56% of total loans receivable.

As of June 30, 2020, the outstanding balance of loans to the City of Chicago amounted to $893,610 thousand which exceeds 5% of the total loans receivable of the fund. This represents approximately 19.18% of the total loans receivable.

Principal Forgiveness

As of June 30, 2020, the Federal loan commitments included ARRA federal funds of $256,781 thousand, of which $129,077 thousand will be forgiven. ARRA principal forgiveness loans are forgiven as disbursed but must be repaid if the recipient fails to meet ARRA requirements.

5. Loans and Notes Receivable (Continued)

Federal grants awarded post-ARRA required additional loan principal forgiveness with the minimum and maximum requirements depending on the program. The total minimum principal forgiveness amount is $158,692 thousand and the total maximum amount is $456,498 thousand.

The 2020 Federal grants for both the Clean Water and Drinking Water programs had not been received as of June 30, 2020. The Clean Water principal forgiveness required under these grants will be provided through a methodology established in the rules established to manage the loan program and the Drinking Water principal forgiveness will be determined by the criteria established in the annual Intended Use Plan for that program. The Clean Water Program exceeded the maximum principal forgiveness allowed after the 2011 grant by $11,903 thousand. This amount has been paid from the Clean Water Loan Support Program. The Drinking Water minimum has been met, except for the 2017 grant, and no issues have resulted from the maximum amount for the Drinking Water Program. The amount the Drinking Water program was short of the 2017 minimum amount was accounted for in fiscal year 2019 forgiveness awards. Following is a summary of Post-ARRA loan principal forgiveness (amounts in $000's):

	Clean Water Program		
	Minimum	Maximum	Actual
2010-2016 Grant	$ 35,880	$ 118,457	$ 101,783
2017 Grant	5,996	23,985	18,518
2018 Grant	7,259	29,036	28,522
2019 Grant	7,186	28,744	22,595
2020 Grant (to be issued)	7,187	29,039	
Principal forgiveness charged to Loan Support Program	-	-	11,903
Total Principal Forgiveness Post ARRA	$ 63,508	$ 229,261	$ 183,321

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

5. Loans and Notes Receivable (Continued)

	Drinking Water Program		
	Minimum	Maximum	Actual
2010-2016 Grant	$ 60,821	$ 145,897	$ 68,742
2017 Grant	6,879	17,196	17,192
2018 Grant	8,382	20,954	20,435
2019 Grant	10,794	22,834	22,730
2020 Grant (to be issued)	8,308	20,356	
Principal forgiveness charged to Loan Support Program	-	-	-
Total Principal Forgiveness Post ARRA	$ 95,184	$ 227,237	$ 129,099

	Total		
	Minimum	Maximum	Actual
2010-2016 Grant	$ 96,701	$ 264,354	$ 170,525
2017 Grant	12,875	41,181	35,710
2018 Grant	15,641	49,990	48,957
2019 Grant	17,980	51,578	45,325
2020 Grant (to be issued)	15,495	49,395	
Principal forgiveness charged to Loan Support Program	-	-	11,903
Total Principal Forgiveness Post ARRA	$ 158,692	$ 456,498	$ 312,420

6. Due from Component Unit

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

7. Interfund Balances and Transfers

Balances Due to Other Funds: The following balances at June 30, 2020, represent amounts due to other Agency and State of Illinois funds (amounts in $000's):

Due to Central Management Services	$ 192
Due to State Employees' Retirement System	26
Total Due to Other Funds	$ 218

8. Capital Assets

Capital asset activities for the year ended June 30, 2020 were as follows (amounts in $000's):

	Balance July 1, 2019	Additions	Deletions/ Transfers	Balance June 30, 2020
Capital assets being depreciated				
Equipment	$ 380	$ -	$ 43	$ 337
Less: accumulated depreciation	371	2	43	330
Total capital assets being depreciated	$ 9	$ (2)	$ -	$ 7

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

9. Long-Term Obligations

Changes in Long-Term Obligations: Changes in long-term obligations for the year ended June 30, 2020, were as follows (amounts in $000's):

	Balance July 1, 2019	Additions	Deletions/ Transfers	Balance June 30, 2020	Amounts Due Within One Year
Due to Illinois Finance Authority	$1,139,997	$ 364,465	$ 215,878	$1,288,584	$ -
Compensated absences	958	1,052	1,014	996	209
Net pension liability	59,568	-	1,429	58,139	-
Net OPEB liability	31,273	3,751	-	35,024	828
	$1,231,796	$ 369,268	$ 218,321	$1,382,743	$ 1,037

