

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

**FINANCIAL AUDIT
For the Year Ended June 30, 2013**

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, 2013**

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**STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2013**

AGENCY OFFICIALS

Director (3/18/13 to present)	Lisa Bonnett
Director (1/2/13 to 3/17/13)	John J. Kim
Interim Director (10/25/11 to 1/1/13)	John J. Kim
Deputy Director	Vacant
Deputy Director (11/8/11 to 3/17/13)	Lisa Bonnett
Chief Legal Counsel (3/18/13 to present)	John J. Kim
Acting Chief Legal Counsel (10/25/11 to 3/17/13)	Julie Armitage
Fiscal Services Manager (through 12/31/12)	Willa Barger
Chief Financial Officer (10/25/12 to present)	Carol Radwine
Chief Internal Auditor	Rusti Cummings

Agency Headquarter offices are 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, 2013**

FINANCIAL STATEMENT REPORT

SUMMARY

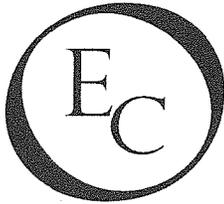
The audit of the accompanying individual nonshared proprietary financial statements of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency (Agency) was performed by E.C. Ortiz and Co., LLP.

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 did not identify matters involving the Agency's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies.

The significant deficiency reported in the June 30, 2012 audit as finding 12-1, *Inadequate Controls Over Financial Reporting*, was not repeated during the current audit.



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Revolving Fund of the State of Illinois, Environmental Protection Agency, as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Water Revolving Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois, Environmental Protection Agency as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining financial statements listed as supplementary information in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional

procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements listed as supplementary information in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 on our consideration of State of Illinois, Environmental Protection Agency's internal control over financial reporting of the Water Revolving Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Environmental Protection Agency's internal control over financial reporting of the Water Revolving Fund and its compliance.

Restricted Use of this Auditor's Report

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

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 17, 2013

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

STATEMENT OF NET POSITION

JUNE 30, 2013
(amounts in \$000's)

	Water Revolving Fund (270 Fund)
ASSETS	
Current assets	
Cash and cash equivalents	\$ 257,885
Securities lending collateral equity with State Treasurer	139,181
Loans and notes receivable	129,508
Other receivables	8,435
Due from federal government	254
Due from component unit	241
Other current assets	66
Restricted assets - accrued interest receivable	1,334
Restricted assets - loans receivable	23,269
Total current assets	<u>560,173</u>
Noncurrent assets	
Loans and notes receivable, net of current portion	2,055,938
Restricted assets - loans receivable, net of current portion	180,417
Capital assets, net of accumulated depreciation	83
Other noncurrent assets	195
Total noncurrent assets	<u>2,236,633</u>
TOTAL ASSETS	<u>2,796,806</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	25
Due to component units	26
Due to federal governments	9
Due to local governments	135
Due to other funds	110
Obligations under securities lending of State Treasurer	139,181
Compensated absences	52
Total current liabilities	<u>139,538</u>
Noncurrent liabilities	
Long-term obligations	21,519
Compensated absences	1,571
Total noncurrent liabilities	<u>23,090</u>
TOTAL LIABILITIES	<u>162,628</u>
NET POSITION	
Net investment in capital assets	83
Restricted for:	
Debt service	205,019
Other purposes	2,112,251
Unrestricted	316,825
TOTAL NET POSITION	<u>\$ 2,634,178</u>

See accompanying notes to the basic 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, 2013

(amounts in \$000's)

	Water Revolving Fund (270 Fund)
OPERATING REVENUES	
Interest income on loans - unpledged	\$ 40,445
Interest income on loans - pledged	3,071
Total operating revenues	<u>43,516</u>
OPERATING EXPENSES	
General and administrative	20,534
Principal forgiveness	22,391
Depreciation	26
Total operating expenses	<u>42,951</u>
OPERATING INCOME	<u>565</u>
NONOPERATING REVENUES	
Interest and investment income	787
Federal government	112,558
Total nonoperating revenues	<u>113,345</u>
NONOPERATING EXPENSES	
Interest	2,128
Other nonoperating expenses	500
Total nonoperating expenses	<u>2,628</u>
INCOME BEFORE TRANSFERS	111,282
Transfers-in	22,839
CHANGE IN NET POSITION	<u>134,121</u>
NET POSITION, BEGINNING OF YEAR	<u>2,500,057</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,634,178</u></u>

