State of Illinois
Illinois Environmental Protection Agency
Water Revolving Fund
(Fund 270)

FINANCIAL AUDIT

FOR THE YEAR ENDED
JUNE 30, 2022

PERFORMED AS SPECIAL
ASSISTANT AUDITORS FOR THE
AUDITOR GENERAL,
STATE OF ILLINOIS

Roth&Co
BEYOND BUSINESS

STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
WATER REVOLVING FUND (FUND 270)
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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The Environmental Protection Agency's State Compliance Examination for the two years ended June 30, 2022 will be issued under separate cover.

STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
WATER REVOLVING FUND (FUND 270)
FINANCIAL AUDIT
For the Year Ended June 30, 2022

AGENCY OFFICIALS

Director	Mr. John J. Kim
Deputy Director	Mr. Todd Rettig
Chief of Staff	Ms. Laura Roche
Chief Legal Counsel	Mr. Charles Gunnarson
Chief Financial Officer	Mr. Jacob Poeschel
Chief Internal Auditor	Ms. Ellen Jennings Fairfield

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
WATER REVOLVING FUND (FUND 270)
FINANCIAL AUDIT
For the Year Ended June 30, 2022

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying individual nonshared proprietary fund financial statements of the Water Revolving Fund of the 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 fund financial statements of the Water Revolving Fund.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	1	2
Repeated Findings	1	1
Prior Recommendations Implemented or Not Repeated	1	0

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Finding	
2022-001	51	2022/2020	Inadequate Internal Controls over Census Data	Material Weakness
			Prior Finding Not Repeated	
A	54	2021/2021	Inadequate Controls over Financial Reporting	

EXIT CONFERENCE

The Agency waived an exit conference in a correspondence from Laura Roche, Chief of Staff, on March 13, 2023. The response to the recommendation was provided by Pam Smith, Division of Administration Manager, in a correspondence dated March 22, 2023.

Roth&Co

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Opinion

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Water Revolving Fund (Fund 270) of the State of Illinois, Environmental Protection Agency (Agency), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water Revolving Fund (Fund 270) of the Agency, as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Water Revolving Fund (Fund 270) 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, 2022, the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

815 West Van Buren Street,
Suite 500
Chicago, Illinois 60607
P (312) 876-1900
F (312) 876-1911

info@rothcocpa.com
www.rothcocpa.com

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis, pension, and other post-employment benefit (OPEB) related information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements of the Water Revolving Fund (Fund 270). Such missing information, although not a part of the financial statements of the Water Revolving Fund (Fund 270), 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 of the Water Revolving Fund (Fund 270) is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements of the Water Revolving Fund (Fund 270). 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 of the Water Revolving Fund (Fund 270). Such 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 of the Water Revolving Fund (Fund 270). The information has been subjected to the auditing procedures applied in the audit of the financial statements of the Water Revolving Fund (Fund 270) and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements of the Water Revolving Fund (Fund 270) or to the financial statements of the Water Revolving Fund (Fund 270) themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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 is fairly stated, in all material respects, in relation to the financial statements of the Water Revolving Fund (Fund 270) as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Agency officials page, but does not include the financial statements of the Water Revolving Fund (Fund 270) and our auditor's report thereon. Our opinion on the financial statements of the Water Revolving Fund (Fund 270) does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements of the Water Revolving Fund (Fund 270), our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements of the Water Revolving Fund (Fund 270), or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2023 on our consideration of the Agency's internal control over financial reporting of the Water Revolving Fund (Fund 270) 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 and compliance.

Restricted Use of this Auditor's Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and the 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 24, 2023

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

STATEMENT OF NET POSITION

June 30, 2022
(amounts in $000's)