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

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

9. Long-Term Obligations (Continued)

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

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

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

Prior to issuance of each series of bonds, the Agency sold and assigned certain loans outstanding related to the Clean Water Program and Drinking Water Program to the IFA and pledged the loans to secure payment of the bonds. Of the total outstanding loans at June 30, 2020, $3,077,597 thousand has been pledged for repayment of the Bonds. The bond trustee is entitled to receive all principal and interest due on these pledged loans. Any loans funded with the proceeds from the bonds are not pledged to the bond trustee and are not deemed to be pledged loans.

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

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

NOTES TO THE FINANCIAL STATEMENTS
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9. Long-Term Obligations (Continued)

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

Bonds payable	$ 1,411,175
Accrued interest payable on bonds at June 30, 2020	34,438
Unamortized premium	196,445
Trustee fees payable	42
Deferred net loss on prior bonds refunded	(76)
	1,642,024
Cash and cash equivalents and accrued interest receivable held in restricted accounts at June 30, 2020	(353,440)
Net obligation	$ 1,288,584

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

Year Ending June 30	Principal	Interest
2021	$ 87,525	$ 67,789
2022	88,985	63,395
2023	89,965	58,971
2024	91,465	54,606
2025	92,020	50,022
2026 – 2030	446,060	184,080
2031 – 2035	371,620	80,822
2036 – 2040	142,845	12,116
2041 – 2042	690	34
	$ 1,411,175	$ 571,835

10. Restricted Net Position

Portions of net position at June 30, 2020, are restricted for (amounts in $000's):

Low interest loans to local governments, net of loans pledged for debt service	$	835,163
Debt service		3,087,043
Total restricted net position	$	3,922,206

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

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

11. Capitalization Grants

The Agency has entered into Capitalization Grant Agreements with the United States Environmental Protection Agency to administer the Waste Water and Drinking Water Loan Programs, jointly the Water Revolving Fund (270). Pursuant to these Capitalization Grant Agreements, $2,085,989 thousand for Waste Water and $857,049 thousand for Drinking Water have been made available to be drawn (pursuant to state matching requirements being met) on the Capital Grant facility at June 30, 2020, with respect to costs in connection with loans made under the Waste Water and Drinking Water Loan Programs.

11. Capitalization Grants (Continued)

The remaining Capital Grant Facility as of June 30, 2020, is summarized below (amounts in $000's):

	Waste Water	Drinking Water	Total
Total Capital Grants	$ 2,085,989	$ 857,049	$ 2,943,038
Less: Cumulative drawdowns	(2,085,989)	(855,564)	(2,941,553)
Capital Grant Facility	$ -	$ 1,485	$ 1,485

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

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

12. General and Administrative Costs

The Agency is authorized to utilize up to 4% of the total Clean Water Capitalization Grants received for administration of the loan program. In order to allow the maximum amount of grant dollars for loan disbursements, the Agency currently funds administrative costs for the Clean Water Program from sources other than the grant. The Drinking Water Grant Program sets aside and restricts 4% of each grant for the administrative costs of running the program. As of June 30, 2020, the Agency had $1,425 thousand available to fund future administration costs of the Drinking Water Program.

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

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

12. General and Administrative Costs (Continued)

The Administrative Revenues and Expenses reported in the Water Revolving Fund for the year ended June 30, 2020, are as follows (amounts in $000's):

Revenues	
Administrative grants	$ 1,978
Loan Support	37,854
	39,832
Expenses	
Payroll and benefits	11,723
Other general expenses	3,418
Depreciation	2
	15,143
Excess of revenues over expenses	$ 24,689

13. Defined Benefit Pension Plan

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

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

13. **Defined Benefit Pension Plan** (Continued)

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

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>A member must have a minimum of eight years of service credit and may retire at:

• Age 60, with 8 years of service credit.
• Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service.
• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.

Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.

If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td><td>A member must have a minimum of 10 years of credited service and may retire at:

• Age 67, with 10 years of credited service.
• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.

If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2019 rate is $114,952.

If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td></tr>
</table>

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

13. Defined Benefit Pension Plan (Continued)

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

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

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2020, this amount was $115,929.