See accompanying notes to the basic 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, 2013
(amounts in \$000's)

	Water Revolving Fund (270 Fund)
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to employees for services	\$ (14,841)
Other payments	(5,392)
Net cash used in operating activities	<u>(20,233)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	132,691
Interest and principal paid on borrowing	(29,668)
Transfers-in from other funds	17,860
Reimbursement for arbitrage	(500)
Net cash provided by noncapital financing activities	<u>120,383</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(53)
Net cash used in capital and related financing activities	<u>(53)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment income	48,861
Loans disbursed to governmental units	(318,122)
Loans repaid by governmental units	234,545
Net cash used in investing activities	<u>(34,716)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	65,381
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>192,504</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 257,885</u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 565
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation expense	26
Principal forgiveness	22,391
Non-cash operating expense	190
Interest income on loans	(43,516)
Change in assets and liabilities:	
Decrease in accounts payable and accrued liabilities	(15)
Decrease in due to component units	(27)
Increase in intergovernmental payables	107
Increase in due to other funds	13
Increase in compensated absences	33
Net cash used in operating activities	<u>\$ (20,233)</u>

See accompanying notes to the basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

1. Description of Funds

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

2. Summary of Significant Accounting Policies (Continued)

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 specific financial benefit to or impose a specific financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

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

The financial statements present only the Water Revolving Fund (270) administered by the State of 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, 2013, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

2. Summary of Significant Accounting Policies (Continued)

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.

Cash and Cash Equivalents: Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash in banks for locally-held funds.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

2. Summary of Significant Accounting Policies (Continued)

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.

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

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

<u>Capital Asset Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Equipment	\$5	3-25

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

2. Summary of Significant Accounting Policies (Continued)

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

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

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

Unrestricted - this is the amount that does not meet the definition of "restricted" or "net investment in capital assets."

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

3. Cash and Cash Equivalents

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

Deposits in the custody of the State Treasurer (or in transit) at June 30, 2013, were \$206,935. 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.

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits might not be recovered. The Agency does not have a deposit policy for custodial credit risk. As of June 30, 2013, none of the bank balances of \$50,950 held outside the State Treasury was exposed to custodial credit risk.

**STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

4. Securities Lending Transaction

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

During Fiscal Year 2013, 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 market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available or the 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. Moreover, 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, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the State Treasurer has allocated the assets and obligations at June 30, 2013, arising from securities lending agreements to the various funds of the State. The total allocated to the Water Revolving Fund at June 30, 2013 was \$139,181.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

5. Loans and Notes Receivable

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

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

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

Fixed Loan Rate: The Agency assigns to each loan a fixed loan rate at the time a loan is made to the participant. For loans financed prior to the inception of the American Recovery and Reinvestment Act (ARRA), the fixed loan rate is comprised of an interest portion and a loan support portion and is computed by using the mean interest rate of the 20-year Tax-Exempt Bonds General Obligation Bond Buyer Index, as published weekly by The Bond Buyer, from July 1 to June 30 of the preceding fiscal year rounded to the nearest 100th of a percent and multiplied by 50%. Those loans financed with ARRA funds bear an interest rate of 0.0%. The interest rates on the loans currently outstanding are between 0.0% to 3.75%.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

5. Loans and Notes Receivable (Continued)

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

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 152,777	\$ 36,228	\$ 189,005
2015	149,179	33,574	182,753
2016	146,858	30,746	177,604
2017	147,141	27,703	174,844
2018	145,182	24,990	170,172
2019-2023	665,995	85,318	751,313
2024-2028	490,655	30,071	520,726
2029-2033	<u>204,661</u>	<u>4,351</u>	<u>209,012</u>
	<u>\$ 2,102,448</u>	<u>\$ 272,981</u>	<u>\$ 2,375,429</u>