	Water Revolving Fund (Fund 270)
ASSETS	
Current assets	
Cash and cash equivalents	$ 400,589
Securities lending collateral equity with State Treasurer	64,416
Loans and notes receivable	58,092
Other receivables	15,632
Due from component unit	6,732
Restricted assets - accrued interest receivable	13,456
Restricted assets - loans receivable	254,792
Prepaid expenses	21
Total current assets	813,730
Noncurrent assets	
Loans and notes receivable, net of current portion	1,018,054
Restricted assets - loans receivable	3,458,175
Capital assets, net of accumulated depreciation	165
Total noncurrent assets	4,476,394
TOTAL ASSETS	5,290,124
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on pension liability	10,077
Deferred amount on OPEB liability	8,742
Total deferred outflows of resources	18,819
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	5,308,943
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	446
Due to component units	204
Due to federal governments	96
Due to local governments	45
Due to other funds	360
Obligations under securities lending of State Treasurer	64,416
Total OPEB liability	853
Compensated absences	202
Total current liabilities	66,622
Noncurrent liabilities	
Long-term obligations	1,377,603
Compensated absences	1,249
Net pension liability	60,078
Total OPEB liability	30,828
Total noncurrent liabilities	1,469,758
TOTAL LIABILITIES	1,536,380
DEFERRED INFLOWS OF RESOURCES	
Deferred amount on pension liability	5,777
Deferred amount on OPEB liability	10,643
Total deferred inflows of resources	16,420
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,552,800
NET POSITION	
Net investment in capital assets	165
Restricted for:	
Debt service	3,726,423
Other purposes	231,314
Unrestricted (deficit)	(201,759)
TOTAL NET POSITION	$ 3,756,143

See accompanying notes to the financial statements.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2022
(amounts in $000's)

	Water Revolving Fund (Fund 270)
OPERATING REVENUES	
Interest income on loans - unpledged	$ 50,191
Interest income on loans - pledged	33,492
Total operating revenues	83,683
OPERATING EXPENSES	
General and administrative	21,592
Principal forgiveness	53,432
Depreciation	5
Total operating expenses	75,029
OPERATING INCOME	8,654
NONOPERATING REVENUES	
Interest and investment income	(2,756)
Federal government	131,659
Total nonoperating revenues	128,903
NONOPERATING EXPENSES	
Interest	44,441
Other nonoperating expenses	235
Total nonoperating expenses	44,676
TRANSFERS	
Transfers-in	114,816
Transfers-out	(50,000)
Total transfers	64,816
CHANGE IN NET POSITION	157,697
NET POSITION, BEGINNING OF YEAR	3,598,446
NET POSITION, END OF YEAR	$ 3,756,143

See accompanying notes to the financial statements.

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2022
(amounts in $000's)

	Water Revolving Fund (Fund 270)
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to employees for services	$ (20,384)
Cash payments to internal service providers	(2,129)
Other payments	(613)
Net cash used in operating activities	(23,126)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	128,317
Transfers	64,816
Proceeds from revenue bonds, net of underwriter's discount	336,629
Net cash provided by noncapital financing activities	529,762
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(165)
Net cash used in capital and related financing activities	(165)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment income	40,893
Loans disbursed to governmental units	(485,183)
Loans repaid by governmental units	101,928
Net cash used in investing activities	(342,362)
NET INCREASE IN CASH AND CASH EQUIVALENTS	164,109
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	236,480
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 400,589
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$ 8,654
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation expense	5
Principal forgiveness	53,432
Interest income	(83,683)
Interest expense	387
Change in assets and liabilities	
Increase in prepaid expenses	(11)
Increase in deferred outflows of resources	(8,359)
Increase in accounts payable and accrued liabilities	239
Decrease in due to component units	(3)
Increase in intergovernmental payables	110
Increase in due to other funds	269
Increase in other liabilities	399
Decrease in net pension liability	(2,999)
Increase in net OPEB liability	846
Increase in deferred inflows of resources	7,588
Net cash used in operating activities	$ (23,126)
Noncash investing, capital, and financing activities	
Loan repayments held at Trustee	$ 313,102

See accompanying notes to the financial statements.

STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
WATER REVOLVING FUND (FUND 270)

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

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.

<u>Reporting Entity</u>: 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' Annual Comprehensive 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, 2022, 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 two items that qualify for reporting in this category, amounts related to pensions (note 13) and amounts related to other postemployment benefits (note 14).

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).

2. Summary of Significant Accounting Policies (Continued)

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue 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.

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 total OPEB liability, deferred outflows of resources, deferred inflows of resources and OPEB expense have been recognized in the proprietary fund financial statements.

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.

