

**State of Illinois
Office of the Treasurer
Fiscal Officer Responsibilities**

Financial Audit
Years Ended June 30, 2012 and 2011

and Compliance Examination
Year Ended June 30, 2012

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

**State of Illinois
Office of the Treasurer
Fiscal Officer Responsibilities**

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**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
June 30, 2012**

Treasurer's Office Officials

| | |
|-------------------------------|--|
| Treasurer | Honorable Dan Rutherford |
| Chief of Staff | Mr. Kyle Ham |
| Executive Director of Finance | Ms. Bridget Byron (March 23, 2012 – present) |
| Deputy Treasurer/CFO | Mr. Edward Buckles (through December 31, 2011) |
| General Counsel | Ms. Maureen Lydon |
| Director of Banking | Ms. Rhonda Poeschel (through December 31, 2011) |
| | Ms. Elizabeth Turner (January 1, 2012 – present) |
| Inspector General | Mr. David Wells |
| Chief Internal Auditor | Ms. Barbara Ringler |

The Office of the Treasurer had the following office locations during the year:

Executive Office
State Capitol
219 State House
Springfield, Illinois 62706

Operational Divisions
Illinois Business Center
400 West Monroe
Springfield, Illinois 62704

Unclaimed Property & Other Divisions
Myers Building
1 W. Old State Capitol Plaza
Springfield, Illinois 62701

Chicago Office Legal/Programmatic
James R. Thompson Center
100 West Randolph Street
Suite 15-600
Chicago, Illinois 60601



DAN RUTHERFORD
TREASURER
STATE OF ILLINOIS

March 8, 2013

McGladrey LLP
20 N. Martingale Road, Suite 500
Schaumburg, IL 60173-2420

Ladies and Gentlemen:

We are responsible for identification of, and compliance with, all aspects of laws, regulations, contracts, and grant agreements that could have a material effect on the operations of the State of Illinois, Office of the Treasurer (Treasurer) Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Treasurer's compliance with the following assertions during the one-year period ended June 30, 2012. Based on this evaluation, we assert that during the year ended June 30, 2012, the Treasurer has materially complied with the assertions below.

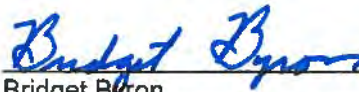
- A. The Treasurer has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Treasurer has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligations, expenditure, receipt or use.
- C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

State of Illinois, Office of the Treasurer



Honorable Dan Rutherford
State Treasurer



Bridget Byron
Executive Director of Finance



Maureen Lydon
General Counsel

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Year Ended June 30, 2012**

Compliance Report Summary

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

Accountants' Report

The Independent Accountants' Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language.

Summary of Findings

| <u>Number of</u> | <u>Current Report</u> | <u>Prior Report</u> |
|---|---------------------------|-------------------------|
| Findings | 2 | 1 |
| Repeated findings | 1 | 1 |
| Prior recommendations implemented or not repeated | 0 | 5 |

Schedule of Findings

| <u>Item No.</u> | <u>Page</u> | <u>Description</u> | <u>Finding Type</u> |
|-----------------------------------|-------------|---|---|
| Finding (State Compliance) | | | |
| 12-1 | 10 | Noncompliance with Statutory Mandates | Significant Deficiency and Noncompliance |
| 12-2 | 12 | Policies Governing Certain Investments not Sufficient | Significant Deficiency |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Year Ended June 30, 2012**

Compliance Report Summary (Continued)

Exit Conference

The findings and recommendations in this report were discussed with Treasurer personnel at an exit conference on March 4, 2013. Attending were:

Office of the State Treasurer

| | |
|------------------|---|
| Bridget Byron | Executive Director of Finance |
| Jessica Olive | Director of Accounting |
| Barb Ringler | Chief Internal Auditor |
| Maureen Lydon | General Counsel |
| Elizabeth Turner | Director of State Portfolio and Banking |
| Ashvin Lad | Director of Invest in IL/IL Funds Sales |
| Benson Zak | Program Manager, Invest in Illinois |

Office of the Auditor General

| | |
|----------------|---------------|
| Paul Usherwood | Audit Manager |
|----------------|---------------|

McGladrey LLP

| | |
|-----------------|------------|
| Linda Abernethy | Partner |
| Syрил Thomas | Supervisor |

The responses to the recommendations were provided by Ms. Barb Ringler in an email dated March 6, 2013.