In addition, outstanding loans of \$286,684 have not been scheduled for repayment.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

5. Loans and Notes Receivable (Continued)

Restricted Loans Receivable

At June 30, 2013, \$203,686 of loans receivable were pledged as security for the revenue bonds outstanding (see Note 8). The principal and interest received during the fiscal year from these loans is to be used to make the annual debt service payments on the revenue bonds. During the year ended June 30, 2013, the Fund received \$55,580 and \$3,058 of principal and interest, respectively, on these loans. Any excess of the principal and interest received over the debt service payments required and the required debt service reserve accounts is released from restriction at the time of a bond payment.

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, 40.1% of loan funds made under the Clean Water Program have been made to MWRDGC and municipalities in its service area.

As of June 30, 2013, the outstanding balance of loans to MWRDGC amounted to \$621,225 which exceeds 5% of total loans receivable of the fund. This represents approximately 26% of total loans receivable.

Principal Forgiveness

As of June 30, 2013, the Federal loan commitments included ARRA federal funds of \$256,781, of which \$129,077 will be forgiven. ARRA principal forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet ARRA requirements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

5. Loans and Notes Receivable (Continued)

Federal grants awarded post-ARRA required additional loan principal forgiveness with the minimum and maximum requirements depending on the program. The total minimum principal forgiveness amount is \$65,553 and the total maximum amount is \$182,706. The 2013 Federal grants for both the Clean Water and Drinking Water programs had not been received as of June 30, 2013. The principal forgiveness required under these grants will be provided through amending loans that were made in federal Fiscal Year 2013 to assure that the program meets the minimum principal forgiveness amount. The Clean Water Program exceeded the maximum principal forgiveness allowed after the 2011 grant. As a result, the amount exceeded of \$11,903 will be paid from the Clean Water Loan Support Program. The Drinking Water minimum has been met and no issues have resulted from the maximum amount for the Drinking Water Program. Following is a summary of Post-ARRA loan principal forgiveness:

	Clean Water Program		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010 Grant	\$ 13,801	\$ 46,003	\$ 46,002
2011 Grant	6,189	20,629	20,625
2012 Grant	3,552	5,329	3,552
2013 Grant (to be issued)	2,844	4,266	-
Principal forgiveness to be charged to Loan Support Program	-	-	11,903
Total Principal Forgiveness Post ARRA	<u><u>\$ 26,386</u></u>	<u><u>\$ 76,227</u></u>	<u><u>\$ 82,082</u></u>
	Drinking Water Program		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010 Grant	\$ 15,369	\$ 51,230	\$ 15,605
2011 Grant	10,665	35,549	11,202
2012 Grant	6,776	10,164	9,694
2013 Grant (to be issued)	6,357	9,536	-
Total Principal Forgiveness Post ARRA	<u><u>\$ 39,167</u></u>	<u><u>\$ 106,479</u></u>	<u><u>\$ 36,501</u></u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

5. Loans and Notes Receivable (Continued)

	<u>Total</u>		
	<u>Minimum</u>	<u>Maximum</u>	<u>Actual</u>
2010 Grant	\$ 29,170	\$ 97,233	\$ 61,607
2011 Grant	16,854	56,178	31,827
2012 Grant	10,328	15,493	13,246
2013 Grant (to be issued)	9,201	13,802	-
Principal forgiveness to be charged to Loan Support Program	-	-	11,903
Total Principal Forgiveness Post ARRA	<u>\$ 65,553</u>	<u>\$ 182,706</u>	<u>\$ 118,583</u>

6. Interfund Balances and Transfers

Balances Due to Other Funds: The following balances at June 30, 2013, represent amounts due to other Agency and State of Illinois funds:

Due to Central Management Services for:	
Facilities management revolving payments	\$ 7
Communications revolving payments	2
Group insurance premium payments	<u>34</u>
	43
Due to Human Services	1
Due to Office of the Auditor General	<u>66</u>
Total Due to Other Funds	<u>\$ 110</u>

Transfers from Other Funds: During the year ended June 30, 2013, \$17,860 was transferred from the Anti-Pollution Fund to meet State Match requirements for Federal Capitalization Grants (see Note 9).