<u>Net Position</u>: 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, 2022, the Agency adopted 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. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

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) simplify accounting for interest cost incurred before the end of a construction period. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

The portion of 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 related to (a) intra-entity transfers of assets, (b) reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specified criteria, (c) applicability of certain requirements of Statement No. 84 to postemployment benefit arrangements, (d) exception to acquisition value in a government acquisition and (e) nonrecurring fair value measurements. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to remove the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

2. Summary of Significant Accounting Policies (Continued)

The portion of Statement No. 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 enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

The portion of GASB Statement No. 99, *Omnibus 2022*, related to extending the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 were effective upon issuance in April 2022. The implementation of this statement had no financial impact on the Fund's net position or results of operations.

Future Adoption of New Accounting Pronouncements: 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. Upon the Agency's adoption of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, the effective date of the Statement was delayed for the Agency until the fiscal year ended June 30, 2023.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (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).

2. Summary of Significant Accounting Policies (Continued)

The portion of Statement No. 99, *Omnibus 2022*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements.

Effective for the year ending June 30, 2024, the Agency will adopt the following GASB statements:

The portion of Statement No. 99, *Omnibus 2022*, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No 53.

Statement No. 100, *Accounting Changes and Error Corrections*, which is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Effective for the year ending June 30, 2025, the Agency will adopt the following GASB statements:

Statement No. 101, *Compensated Absences*, which is intended to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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, 2022, were $400,589 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' Annual Comprehensive 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 2022, 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.

4. Securities Lending Transaction (Continued)

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, 2022, arising from securities lending agreements to the various funds of the State. The total allocated to the Water Revolving Fund at June 30, 2022, was $64,416 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.

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

Year ending June 30	Principal*	Interest	Total
2023	$ 312,884	$ 75,522	$ 388,406
2024	328,989	74,361	403,350
2025	322,865	68,655	391,520
2026	319,167	63,150	382,317
2027	317,482	57,721	375,203
2028-2032	1,511,470	210,499	1,721,969
2033-2037	1,128,154	95,079	1,223,233
2038-2042	482,317	19,617	501,934
2043-2054	69,081	2,973	72,054
	$ 4,792,409	$ 667,577	$ 5,459,986

*Repayments include planned future interest capitalization in the amount of: $3,292 (based on actual disbursements).

5. Loans and Notes Receivable (Continued)

Restricted Loans Receivable

At June 30, 2022, the Agency has pledged loans receivable in the amount of $3,712,967 thousand. This amount is to finance present and future issuances of leveraged bond debt (see note 9). During the year ended June 30, 2022, the Agency received $362,527 thousand and $33,281 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.

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, 38.67% of loan funds made under the Clean Water Program have been made to MWRDGC and municipalities in its service area.

As of June 30, 2022, the outstanding balance of loans to MWRDGC amounted to $917,781 thousand which exceeds 5% of total loans receivable of the fund. This represents approximately 19.16% of total loans receivable

As of June 30, 2022, the outstanding balance of loans to the City of Chicago amounted to $978,227 thousand which exceeds 5% of the total loan's receivable of the fund. This represents approximately 20.43% of the total loan's receivable.

5. Loans and Notes Receivable (Continued)

Principal Forgiveness

As of June 30, 2022, 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.

The 2022 Federal grants for both the Clean Water and Drinking Water programs had not been received as of June 30, 2022. 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. Following is a summary of Post-ARRA loan principal forgiveness (amounts in $000's):

	Clean Water Program		
	Minimum	Maximum	Actual
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	7,187	28,748	28,748
Principal forgiveness charged to Loan Support Program	-	-	-
Total Principal Forgiveness Post ARRA	$ 27,628	$ 110,513	$ 98,383

5. Loans and Notes Receivable (Continued)

	Drinking Water Program		
	Minimum	Maximum	Actual
2017 Grant	$ 6,879	$ 17,196	$ 17,192
2018 Grant	8,382	20,954	20,435
2019 Grant	8,303	22,834	26,043
2020 Grant	5,816	20,356	45,386
Principal forgiveness charged to Loan Support Program	-	-	-
Total Principal Forgiveness Post ARRA	$ 29,380	$ 81,340	$ 109,056