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

For fiscal year 2020, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2020, the employer contribution rate was 54.290%. The Fund's contribution amount for fiscal year 2020 was $4.327 million.

13. Defined Benefit Pension Plan (Continued)

Pension liability, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. At June 30, 2020, the Fund reported a liability of $58.139 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2019 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Fund's portion of the net pension liability was based on the Fund's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Fund's proportion was 0.1741%, which was a decrease of 0.0061% from its proportion measured as of the prior year measurement date of June 30, 2018.

For the year ended June 30, 2020, the Fund recognized a negative adjustment to pension expense of $2.459 million resulting from a change in the Fund's proportion. At June 30, 2020, the Fund reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 727
Changes of assumptions	1,620	839
Net difference between projected and actual investment earnings on pension plan investments	-	85
Changes in proportion	-	5,114
Fund contributions subsequent to the measurement date	4,327	-
Total	$ 5,947	$ 6,765

13. Defined Benefit Pension Plan (Continued)

$4.327 million reported as deferred outflows of resources related to pensions resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,		
2021	$	(2,084)
2022		(2,146)
2023		(734)
2024		(181)
Thereafter		-
Total	$	(5,145)

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

Inflation: 2.25%

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

Projected salary increases: 2.75% - 7.17%, salary increase rates based on age related productivity and merit rates plus inflation.

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

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2019 valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

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

13. Defined Benefit Pension Plan (Continued)

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

The rate of inflation decreased from 2.50% to 2.25%.

The investment rate of return decreased from 7.00% to 6.75%.

The projected salary increase range changed from 3.00% - 7.42% to 2.75% - 7.17%.

The retirement age experience study was updated to July 2015 – June 2018.

The mortality rate was updated from using the 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

13. Defined Benefit Pension Plan (Continued)

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2019, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S equity	23.0%	4.80%
Developed Foreign Equity	13.0%	4.60%
Emerging Market Equity	8.0%	6.90%
Private Equity	7.0%	6.80%
Intermediate Investment Grade Bonds	14.0%	0.70%
Long-term Government Bonds	4.0%	1.00%
TIPS	4.0%	0.80%
High Yield and Bank Loans	5.0%	2.70%
Opportunistic Debt	8.0%	4.20%
Emerging Market Debt	2.0%	2.70%
Real Estate	10.0%	4.40%
Infrastructure	2.0%	4.10%
Total	100%	

13. Defined Benefit Pension Plan (Continued)

Discount rate. A discount rate of 6.47% was used to measure the total pension liability as of the measurement date of June 30, 2019 as compared to a discount rate of 6.81% used to measure the total pension liability as of the prior year measurement date. The June 30, 2019 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.13%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

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

	1% Decrease 5.47%	Discount Rate 6.47%	1% Increase 7.47%
Fund's proportionate share of the net pension liability	$ 70,312	$ 58,139	$ 48,130

***Payables to the pension plan*.** At June 30, 2020, the Fund reported a payable of $26 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

14. Other Post-employment Benefits (OPEB)

Plan description. The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the Illinois State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Agency's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees' Retirement System of Illinois ("SERS"), Teachers' Retirement System (TRS), and State Universities Retirement System of Illinois ("SURS") are eligible for these other post-employment benefits (OPEB). The eligibility provisions for each of the retirement systems are defined within Note 13 Defined Pension Plan. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees, and members with certain reciprocal service.

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

Benefits provided. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

14. Other Post-employment Benefits (Continued)

Funding policy and annual other postemployment benefit cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,681.04 ($6,703.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,959.44 ($5,592.24 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB. The total OPEB liability, as reported at June 30, 2020, was measured as of June 30, 2019, with an actuarial valuation as of June 30, 2018. At June 30, 2020, the Fund recorded a liability of $35.024 million for its proportionate share of the State's total OPEB liability. The Fund's portion of the OPEB liability was based on the Fund's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Fund's proportion was 0.0798%, which was an increase of 0.0018% from its proportion measured as of the prior year measurement date of June 30, 2018.