7. Capital Assets

Capital asset activities for the year ended June 30, 2013, were as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2013</u>
Capital assets being depreciated:				
Equipment	\$ 414	\$ 53	\$ 43	\$ 424
Less: accumulated depreciation	<u>358</u>	<u>26</u>	<u>43</u>	<u>341</u>
Total capital assets being depreciated	<u>\$ 56</u>	<u>\$ 27</u>	<u>\$ -</u>	<u>\$ 83</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

8. Long-Term Obligations

Changes in Long-Term Obligations: Changes in long-term obligations for the year ended June 30, 2013, were as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Due to Illinois Finance Authority	\$ 49,137	\$ 2,050	\$ 29,668	\$ 21,519	\$ -
Compensated absences	<u>1,590</u>	<u>761</u>	<u>728</u>	<u>1,623</u>	<u>52</u>
	<u>\$ 50,727</u>	<u>\$ 2,811</u>	<u>\$ 30,396</u>	<u>\$ 23,142</u>	<u>\$ 52</u>

Due to Illinois Finance Authority: The Illinois Finance Authority (IFA), a nonmajor component unit of the State of Illinois, issued \$280,000 State of Illinois Revolving Fund Revenue Bonds (Bonds), Series 2002 and 2004. The proceeds (including bond premiums of \$16,400) were deposited in the Water Revolving Fund for the purpose of making loans pursuant to the Clean Water Program and the Drinking Water Program. Prior to the issuance of these revenue bonds, the Agency sold and assigned certain loans outstanding related to the Clean Water Program and the Drinking Water Program to the IFA and pledged the loans to secure payment of the bonds. Of the total outstanding loans at June 30, 2013, \$203,686 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 Bonds are to be repaid from a) payments made pursuant to the pledged loans, b) the income derived from the investment of moneys held in funds and accounts established under the bond indentures and c) moneys held in the debt service fund, the reserve fund and other funds and accounts held by the trustee under the bond indentures and available for payment. The reserve accounts are in the name of the IFA. The reserve accounts are required to contain an amount equal to one-half the amount of the outstanding balance of the bonds. As a result, the Water Revolving Fund has recorded an obligation to repay the remaining one-half of the outstanding balance of the bonds, adjusted for excess amounts held by IFA, and for bond premium. Total principal remaining on the bonds as of June 30, 2013, is \$107,770 payable through 2024. The balance of the unamortized premium on the bonds at June 30, 2013, is \$2,409. The Agency has also committed to paying approximately one-half the interest on the bonds, with interest rates ranging from 3.25% to 5.50%.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

8. Long-Term Obligations (Continued)

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

<u>Year Ending June 30</u>	<u>Obligation</u>	<u>Interest</u>
2014	\$ -	\$ 2,730
2015	-	2,296
2016	-	1,882
2017	-	1,477
2018	3,598	1,079
2019-2023	15,437	1,459
2023-2024	75	2
	<u>\$ 19,110</u>	<u>\$ 10,925</u>

9. Net Position

Portions of net position at June 30, 2013, are restricted for:

United States Environmental Protection Agency (U.S. EPA) Capitalization Grants	\$ 1,629,287
U.S. EPA ARRA Capitalization Grants	<u>127,704</u>
	1,756,991
State match	<u>355,260</u>
Subtotal net position restricted for other purposes	2,112,251
Debt service	<u>205,019</u>
Total restricted net position	<u>\$ 2,317,270</u>

U.S. EPA Capitalization Grants and State Match: 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. In order to qualify for Federal Capitalization Grants, the state must pay into the Revolving Fund a matching amount equal to at least 20% of the amount of such grants (State Match). 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 2002 and 2004 (see Note 8).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

10. Capitalization Grants

The Agency has entered into Capitalization Grant Agreements with the U.S. EPA to administer the Waste Water and Drinking Water Loan Programs, jointly the Water Revolving Fund (270). Pursuant to these Capitalization Grant Agreements, \$1,634,264 for Waste Water and \$599,174 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, 2013, with respect to costs in connection with loans made under the Waste Water and Drinking Water Loan Programs.