	Total		
	Minimum	Maximum	Actual
2017 Grant	$ 12,875	$ 41,181	$ 35,710
2018 Grant	15,641	49,990	48,957
2019 Grant	15,489	51,578	48,638
2020 Grant	13,003	49,104	74,134
Principal forgiveness charged to Loan Support Program	-	-	-
Total Principal Forgiveness Post ARRA	$ 57,008	$ 191,853	$ 207,439

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, 2022, represent amounts due to other Agency and State of Illinois funds (amounts in $000's):

Due to Central Management Services	$ 317
Due to Department of Innovation and Technology	42
Due to Human Services	1
Total Due to Other Funds	$ 360

8. Capital Assets

Capital asset activities for the year ended June 30, 2022, were as follows (amounts in $000's):

	Balance July 1, 2021	Additions	Deletions/ Transfers	Balance June 30, 2022
Capital assets being depreciated				
Equipment	$ 321	$ 165	$ 25	$ 461
Less: accumulated depreciation	316	5	25	296
Total capital assets being depreciated	$ 5	$ 160	$ -	$ 165

Depreciation expense for the year ended June 30, 2022 was $5 thousand.

9. Long-Term Obligations

Changes in Long-Term Obligations: Changes in long-term obligations for the year ended June 30, 2022, were as follows (amounts in $000's):

	Balance July 1, 2021	Additions	Deletions/ Transfers	Balance June 30, 2022	Amounts Due Within One Year
Due to Illinois Finance Authority	$1,342,559	$222,534	$187,490	$1,377,603	$ -
Compensated absences	1,052	1,426	1,027	1,451	202
Net pension liability	63,077	-	2,999	60,078	-
Net OPEB liability	30,835	846	-	31,681	853
	$1,437,523	$224,806	$191,516	$1,470,813	$ 1,055

Due to Illinois Finance Authority: The Illinois Finance Authority (IFA) serves as the bond trustee and provides financing to the Agency through issuance of revenue bonds to support the loans provided by the Fund. Further information on the revenue bonds issued by the IFA may be found in the IFA annual financial audit report at https://www.auditor.illinois.gov/Audit-Reports/FINANCE-AUTHORITY-ILLINOIS.asp.

Prior to issuance of each series of bonds by the IFA, 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, 2022, $3,712,967 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.

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	$ 1,725,045
Accrued interest payable on bonds at June 30, 2022	41,321
Unamortized premium	258,589
Trustee fees payable	86
Deferred net loss on prior bonds refunded	(4)
	2,025,037
Cash and cash equivalents and accrued interest receivable held in restricted accounts at June 30, 2022	(647,434)
Net obligation	$ 1,377,603

10. Restricted Net Position

Portions of net position at June 30, 2022, are restricted for (amounts in $000's):

Debt service	$ 3,726,423
Other purposes	231,314
Total restricted net position	$ 3,957,737

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, 2019 and 2020. (see Note 9).

11. Capitalization Grants

The Agency has entered into Capitalization Grant Agreements with the U.S. EPA to administer the Waste Water and Drinking Water Loan Programs, jointly the Water Revolving Fund (270). Pursuant to these Capitalization Grant Agreements, $2,224,420 thousand for Waste Water and $940,093 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, 2022, 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, 2022, is summarized below (amounts in $000's):

	Waste Water	Drinking Water	Total
Total Capital Grants	$ 2,224,420	$ 940,093	$ 3,164,513
Less: Cumulative drawdowns	(2,224,420)	(911,746)	(3,136,166)
Capital Grant Facility	$ -	$ 28,347	$ 28,347

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, 2022, the Agency had $0 available to fund future administration costs of the Drinking Water Program due to the FY21 DW Capitalization grant has been fully drawn.

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.

The Administrative Revenues and Expenses reported in the Water Revolving Fund for the year ended June 30, 2022, are as follows (amounts in $000's):

Revenues	
Administrative grants	$ 128,317
Loan Support	39,688
	168,005
Expenses	
Payroll and insurance	18,169
Other general expenses	3,423
Depreciation	5
	21,597
Excess of revenues over expenses	$ 146,408

13. 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 ACFR 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. 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.

Regular Formula Tier 1	Regular Formula Tier 2
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.	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 2021 rate is $116,740. 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.