14. Other Post-employment Benefits (Continued)

The Fund recognized a negative OPEB expense for the year ended June 30, 2020, of $2.318 million. At June 30, 2020, the Fund reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 50	$ 534
Changes of assumptions	1,218	2,161
Changes in proportion and differences between employer contributions and proportionate share of contributions	649	8,423
Fund contributions subsequent to the measurement date	828	-
Total	$ 2,745	$ 11,118

The amounts reported as deferred outflows of resources related to OPEB resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,	
2021	$ (3,685)
2022	(3,685)
2023	(2,166)
2024	268
2025	67
Total	$ (9,201)

14. Other Post-employment Benefits (Continued)

Actuarial methods and assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Discount Rate	3.13%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental	6.00% grading down 0.50% per year over 3 years to 4.50%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2018 and 2019 are based on actual premiums. Premiums after 2019 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

14. Other Post-employment Benefits (Continued)

Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. On December 20, 2019, the *Further Consolidated Appropriations Act, 2020* (Public Law 116-94) was signed into law repealing the federal excise taxes of 40% on total employer premium spending in excess of specified dollar amounts, also known as the "Cadillac Tax." The impact of this repeal to the State's financial statements, which could be significant, is not known at this time.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2018 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

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

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

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

14. Other Post-employment Benefits (Continued)

Discount rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.62% at June 30, 2018, and 3.13% at June 30, 2019, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate. The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.13%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.13%) or lower (2.13%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.13%)	Current Single Discount Rate Assumption (3.13%)	1% Increase (4.13%)
Fund's proportionate share of total OPEB liability	$ 41,249	$ 35,024	$ 30,043

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.00% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027, for non-Medicare coverage, and 9.00% decreasing to an ultimate trend rate of 4.50% in 2029 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Fund's proportionate share of total OPEB liability	$ 29,367	$ 35,024	$ 42,349

15. Contingencies

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

16. Coronavirus Pandemic Implications

In December 2019, a novel strain of coronavirus (COVID-19) surfaced and spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The United States and the State of Illinois declared a state of emergency in March 2020. The June 30, 2020 financial statements reflect the known financial impact of the COVID-19 outbreak and related stay at home orders for Fiscal Year 2020. The Agency anticipates continued impact to its financial position and continues to monitor and evaluate the situation. The extent to which the coronavirus may impact financial activity will depend on future developments, which are highly uncertain and cannot be predicted. New information continues to emerge concerning the severity of the coronavirus and the actions required to contain or treat it, potentially impacting operations and program management.

17. Subsequent Event

On December 30, 2020, the Illinois Finance Authority, a non-major component unit of the State of Illinois, issued $500 million of State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds. The proceeds (including a premium of $137.3 million and less expenses of $2.9 million) provided $571.9 million for Clean Water Loan program needs, and $62.5 million for the needs of the Drinking Water Loan Program.

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

SUPPLEMENTARY INFORMATION

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

COMBINING STATEMENT OF NET POSITION BY PROGRAM

June 30, 2020
(amounts in $000's)

	Drinking Water	Waste Water	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 63,539	$ 114,004	$ 177,543
Securities lending collateral equity with State Treasurer	19,660	40,278	59,938
Loans and notes receivable	4,025	89,171	93,196
Other receivables	3,099	13,913	17,012
Due from federal government	582	-	582
Due from component unit	1,224	10,053	11,277
Restricted assets - accrued interest receivable	3,816	5,630	9,446
Restricted assets - loans receivable	79,536	133,025	212,561
Prepaid expenses	3	7	10
Total current assets	175,484	406,081	581,565
Noncurrent assets			
Loans and notes receivable, net of current portion	109,043	1,380,288	1,489,331
Restricted assets - loans receivable	1,219,914	1,645,122	2,865,036
Capital assets, net of accumulated depreciation	-	7	7
Total noncurrent assets	1,328,957	3,025,417	4,354,374
TOTAL ASSETS	1,504,441	3,431,498	4,935,939
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on pension liability	961	4,986	5,947
Deferred amount on OPEB liability	444	2,301	2,745
Total deferred outflows of resources	1,405	7,287	8,692
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	1,505,846	3,438,785	4,944,631
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	215	143	358
Due to component units	57	25	82
Due to federal government	1	21	22
Due to other funds	53	165	218
Obligations under securities lending of State Treasurer	19,660	40,278	59,938
Total OPEB liability	134	694	828
Compensated absences	34	175	209
Total current liabilities	20,154	41,501	61,655
Noncurrent liabilities			
Long-term obligations	531,448	757,136	1,288,584
Compensated absences	127	660	787
Net pension liability	9,395	48,744	58,139
Total OPEB liability	5,526	28,670	34,196
Total noncurrent liabilities	546,496	835,210	1,381,706
TOTAL LIABILITIES	566,650	876,711	1,443,361
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on pension liability	1,093	5,672	6,765
Deferred amount on OPEB liability	1,797	9,321	11,118
Unearned revenue	-	58	58
Total deferred inflows of resources	2,890	15,051	17,941
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	569,540	891,762	1,461,302
NET POSITION			
Net investment in capital assets	-	7	7
Restricted for:			
Debt service	1,303,266	1,783,777	3,087,043
Other purposes	-	835,163	835,163
Unrestricted (deficit)	(366,960)	(71,924)	(438,884)
TOTAL NET POSITION	$ 936,306	$ 2,547,023	$ 3,483,329