The remaining Capital Grant Facility as of June 30, 2013, is summarized below:

	<u>Waste Water</u>	<u>Drinking Water</u>	<u>Total</u>
Total Capital Grants	\$ 1,634,264	\$ 599,174	\$ 2,233,438
Less: Cumulative drawdowns	<u>(1,503,656)</u>	<u>(529,054)</u>	<u>(2,032,710)</u>
Capital Grant Facility	<u>\$ 130,608</u>	<u>\$ 70,120</u>	<u>\$ 200,728</u>

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

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

11. 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, 2013, the Agency had \$3,371 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

11. General and Administrative Costs (Continued)

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

The Administrative Revenues and Expenses reported in the Water Revolving Fund for the year ended June 30, 2013, are as follows:

Revenues	
Administrative grants	\$ 1,670
Loan Support	<u>19,789</u>
	<u>21,459</u>
Expenses	
Payroll and insurance	15,358
Other general expenses	<u>5,176</u>
	<u>20,534</u>
Excess of revenues over expenses	<u>\$ 925</u>

12. Pension Plan

Substantially all of the Agency's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for Fiscal Year 2013 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

12. Pension Plan (Continued)

The Agency pays employer retirement contributions in the individual nonshared proprietary funds based upon an actuarially determined percentage of their payrolls. For Fiscal Year 2013, the employer contribution rate was 37.987%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Agency) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the Fiscal Year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Agency) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pick-up, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

13. Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services (DCMS). Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes five thousand dollars.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013
(amounts in \$000's)**

13. Post-employment Benefits (Continued)

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

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents. A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the DCMS. A copy of the financial statements of the DCMS may be obtained by writing to the DCMS, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

14. Contingencies

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

15. Subsequent Event

In October of 2012, the State of Illinois announced the Clean Water Initiative (Initiative). This Initiative was authorized to use the assets of both the Clean Water and Drinking Water Programs in future leveraged bond sales to increase the size of these programs over the next several fiscal years. The Illinois Finance Authority, a non-major component unit of the State of Illinois, issued \$141,700 of State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds on December 5, 2013. The proceeds (including a premium of \$16,875) provided \$34,290 for Clean Water State Match, \$18,325 for Drinking Water State Match, and the remainder of the funds were used to refinance the 2002 and 2004 Bonds that were previously issued for program needs.

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, 2013
(amounts in \$000's)

	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Subtotal</u>	<u>Eliminating Entries</u>	<u>Total</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 70,832	\$ 224,539	\$ 295,371	\$ (37,486)	\$ 257,885
Securities lending collateral equity with State Treasurer	-	-	-	139,181	139,181
Investments	14,327	23,842	38,169	(38,169)	-
Loans and notes receivable	23,404	106,104	129,508	-	129,508
Other receivables	2,496	6,325	8,821	(386)	8,435
Due from federal government	254	-	254	-	254
Due from component unit	-	-	-	241	241
Other current assets	24	42	66	-	66
Restricted assets - accrued interest receivable	456	878	1,334	-	1,334
Restricted assets - loans receivable	8,241	15,028	23,269	-	23,269
	<u>120,034</u>	<u>376,758</u>	<u>496,792</u>	<u>63,381</u>	<u>560,173</u>
Noncurrent assets					
Investments	5,418	10,837	16,255	(16,255)	-
Loans and notes receivable, net of current portion	439,157	1,616,781	2,055,938	-	2,055,938
Restricted assets - loans receivable	66,310	114,107	180,417	-	180,417
Capital assets, net of accumulated depreciation	23	60	83	-	83
Other noncurrent assets	73	122	195	-	195
	<u>510,981</u>	<u>1,741,907</u>	<u>2,252,888</u>	<u>(16,255)</u>	<u>2,236,633</u>
TOTAL ASSETS	<u>631,015</u>	<u>2,118,665</u>	<u>2,749,680</u>	<u>47,126</u>	<u>2,796,806</u>
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	687	1,233	1,920	(1,895)	25
Due to component units	26	-	26	-	26
Due to federal governments	9	-	9	-	9
Due to local governments	5	130	135	-	135
Due to other funds	594	1,016	1,610	(1,500)	110
Obligations under securities lending of State Treasurer	-	-	-	139,181	139,181
Leases payable, current	-	-	-	-	-
Compensated absences	14	38	52	-	52
Revenue bonds	6,049	10,851	16,900	(16,900)	-
Other current liabilities	224	398	622	(622)	-
	<u>7,608</u>	<u>13,666</u>	<u>21,274</u>	<u>118,264</u>	<u>139,538</u>
Noncurrent liabilities					
Long-term obligations	-	-	-	21,519	21,519
Compensated absences	424	1,147	1,571	-	1,571
Revenue bonds	33,029	57,841	90,870	(90,870)	-
Other non-current liabilities	651	1,136	1,787	(1,787)	-
	<u>34,104</u>	<u>60,124</u>	<u>94,228</u>	<u>(71,138)</u>	<u>23,090</u>
TOTAL LIABILITIES	<u>41,712</u>	<u>73,790</u>	<u>115,502</u>	<u>47,126</u>	<u>162,628</u>
NET POSITION					
Net investment in capital assets	23	60	83	-	83
Restricted for:					
Debt service	75,006	130,013	205,019	-	205,019
Other purposes	524,065	1,588,186	2,112,251	-	2,112,251
Unrestricted (deficit)	(9,791)	326,616	316,825	-	316,825
TOTAL NET POSITION	<u>\$ 589,303</u>	<u>\$ 2,044,875</u>	<u>\$ 2,634,178</u>	<u>\$ -</u>	<u>\$ 2,634,178</u>