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. 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 2022, this amount was $119,892.

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 2022, 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 2022, the employer contribution rate was 56.169%. The Fund's contribution amount for fiscal year 2022 was $5,379 thousand.

13. Pension Plan (Continued)

Pension liability, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. At June 30, 2022, the Fund reported a liability of $60,078 thousand 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, 2021 (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, 2021. As of the current year measurement date of June 30, 2021, the Fund's proportion was 0.1815%, which was an increase of 0.0006% from its proportion measured as of the prior year measurement date of June 30, 2020.

For the year ended June 30, 2022, the Fund recognized pension expense of $3,084 thousand. At June 30, 2022, the Fund reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 943	$ 52
Changes of assumptions	2,339	68
Net difference between projected and actual investment earnings on pension plan investments	-	4,631
Changes in proportion	1,416	1,026
Fund contributions subsequent to the measurement date	5,379	-
Total	$ 10,077	$ 5,777

13. Pension Plan (Continued)

$5,379 thousand 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, 2023. 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,		
2023	$	(333)
2024		225
2025		(42)
2026		(929)
Total	$	(1,079)

13. Pension Plan (Continued)

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

	SERS
Valuation date	6/30/2021
Measurement date	6/30/2021
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases*	2.75% - 7.17%
Inflation rate	2.25%
Postretirement benefit increases	
Tier 1	3%, compounded
Tier 2	Lesser of 3% or 1/2 of CPI^, on original benefit
Retirement age experience study ^^	July 2015 - June 2018
Mortality^^^	
SERS	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

Note: the above actuarial assumptions were used to calculate the total pension liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date.

* Includes inflation rate listed.

^ Consumer Price Index

^^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

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

13. 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, 2021, 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%	4.8%
Developed Foreign Equity	13.0%	5.3%
Emerging Market Equity	8.0%	6.5%
Private Equity	7.0%	6.8%
Intermediate Investment Grade Bonds	14.0%	0.4%
Long-term Government Bonds	4.0%	0.6%
TIPS	4.0%	0.3%
High Yield and Bank Loans	5.0%	2.5%
Opportunistic Debt	8.0%	4.3%
Emerging Market Debt	2.0%	2.2%
Real Estate	10.0%	5.6%
Infrastructure	2.0%	6.5%
Total	**100.0%**	

Discount rate. A discount rate of 6.20% was used to measure the total pension liability as of the measurement date of June 30, 2021 as compared to a discount rate of 6.35% used to measure the total pension liability as of the prior year measurement date. The June 30, 2021 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 1.92%, 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 employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate.

13. Pension Plan (Continued)

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 2076. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2076, 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 5.20%	Discount Rate 6.20%	1% Increase 7.20%
Fund's proportionate share of the net pension liability	$ 74,133	$ 60,078	$ 48,543

Payables to the pension plan. At June 30, 2022, the Fund reported a payable of $5 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

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 2022, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,363.04 ($6,290.40 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $13,619.28 ($5,623.44 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.

14. Other Post-employment Benefits (Continued)

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, 2022, was measured as of June 30, 2021, with an actuarial valuation as of June 30, 2020. At June 30, 2022, the Fund recorded a liability of $31,681 thousand 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, 2021. As of the current year measurement date of June 30, 2021, the Fund's proportion was 0.0919%, which was a increase of 0.0182% from its proportion measured as of the prior year measurement date of June 30, 2020.

The Fund recognized OPEB expense for the year ended June 30, 2022, of $224 thousand. At June 30, 2022, the Fund reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 231	$ 220
Changes of assumptions	717	8,719
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,941	1,704
Fund contributions subsequent to the measurement date	853	-
Total	$ 8,742	$ 10,643

14. Other Post-employment Benefits (Continued)

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, 2023. 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		
2023	$	(1,217)
2024		(556)
2025		(929)
2026		(66)
2027		14
Total	$	(2,754)

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, 2020, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2020.

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post-Medicare)	8.00% grading down 0.25% per year over 15 years to 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.
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 2021 and 2022 are based on actual premiums. Premiums after 2022 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare & Post-Medicare)	8.25% grading down 0.25% per year over 16 years to an ultimate trend of 4.25% in the year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.