Independent Accountants' Report on State Compliance and on Internal Control Over Compliance

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities' (the Treasurer) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, for the year ended June 30, 2012. The management of the Treasurer is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

- A. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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

In our opinion, the Treasurer complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2012. However, the results of our procedures disclosed an instance of noncompliance, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as item 12-1.

Internal Control

The management of the Treasurer is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Treasurer's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings and responses as items 12-1 and 12-2. *A significant deficiency in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

There were no immaterial findings that have been excluded from this report.

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

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

McGladrey LLP

Schaumburg, Illinois
March 8, 2013



**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the year ended June 30, 2012, and have issued our report thereon dated March 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Treasurer is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Treasurer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

McGladrey LLP

Schaumburg, Illinois
March 8, 2013

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Schedule of Findings and Responses
Year Ended June 30, 2012**

Current Finding (State Compliance)

Finding 12 – 1 (Noncompliance with Statutory Mandates)

The Illinois Office of the Treasurer (Treasurer) did not comply with all requirements mandated by State statute. The following issues were noted during testing:

1. The Deposit of State Moneys Act (15 ILCS 520/22.5) sets forth the permitted investments that the State Treasurer is allowed to purchase with money in the State Treasury. Within the Deposit of State Moneys Act, specific reference is made a number of times stating, “the State Treasurer may, with the approval of the Governor,” invest State money in various permitted investments.

The Treasurer could not provide documentation of approval from the Governor for certain investments required by the Deposit of State Moneys Act.

Treasurer personnel stated the Office sends a monthly report to the Governor on activities including investments of all types, as well as fund balances. In addition, the Treasurer’s web site is updated weekly, and contains all information on weekly investments.

2. The Identity Protection Act (5 ILCS 179) (Act) was signed into law on June 1, 2010. Each agency was required to draft and approve a protection policy by June 1, 2011, which is 12 months after the effective date of the Act. This Act was drafted in order to limit access to individuals’ social security numbers as well as to restrict posting or displaying social security numbers in each situation.

The Treasurer did not establish an Identity Protection Policy (Policy) as required by the Act by June 1, 2011. Per the Act, the Policy must:

- Identify the Act.
- Require all employees identified as having access to social security numbers in the course of performing their duties to be trained to protect the confidentiality of social security numbers.
- Direct that only employees who are required to use or handle information or documents that contain social security numbers have access to such information or documents.
- Require that social security numbers requested from an individual be placed in a manner that makes the social security number easily redacted if required to be released as part of a public records request.
- Require that, when collecting a social security number or upon request by the individual, a statement of the purpose or purposes for which the agency is collecting and using the social security number be provided.

Treasurer Personnel stated they had adopted a policy, but due to delays in the review process, it was not finalized and implemented until November 2012.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, one requirement is to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law.

State of Illinois
Office of the Treasurer

Fiscal Officer Responsibilities
Schedule of Findings and Responses
Year Ended June 30, 2012

Current Finding (State Compliance)

Finding 12 – 1 (Noncompliance with Statutory Mandates) (Continued)

Failure to comply with mandated responsibilities is noncompliance with statutory requirements and does not fulfill the legislative intent of the Deposit of State Moneys Act and the Identity Protection Act. (Finding Code Nos. 12-1, 11-1 and 10-6)

Recommendation

We recommend the Treasurer comply with the statutory requirements.