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

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

FOR THE YEAR ENDED JUNE 30, 2013

(amounts in \$000's)

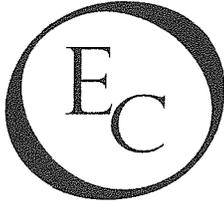
	<u>Drinking Water</u>	<u>Waste Water</u>	<u>Subtotal</u>	<u>Eliminating Entries</u>	<u>Total</u>
OPERATING REVENUES					
Interest income on loans - unpledged	\$ 8,371	\$ 32,074	\$ 40,445	\$ -	\$ 40,445
Interest income on loans - pledged	1,092	1,979	3,071	-	3,071
Total operating revenues	<u>9,463</u>	<u>34,053</u>	<u>43,516</u>	<u>-</u>	<u>43,516</u>
OPERATING EXPENSES					
General and administrative	5,055	15,479	20,534	-	20,534
Principal forgiveness	9,790	12,601	22,391	-	22,391
Depreciation	7	19	26	-	26
Total operating expenses	<u>14,852</u>	<u>28,099</u>	<u>42,951</u>	<u>-</u>	<u>42,951</u>
OPERATING INCOME (LOSS)	<u>(5,389)</u>	<u>5,954</u>	<u>565</u>	<u>-</u>	<u>565</u>
NONOPERATING REVENUES					
Interest and investment income	1,518	2,569	4,087	(3,300)	787
Federal government	24,844	87,714	112,558	-	112,558
Total nonoperating revenues	<u>26,362</u>	<u>90,283</u>	<u>116,645</u>	<u>(3,300)</u>	<u>113,345</u>
NONOPERATING EXPENSES					
Interest	1,964	3,464	5,428	(3,300)	2,128
Other nonoperating expenses	192	308	500	-	500
Total nonoperating expenses	<u>2,156</u>	<u>3,772</u>	<u>5,928</u>	<u>(3,300)</u>	<u>2,628</u>
INCOME BEFORE TRANSFERS	18,817	92,465	111,282	-	111,282
Transfers-in	-	22,839	22,839	-	22,839
CHANGE IN NET POSITION	<u>18,817</u>	<u>115,304</u>	<u>134,121</u>	<u>-</u>	<u>134,121</u>
NET POSITION, BEGINNING OF YEAR	<u>570,485</u>	<u>1,929,572</u>	<u>2,500,057</u>	<u>-</u>	<u>2,500,057</u>
NET POSITION, END OF YEAR	<u>\$ 589,302</u>	<u>\$ 2,044,876</u>	<u>\$ 2,634,178</u>	<u>\$ -</u>	<u>\$ 2,634,178</u>