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

14. Other Post-employment Benefits (Continued)

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2020 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	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
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.

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

Demographic assumptions used in OPEB valuation are identical to those used in the June 30, 2020 valuations for Pensions. Thus, for GARS, JRS and SERS, the 2020 valuation information for pensions is presented in the FY 2021 ACFR in FN 16. For TRS and SURS, the 2020 valuation information is presented in the FY 2021 ACFR in FN 16 (the FN shows FY 2019 but it is actually FY 2019 Census data rolled forward to the FY 2020 Valuation date.

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 2.45% at June 30, 2020, and 1.92% at June 30, 2021, was used to measure the total OPEB liability.

14. Other Post-employment Benefits (Continued)

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 1.92%, 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 (2.92%) or lower (0.92%) than the current rate (amounts expressed in thousands):

	1% Decrease (0.92%)	Current Single Discount Rate Assumption (1.92%)	1% Increase (2.92%)
Fund's Proportionate share of total OPEB liability	37,415	31,681	27,144

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 2023 decreasing to an ultimate trend rate of 4.25% in 2038. A one percentage point decrease in healthcare trend rates are 7.00% in plan year end 2023 decreasing to an ultimate trend rate of 3.25% in plan year end 2038. A one percentage point increase in healthcare trend rates are 9.00% in plan year end 2023 decreasing to an ultimate trend rate of 5.25% in plan year end 2038.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Fund's Proportionate share of total OPEB liability	26,437	31,681	38,620

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 (Fund 270).

16. Subsequent Event

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.

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

COMBINING STATEMENT OF NET POSITION BY PROGRAM

June 30, 2022
(amounts in $000's)

	Drinking Water	Waste Water	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 227,786	$ 172,803	$ 400,589
Securities lending collateral equity with State Treasurer	37,406	27,010	64,416
Loans and notes receivable	4,599	53,493	58,092
Other receivables	3,051	12,581	15,632
Due from component unit	1,870	4,862	6,732
Restricted assets - accrued interest receivable	5,223	8,233	13,456
Restricted assets - loans receivable	82,323	172,469	254,792
Prepaid expenses	3	18	21
Total current assets	362,261	451,469	813,730
Noncurrent assets			
Loans and notes receivable, net of current portion	131,367	886,687	1,018,054
Restricted assets - loans receivable	1,213,102	2,245,073	3,458,175
Capital assets, net of accumulated depreciation	-	165	165
Total noncurrent assets	1,344,469	3,131,925	4,476,394
TOTAL ASSETS	1,706,730	3,583,394	5,290,124
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on pension liability	1,370	8,707	10,077
Deferred amount on OPEB liability	1,188	7,554	8,742
Total deferred outflows of resources	2,558	16,261	18,819
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	1,709,288	3,599,655	5,308,943
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	247	199	446
Due to component units	136	68	204
Due to federal government	-	96	96
Due to local governments	-	45	45
Due to other funds	65	295	360
Obligations under securities lending of State Treasurer	37,406	27,010	64,416
Total OPEB liability	116	737	853
Compensated absences	27	175	202
Total current liabilities	37,997	28,625	66,622
Noncurrent liabilities			
Long-term obligations	493,616	883,987	1,377,603
Compensated absences	170	1,079	1,249
Net pension liability	8,165	51,913	60,078
Total OPEB liability	4,190	26,638	30,828
Total noncurrent liabilities	506,141	963,617	1,469,758
TOTAL LIABILITIES	544,138	992,242	1,536,380
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on pension liability	785	4,992	5,777
Deferred amount on OPEB liability	1,446	9,197	10,643
Total deferred inflows of resources	2,231	14,189	16,420
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	546,369	1,006,431	1,552,800
NET POSITION			
Net investment in capital assets	-	165	165
Restricted for:			
Debt service	1,300,648	2,425,775	3,726,423
Other purposes	-	231,314	231,314
Unrestricted (deficit)	(137,729)	(64,030)	(201,759)
TOTAL NET POSITION	$ 1,162,919	$ 2,593,224	$ 3,756,143

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

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

For the Year Ended June 30, 2022
(amounts in $000's)