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

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

For the Year Ended June 30, 2020
(amounts in $000's)

	Drinking Water	Waste Water	Total
OPERATING REVENUES			
Interest income on loans - unpledged	$ 13,920	$ 41,033	$ 54,953
Interest income on loans - pledged	10,870	15,111	25,981
Total operating revenues	24,790	56,144	80,934
OPERATING EXPENSES			
General and administrative	(1,171)	16,312	15,141
Principal forgiveness	27,613	36,821	64,434
Depreciation	-	2	2
Total operating expenses	26,442	53,135	79,577
OPERATING INCOME	(1,652)	3,009	1,357
NONOPERATING REVENUES			
Interest and investment income	(35)	1,673	1,638
Federal government	42,120	71,815	113,935
Total nonoperating revenues	42,085	73,488	115,573
NONOPERATING EXPENSES			
Interest	12,405	17,225	29,630
Other nonoperating expenses	102	98	200
Total nonoperating expenses	12,507	17,323	29,830
TRANSFERS			
Transfers-in	5,000	-	5,000
Transfers-out	-	(5,000)	(5,000)
Total transfers	5,000	(5,000)	-
CHANGE IN NET POSITION	32,926	54,174	87,100
NET POSITION, BEGINNING OF YEAR	903,380	2,492,849	3,396,229
NET POSITION, END OF YEAR	$ 936,306	$ 2,547,023	$ 3,483,329

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

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For the Year Ended June 30, 2020
(amounts in $000's)

	Drinking Water	Waste Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash payments to employees for services	$ (3,326)	$ (12,984)	$ (16,310)
Cash payments to internal service providers	(440)	(2,282)	(2,722)
Other payments	(802)	(555)	(1,357)
Net cash used in operating activities	(4,568)	(15,821)	(20,389)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating grants received	41,708	71,731	113,439
Operating grants paid	–	(70)	(70)
Transfers	5,000	(5,000)	-
Proceeds from revenue bonds, net of underwriter's discount	162,806	214,950	377,756
Net cash provided by noncapital financing activities	209,514	281,611	491,125
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and investment income	12,181	37,206	49,387
Loans disbursed to governmental units	(196,027)	(361,371)	(557,398)
Loans repaid by governmental units	3,286	103,807	107,093
Net cash used in investing activities	(180,560)	(220,358)	(400,918)
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,386	45,432	69,818
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	39,153	68,572	107,725
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 63,539	$ 114,004	$ 177,543
Reconciliation of operating income to net cash used in operating activities:			
Operating income	$ (1,652)	$ 3,009	1,357
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation expense	-	2	2
Principal forgiveness	27,613	36,821	64,434
In-kind expense	11	11	22
Interest income	(24,790)	(56,144)	(80,934)
Change in assets and liabilities			
(Increase) decrease in prepaid expenses	2	5	7
(Increase) decrease in deferred outflows of resources	269	(871)	(602)
Increase (decrease) in accounts payable and accrued liabilities	49	(274)	(225)
Increase (decrease) in due to component units	(33)	(31)	(64)
Increase (decrease) in intergovernmental payables	(7)	(115)	(122)
Increase (decrease) in due to other funds	(67)	(116)	(183)
Increase (decrease) in unearned revenues	-	58	58
Increase (decrease) in other liabilities	(57)	95	38
Increase (decrease) in net pension liability	(2,936)	1,507	(1,429)
Increase (decrease) in net OPEB liability	(813)	4,564	3,751
Increase (decrease) in deferred inflows of resources	(2,157)	(4,342)	(6,499)
Net cash used in operating activities	$ (4,568)	$ (15,821)	$ (20,389)
Noncash investing, capital, and financing activities			
Loan repayments held at Trustee	$ 77,354	$ 157,866	$ 235,220

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency (Agency), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2021.