Treasurer's Response:

The Treasurer agrees with the recommendation. In addition, we will be reaching out to the Governor's Office in order to make our best effort to comply with the statute.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit and Compliance Examination
Year Ended June 30, 2012**

Current Finding (State Compliance)

Finding 12 – 2 (Policies Governing Certain Investments not Sufficient)

During testing of the Illinois Office of the Treasurer's (Treasurer) investments, auditors noted the Treasurer needs to clarify and document policies governing investments within its securities lending program and Illinois Technology Development Program as follows:

1. The Treasurer receives cash collateral under its securities lending program. The cash collateral is being invested in repurchase agreements collateralized by securities with credit ratings ranging from CCC to AAA (Standard & Poor's) and Caa to Aaa (Moody's). Additionally, the securities lending agent (bank) provides the Treasurer with indemnification from Counterparty defaults resulting from insolvency. Within the Treasurer's Investment Policy, Section 5.0 Authorized and Suitable Investments, sub-section i) restricts the investment in repurchase agreements to only government securities. The policy addressing acceptable forms of investments and repurchase agreement collateral under the securities lending program is contained in a separate agreement with the security lending agent, but is not addressed in the Treasurer's investment policy. Additionally, the Treasurer's investment policy does not clearly indicate that allowable investments under its securities lending program differ from allowable investments outside of that program.

Within Section 1.0 of the Treasurer's Investment Policy it specifically states, "This Policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists." The Treasurer within the securities lending agreement authorized the securities lending agent to invest the cash collateral received in repurchase agreements with approved counterparties collateralized with securities approved by the bank and marked to market daily at no less than 102%. If the Treasurer considers its securities lending agreement with the security lending agent to be its investment policy for securities lending transactions, it should be referenced within the Treasurer's Investment Policy or the key aspects of the agreement should be contained within the Treasurer's Investment Policy.

Office management stated that the contract executed with the securities lending agent was determined to adequately address authorized investments and acceptable forms of collateral for those investments made with cash collateral under its securities lending program.

Approximately \$4.6 billion was invested in repurchase agreements collateralized by securities that were not clearly listed as acceptable forms of collateral within the Treasurer's Investment Policy.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit and Compliance Examination
Year Ended June 30, 2012**

Current Finding (State Compliance)

Finding 12 – 2 (Policies Governing Certain Investments not Sufficient) (Continued)

2. The Treasurer established the Illinois Technology Development Program to invest State money in accordance with the Technology Development Act (30 ILCS 265). The Treasurer enters into partnership agreements to commit a set amount of State money to be invested in venture capital. The money from the various partners is pooled to make venture capital investments in companies. As of June 30, 2012 the value of the Treasurer's investment in the Illinois Technology Development Program was approximately \$36.2 million. As part of testing the Treasurer's investments, auditors selected 5 of 18 (28%) pooled funds that had been provided State money through the Treasurer's Program. Each of the pooled funds was invested in multiple companies. The Treasurer has not developed a policy or procedures to monitor the investments made within the Illinois Technology Development Program.

Per the Technology Development Act (30 ILCS 265/5) "The purpose of this Act is to attract, assist, and retain quality technology businesses in Illinois." In addition, Section 10(c) of the Technology Development Act states, "Any fund created by an Illinois venture capital firm that the Treasurer places money pursuant to this Act shall be required by the State Treasurer to seek investments in technology businesses seeking to locate, expand, or remain in Illinois."

Treasurer Personnel stated the Technology Development Program was established and funded in a previous administration. In the transition of administrations, there was no transition of policies and procedures.

Because there are no formal policies or procedures to monitor the investments made within the Illinois Technology Development Program, there is no established benchmark, goal or other mechanism to measure and determine if the program has been successful, needs improvement, should be eliminated or otherwise changed.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls, one requirement is to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law. (Finding Code No. 12-2)

Recommendation

We recommend the Treasurer update its investment policy to reflect investment practices in place within the securities lending program. Additionally, we recommend the Treasurer adopt policies and procedures to monitor and evaluate the State's investment in the Illinois Technology Development Program.