	Drinking Water	Waste Water	Total
OPERATING REVENUES			
Interest income on loans - unpledged	$ 12,386	$ 37,805	$ 50,191
Interest income on loans - pledged	12,700	20,792	33,492
Total operating revenues	25,086	58,597	83,683
OPERATING EXPENSES			
General and administrative	1,700	19,892	21,592
Principal forgiveness	33,157	20,275	53,432
Depreciation	-	5	5
Total operating expenses	34,857	40,172	75,029
OPERATING INCOME	(9,771)	18,425	8,654
NONOPERATING REVENUES			
Interest and investment income	(2,264)	(492)	(2,756)
Federal government	57,352	74,307	131,659
Total nonoperating revenues	55,088	73,815	128,903
NONOPERATING EXPENSES			
Interest	17,029	27,412	44,441
Other nonoperating expenses	116	119	235
Total nonoperating expenses	17,145	27,531	44,676
TRANSFERS			
Transfers-in	78,972	35,844	114,816
Transfers-out	-	(50,000)	(50,000)
Total transfers	78,972	(14,156)	64,816
CHANGE IN NET POSITION	107,144	50,553	157,697
NET POSITION, BEGINNING OF YEAR	1,055,775	2,542,671	3,598,446
NET POSITION, END OF YEAR	$ 1,162,919	$ 2,593,224	$ 3,756,143

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

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For the Year Ended June 30, 2022
(amounts in $000's)

	Drinking Water	Waste Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash payments to employees for services	$ (4,066)	$ (16,318)	$ (20,384)
Cash payments to internal service providers	(854)	(1,275)	(2,129)
Other payments	(613)	-	(613)
Net cash used in operating activities	(5,533)	(17,593)	(23,126)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating grants received	56,997	71,320	128,317
Transfers	78,972	(14,156)	64,816
Proceeds from revenue bonds, net of underwriter's discount	45,753	290,876	336,629
Net cash provided by noncapital financing activities	181,722	348,040	529,762
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(165)	(165)
Net cash used in capital and related financing activities	-	(165)	(165)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and investment income	10,045	30,848	40,893
Loans disbursed to governmental units	(135,632)	(349,551)	(485,183)
Loans repaid by governmental units	5,265	96,663	101,928
Net cash used in investing activities	(120,322)	(222,040)	(342,362)
NET INCREASE IN CASH AND CASH EQUIVALENTS	55,867	108,242	164,109
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	171,919	64,561	236,480
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 227,786	$ 172,803	$ 400,589
Reconciliation of operating income to net cash used in operating activities:			
Operating income (deficit)	$ (9,771)	$ 18,425	$ 8,654
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation expense	-	5	5
Principal forgiveness	33,157	20,275	53,432
Interest income	(25,086)	(58,597)	(83,683)
Interest expense	83	304	387
Change in assets and liabilities			
(Increase) decrease in prepaid expenses	(2)	(9)	(11)
(Increase) decrease in deferred outflows of resources	(719)	(7,640)	(8,359)
Increase (decrease) in accounts payable and accrued liabilities	83	156	239
Increase (decrease) in due to component units	25	(28)	(3)
Increase (decrease) in intergovernmental payables	-	110	110
Increase (decrease) in due to other funds	55	214	269
Increase (decrease) in other liabilities	12	387	399
Increase (decrease) in net pension liability	(2,930)	(69)	(2,999)
Increase (decrease) in net OPEB liability	(1,118)	1,964	846
Increase (decrease) in deferred inflows of resources	678	6,910	7,588
Net cash used in operating activities	$ (5,533)	$ (17,593)	$ (23,126)
Noncash investing, capital, and financing activities			
Loan repayments held at Trustee	$ 103,952	$ 209,150	$ 313,102

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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

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 (Fund 270) of the State of Illinois, Environmental Protection Agency (Agency), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the financial statements, and we have issued our report thereon dated April 24, 2023.

Report on 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 as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2022-001 that we consider to be a material weakness.

815 West Van Buren Street,
Suite 500
Chicago, Illinois 60607
P (312) 876-1900
F (312) 876-1911

info@rothcocpa.com
www.rothcocpa.com

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's Water Revolving Fund (Fund 270) 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2022-001.