Compliance and Other Matters

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

Internal Control Over Financial Reporting

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

In planning and performing our audit of the financial statements, we considered the Agency's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings as item 2020-001 that we consider to be a material weakness.

Agency's Response to the Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 30, 2021

STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS* FINDING
For the Year Ended June 30, 2020

2020-001. **FINDING** (Inadequate Internal Controls over Census Data)

The Environmental Protection Agency (Agency) had not substantiated why student interns were paid on regular, as opposed to contractual, payroll vouchers and did not have reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the Water Revolving Fund (Fund).

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

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

During testing, we noted the following:

1) The Agency had not performed an initial complete reconciliation of its census data recorded by SERS and CMS to its internal records to establish a base year of complete and accurate census data.

2) After establishing a base year, the Agency had not developed a process to annually obtain from SERS and CMS the incremental changes recorded by SERS and CMS in their census records and reconcile these changes back to the Agency's internal supporting records.

3) Seven of 35 (20%) employees tested were student interns. We reviewed the eligibility criteria for participation in SERS and CMS and determined SERS eligibility under the Illinois Pension Code (40 ILCS 5/14-103.05(a)) makes any person receiving a salary for personal services on a payroll voucher as opposed to a contractual payroll voucher, a member of SERS. For CMS'

OPEB plan, we noted participation in OPEB is a derivative of an employee's eligibility to participate in SERS, as members of SERS participate in OPEB as annuitants under the State Employees Group Insurance Act of 1971 (5 ILCS 375/3(b)). Also, we reviewed the Statewide Accounting Management System (SAMS) Manual (Procedures 11.50.30, 23.20.40, and 23.20.75) and noted contractual payroll vouchers for employees not eligible to participate in SERS and CMS are typically paid on a non-permanent basis pursuant to either a written or oral contract as opposed to compensation paid to the regular operating staff of an agency, regardless of how long the employee fills the position. In applying these definitions, we noted the Agency does not have documentation supporting its conclusion, why these student interns are eligible to be paid on a regular payroll voucher, which would then make the student interns eligible for pension and OPEB benefits, as opposed to a contractual payroll voucher.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' Audit and Accounting Guide: State and Local Governments (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the State Records Act (5 ILCS 160/8) requires the Agency make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Agency's activities.

Finally, the Fiscal and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Agency officials stated they have no procedures in place to use the SERS portal to verify information submitted through payroll and they are not aware of the need to reconcile.

Failure to document the eligibility of student interns to be paid on regular payroll vouchers as opposed to contractual payroll vouchers could result in student interns improperly participating in SERS and CMS and earning postemployment benefits. In addition, failure to reconcile active members' census data reported to and held by SERS and CMS to the Agency's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Agency's pension and OPEB balances, which could result in a misstatement of these amounts. (Finding Code No. 2020-001)

RECOMMENDATION

We recommend the Agency review the applicable laws, rules, and regulations that govern student intern payroll and document its conclusion on whether a regular or contractual payroll voucher should be used to pay its student interns.

Further, we recommend the Agency work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the Agency may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

AGENCY RESPONSE

The Agency will implement a reconciliation process with the State Employees Retirement System (SERS) in accordance with guidance from the same. The Agency agrees to disagree in part to the student worker portion. Student workers have a State classification and pay plan, therefore are employees of the State. The Agency will pursue efforts with SERS, the Auditor General, and CMS to further clarify student workers payroll.

AUDITORS' COMMENT

The Agency should evaluate whether they have a contractual relationship as opposed to a permanent and continuous employment relationship with the student workers. If applicable laws, rules, and regulations require the Agency to pay the student interns on a regular payroll voucher which makes the student interns eligible for pension and OPEB benefits, adequate documentation should be maintained to document the conclusions.

STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
SCHEDULE OF FINDINGS – PRIOR FINDING NOT REPEATED
For the Year Ended June 30, 2020

A. **FINDING** (Inadequate Controls over Financial Reporting)

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

During the current audit period, our testing noted the balances in the Fund 270 draft financial statements provided to the auditors were properly reported and supported. (Finding Code No. 2019-001)