Treasurer's Response:

The Treasurer agrees with the recommendation. The Treasurer's Office will be reviewing its investment policy statement to include the auditor's recommendation. In addition, the Treasurer's Office will create and adopt formal policies and procedures to monitor and evaluate the investments in the Technology Development Program.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
June 30, 2012**

Financial Statement Report

Summary

The audits of the accompanying Statements of Assets and Other Debits, Liabilities and Accountabilities of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer) as of June 30, 2012 and 2011 and the Statements of Investment Income for the years then ended were performed by McGladrey LLP.

Based on their audits, the auditors expressed unqualified opinions on the Treasurer's financial statements. The financial statements of the Treasurer's Fiscal Officer Responsibilities have been prepared on a basis of accounting other than accounting principles generally accepted in the United States of America.



Independent Auditors' Report

The Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the Treasurer. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B, the Treasurer has prepared these financial statements using accounting practices prescribed by joint agreement of the Illinois Office of the State Comptroller and the Illinois Office of the State Treasurer, which practices differ from accounting principles generally accepted in the United States of America.

Also as discussed in Note B, the financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities are intended to present the Assets and Other Debits, Liabilities and Accountabilities, and Investment Income of only that portion of the State that is attributable to the transactions of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2012 and 2011, and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Other Debits, Liabilities and Accountabilities of the Treasurer as of June 30, 2012 and 2011 and the respective Investment Income for the years then ended, on the basis of accounting described in Note B.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 8, 2013 and April 3, 2012, on our consideration of the Treasurer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the State of Illinois, Office of the Treasurer Fiscal Officer Responsibilities. The accompanying introductory information, supplementary information and other information, as presented in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. 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. The supplementary information (pages 38 through 57) has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole on the basis of accounting described in Note B. The introductory information which includes the list of Treasurer's Office officials and management assertion letter, and the other information which includes key performance measures and the investment policy has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

McGladrey LLP

Schaumburg, Illinois
March 8, 2013

Financial Statements

State of Illinois
Office of the Treasurer
Fiscal Officer Responsibilities
Statements of Assets and Other Debits, Liabilities and Accountabilities
June 30, 2012 and 2011

| | 2012 | 2011 |
|--|-------------------|-------------------|
| Assets and Other Debits | | |
| Cash and cash equivalents | | |
| Demand deposits | \$ 3,976,369 | \$ 2,164,854 |
| Clearing account deposits and deposits in transit | 31,645,334 | 24,865,217 |
| Total cash | 35,621,703 | 27,030,071 |
| Repurchase Agreements | 2,004,604,670 | 3,275,256,086 |
| Commercial Paper | 1,024,577,903 | 494,964,545 |
| U.S. Treasury Bills | 399,945,891 | - |
| The Illinois Funds | 1,127,074,118 | 734,407,528 |
| Money Market Mutual Funds | 498,617,342 | 466,108,170 |
| Mortgage Reserve Fund | - | 539 |
| Total cash and cash equivalents | 5,090,441,627 | 4,997,766,939 |
| Deposits and investments | | |
| Short-term investments | | |
| Time deposits | 102,467,306 | 59,774,220 |
| Commercial Paper | 349,678,431 | 2,581,038,794 |
| U.S. Treasury Bills | 4,097,867,707 | 2,248,910,503 |
| U.S. Treasury Notes | 150,328,125 | - |
| Federal Home Loan Bank | 99,971,000 | - |
| Federal National Mortgage Association | 76,743,000 | 52,021,235 |
| Federal National Mortgage Association Discount Notes | 124,952,153 | 349,464,208 |
| Federal Deposit Insurance Corporation Guarantee Notes | 65,421,900 | 75,463,200 |
| Foreign Investments | 10,000,000 | 10,000,000 |
| Long-term investments | | |
| Time deposits | 9,992,688 | 24,165,743 |
| Federal Home Loan Mortgage Corporation | 200,041,500 | 220,165,600 |
| Federal Home Loan Bank | 249,956,750 | 314,505,950 |
| Federal National Mortgage Association | 951,816,500 | 308,133,250 |
| Federal Farm Credit Banks | 99,945,250 | - |
| Federal Deposit Insurance Corporation Guarantee Notes | - | 66,121,350 |
| State of Illinois Secondary Pool Investment Program | 341,601 | 404,257 |
| Illinois Technology Development | 36,171,912 | 30,041,822 |
| Foreign Investments | 15,000,000 | 20,000,000 |
| Total deposits and investments | 6,640,695,823 | 6,360,210,132 |
| Securities lending collateral | | |
| Invested in Repurchase Agreements | 4,556,511,251 | 3,456,373,500 |
| Other assets | | |
| Warrants cashed, but not canceled | 120,018 | 3,599,372 |
| Receivables from Universities and Agencies for monies advanced | 609,231 | 548,020 |
| Receivable from City of Edwardsville | 265,118 | 272,866 |
| Investment income earned, but not received | 5,614,286 | 6,688,989 |
| Total other assets | 6,608,653 | 11,109,247 |
| Other Debits | | |
| Amount of future general revenue obligated for debt service | 41,857,190,114 | 42,830,269,965 |
| Total assets and other debits | \$ 58,151,447,468 | \$ 57,655,729,783 |