Agency's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Agency's response to the finding identified in our audit and described in the accompanying Schedule of Findings. The Agency's response was not subjected to the other 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.

Restricted Use of this 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 24, 2023

2022-001 **FINDING** (Inadequate Internal Controls over Census Data)

The Environmental Protection Agency (Agency) did not take sufficient measures to ensure that all 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 among 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. Finally, we noted CMS' actuaries use SERS' census data records to prepare the OPEB actuarial valuation.

The Agency performed an initial reconciliation of its census data recorded by SERS to its internal records in order to establish a base year ended June 30, 2021 of complete and accurate census data. During our testing of a sample of 40 transactions reported by the Agency to SERS, we noted two (5%) reporting errors which the Agency did not identify and correct in its reconciliation. One employee's birthdate was misstated by 10 years. This reporting error was subsequently corrected by the Agency in a later measurement period upon notification by the auditor. Additionally, one employee's monthly salary was understated by $25. We also noted the Agency did not maintain sufficient documentation that a complete reconciliation was properly performed.

For employers participating in plans with multiple-employer and cost-sharing characteristics, 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 Control and Internal Auditing Act (30 ILCS 10/3001) requires the Agency establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Agency officials indicated the errors were due to oversight and their reconciliation being performed manually.

Failure to properly reconcile active members' census data reported to and held by SERS to the Agency's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the State’s pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2022-001, 2021-002, 2020-001)

RECOMMENDATION

We recommend the Agency ensure reconciliation of its active members’ census data from its underlying records to a report of the census data submitted to each plan’s actuary is complete and accurate. We further recommend the Agency re-evaluate the data for the base year ended June 30, 2021 to identify any other instances where data discrepancies may still exist and work with SERS to correct all such unresolved errors in the full reconciliation of Agency and SERS records.

AGENCY RESPONSE

The census reconciliation of employee data was performed screen by screen along with personnel (paper) file documents. The State Record's Act requirements are encompassed in the employees' system record and HR file which have been retained in accordance with the Records Act.

Two errors were found:

1. The one issue was a simple error in the date. In reviewing hundreds of records, the birth date was misread. (human error)

2. The second issue was for a person on a leave of absence (for many years) and the error had no impact since the employee was not getting paid by IEPA. This would have been resolved had the person ever returned from leave (which they did not).

The two errors found could not have skewed reliance on actuarial statistics when combined with all other agencies' employee data. Both errors have been corrected.

On May 29, 2023, the Agency will be converting the personnel records to a new ERP/HCM system. We will need to ensure the data is correct and will go file by file to make sure the converted information is accurate. In addition, staff will be able to view their information and will be asked to ensure it is correct.

AUDITORS' COMMENT

The Agency did not provide the auditors documentation to support that information of each employee was verified using the source documents indicated in the SERS memo entitled "Annual Census Data Reconciliation Guidance" (Guidance). The Guidance requires each agency to be responsible for using staff rosters and personnel file contents to validate participation in the retirement plan and to verify the accuracy of each of the census data demographics for each employee of their agency. The Guidance identifies each of the census data fields to be reviewed and the recommended personnel file source documents for each. The Guidance also requires the Agency staff to verify, for each employee in service on June 30, 2021, that the employee's personnel file contents match the SERS census data extract provided and the Agency's personnel and payroll systems. The State Records Act (5 ILCS 160/8) requires the Agency to make and preserve records containing adequate and proper documentation of its essential transactions, which would also include documentation of the Agency's complete base year reconciliation and verification of agency and Plan records.

The errors identified in our sample indicated there could be other uncorrected errors in the population of the census data, and the reconciliation performed was not effective in detecting and correcting all errors. As a result, assurance cannot be obtained regarding the accuracy and reliability of the census data the Plan actuaries used to calculate pension and OPEB balances used for both the Agency's and the State's financial statements.

STATE OF ILLINOIS
ENVIRONMENTAL PROTECTION AGENCY
WATER REVOLVING FUND (FUND 270)
SCHEDULE OF FINDINGS – PRIOR FINDING NOT REPEATED
For the Year Ended June 30, 2022

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, we did not note any significant financial reporting errors in the Agency's draft financial statements of Fund 270. (Finding Code No. 2021-001)