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

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

FOR THE YEAR ENDED JUNE 30, 2013
(amounts in \$000's)

	Drinking Water	Waste Water	Subtotal	Eliminating Entries	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash payments to employees for services	\$ (4,007)	\$ (10,834)	\$ (14,841)	\$ -	\$ (14,841)
Other payments	(956)	(4,436)	(5,392)	-	(5,392)
Net cash used in operating activities	<u>(4,963)</u>	<u>(15,270)</u>	<u>(20,233)</u>	<u>-</u>	<u>(20,233)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	40,628	92,063	132,691	-	132,691
Interest and principal paid on borrowing	(8,922)	(16,040)	(24,962)	(4,706)	(29,668)
Transfers-in from other funds	-	17,860	17,860	-	17,860
Repayment to Reserve 2002	(20,000)	20,000	-	-	-
Reimbursement for arbitrage	-	-	-	(500)	(500)
Net cash provided by noncapital financing activities	<u>11,706</u>	<u>113,883</u>	<u>125,589</u>	<u>(5,206)</u>	<u>120,383</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(2)	(51)	(53)	-	(53)
Net cash used in capital and related financing activities	<u>(2)</u>	<u>(51)</u>	<u>(53)</u>	<u>-</u>	<u>(53)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investment securities	3,305	5,972	9,277	(9,277)	-
Interest and investment income	10,367	41,653	52,020	(3,159)	48,861
Loans disbursed to governmental units	(84,934)	(233,188)	(318,122)	-	(318,122)
Loans repaid by governmental units	44,236	190,309	234,545	-	234,545
Net cash provided (used) in investing activities	<u>(27,026)</u>	<u>4,746</u>	<u>(22,280)</u>	<u>(12,436)</u>	<u>(34,716)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,285)	103,308	83,023	(17,642)	65,381
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	91,117	121,231	212,348	(19,844)	192,504
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 70,832</u>	<u>\$ 224,539</u>	<u>\$ 295,371</u>	<u>\$ (37,486)</u>	<u>\$ 257,885</u>
Reconciliation of operating income (loss) to net cash used in operating activities:					
Operating income (loss)	\$ (5,389)	\$ 5,954	\$ 565	\$ -	\$ 565
Adjustments to reconcile operating income (loss) to net cash used in operating activities:					
Depreciation expense	7	19	26	-	26
Principal forgiveness	9,790	12,601	22,391	-	22,391
Non-cash operating expense	95	95	190	-	190
Interest income	(9,463)	(34,053)	(43,516)	-	(43,516)
Change in assets and liabilities:					
Increase (decrease) in accounts payable and accrued liabilities	1	(16)	(15)	-	(15)
Increase (decrease) in due to component units	26	(53)	(27)	-	(27)
Increase (decrease) in intergovernmental payables	(11)	118	107	-	107
Increase (decrease) in due to other funds	(28)	41	13	-	13
Increase in compensated absences	9	24	33	-	33
Net cash used in operating activities	<u>\$ (4,963)</u>	<u>\$ (15,270)</u>	<u>\$ (20,233)</u>	<u>\$ -</u>	<u>\$ (20,233)</u>



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable William G. Holland
Auditor General
State of Illinois

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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 17, 2013

**STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
FUND 270 – WATER REVOLVING FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2013**

PRIOR FINDING NOT REPEATED

A. FINDING (Inadequate Controls Over Financial Reporting)

During the prior audit, the Illinois Environmental Protection Agency (Agency) did not exercise adequate internal control over financial reporting. The Agency did not develop a basis or prepare any calculation for the estimated arbitrage rebate and also did not accrue interest income on investments of the debt service fund under the Debt Service Forward Delivery Agreement for the State of Illinois Revolving Fund, Series 2004 issuance.

During the current audit, it was noted that the Agency prepared a calculation to support the estimated arbitrage rebates and recorded an accrual of interest income. (Finding Code No. 12-1)