(Continued)

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Statements of Assets and Other Debits, Liabilities and Accountabilities (Continued)
June 30, 2012 and 2011**

| | 2012 | 2011 |
|--|--------------------------|--------------------------|
| Liabilities and Accountabilities | | |
| Liabilities for balances on deposit | | |
| Comptroller | | |
| Protested taxes | \$ 217,343,043 | \$ 361,323,172 |
| Available for appropriation or expenditure | 8,441,321,582 | 7,541,594,485 |
| Agencies' deposits outside the State Treasury | 711,305,851 | 786,344,428 |
| Comptroller's warrants outstanding | 1,065,680,160 | 1,444,028,564 |
| Total liabilities for balances on deposit | <u>10,435,650,636</u> | <u>10,133,290,649</u> |
| Other liabilities | | |
| Obligations under securities lending | 4,556,511,251 | 3,456,373,500 |
| Total Other Liabilities | <u>4,556,511,251</u> | <u>3,456,373,500</u> |
| General obligation indebtedness | | |
| Principal and interest due within one year | 2,968,722,709 | 2,943,843,057 |
| Thereafter | 40,178,652,685 | 41,112,698,207 |
| Total general obligation indebtedness | <u>43,147,375,394</u> | <u>44,056,541,264</u> |
| Accountabilities | | |
| Receivable from City of Edwardsville | 265,118 | 272,866 |
| Investment income earned, but not received (net of cumulative market adjustments) | 11,643,069 | 9,249,003 |
| Federal Reserve Bank settlement account reserve | 2,000 | 1,962 |
| Mortgage Reserve Fund | - | 539 |
| Total accountabilities | <u>11,910,187</u> | <u>9,524,370</u> |
| Total liabilities and accountabilities | <u>\$ 58,151,447,468</u> | <u>\$ 57,655,729,783</u> |

See Notes to the Financial Statements.

**State of Illinois
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**Fiscal Officer Responsibilities
Statements of Investment Income
Years Ended June 30, 2012 and 2011**

| | 2012 | 2011 |
|--------------------------|----------------------|----------------------|
| Investment income earned | <u>\$ 46,705,110</u> | <u>\$ 49,888,444</u> |

See Notes to the Financial Statements.

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE A. AUTHORIZING LEGISLATION

The State of Illinois, Office of the Treasurer, is authorized by the State Treasurer Act (15 ILCS 505/et seq.). The State Treasurer shall receive the revenue and all other public monies of the State, and all monies authorized by law to be paid to him and safely keep the same.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: The State of Illinois, Office of the Treasurer is not a legally separate entity. It is an office of the primary government, which is the State of Illinois (the State) and is considered part of the State financial reporting entity. As such, it is included in the State of Illinois reporting entity. The Treasurer is custodian of the State's cash and investments comprised of the balances in the separate funds, which are considered to be either in the State Treasury or outside the State Treasury. Accounting control for funds outside the State Treasury is the responsibility of other State agencies. Further, the Treasurer is not responsible for determining that all cash received by State agencies is deposited in the State Treasury.

Basis of Presentation: The basis of the presentation of the financial statements for the Office of the Treasurer Fiscal Officer Responsibilities (Treasurer) is to have a set of financial statements that present the financial position of the State's assets that the Treasurer is custodian of and responsible for safeguarding and investing as well as State liabilities including general obligation indebtedness that the Treasurer is responsible for making payments.

The format of the Fiscal Officer Responsibilities financial statements was created to aid the Office of the Comptroller (Comptroller) in the preparation of the State's Comprehensive Annual Financial Report (CAFR). The Comptroller, acting as the State's accountant, designates which agencies are considered part of the primary government for which they require to prepare financial statements (SAMS 27.10.10-B). The basis of presentation; Statements of Assets and Other Debits, Liabilities and Accountabilities and Statements of Investment Income have been developed through an "agreement" between the Treasurer and Comptroller.

The Treasurer's financial statements consist of the Statements of Assets and Other Debits, Liabilities and Accountabilities and Statements of Investment Income. These financial statements are not presented in the traditional framework of Generally Accepted Accounting Principles (GAAP) because the statements only present those assets and activities for which the Treasurer is held accountable by his fiscal officer responsibilities. Exceptions to the traditional GAAP framework are the securities, funds and other assets of The Illinois Funds and College Savings Program and amounts receivable from inheritance tax assessments are not included in the Fiscal Officer financial statements. In addition, the Fiscal Officer financial statements do not include financial statements of the various funds administered by the Fiscal Officer. The Illinois Funds as well as the College Saving Program are audited annually and reported upon separately.

Basis of Accounting: The basis of accounting is essentially a full accrual basis in that revenues are reported when earned, regardless of when the related cash flow takes place, and expenses are reported when there is a legal obligation incurred, subject to certain exceptions as described in the sections below.

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Treasury Funds: The accounting for the State Treasury Fund group, with the exception of general obligation indebtedness and the related amount of future general revenue obligated for debt service, is presented on a basis whereby: (a) assets in the State Treasury and the related liability to the Comptroller for available balances on deposit are recognized at the time the Comptroller "orders" cash into the State Treasury; (b) the liability to the Comptroller is reduced as warrants are presented to the Treasurer for countersignature; and (c) the cash in the State Treasury is reduced as warrants are paid by the Treasurer.

Funds Outside the State Treasury: Funds outside the State Treasury consist of State assets held by the Treasurer, primarily deposits in clearing accounts, demand deposits and temporary investments, which are not under the accounting control of the Comptroller. Such funds and the related liabilities or accountabilities to the depositing State agencies are recognized when the funds are deposited in clearing accounts or certain demand deposit accounts with the Treasurer. This liability or accountability is transferred to funds available for appropriation or expenditure when the Comptroller orders the funds into the State Treasury.

General Obligation Indebtedness: The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The amount to be derived from future revenue for debt service is the difference between the currently outstanding certificates and bonded indebtedness and available balances in the bond redemption and interest fund. The expenditures from the proceeds of the certificates and bond issues are accounted for by other State agencies. This balance represents a liability that is not in compliance with accounting principles generally accepted in the United States of America. It represents the future revenue that will be needed to provide for future debt service.

Investment Income: Investment income is recorded by the Treasurer using the accrual basis of accounting whereby income is recognized and an accountability established as income is earned. Investment income is adjusted for the change in fair value for financial statement purposes only. Funds participating in the investment pool are allocated income monthly based on their proportionate share of the pooled investment base. As authorized by statute, segregated funds are individually invested and specifically credited with the income earned on those investments.

Cash and Cash Equivalents: Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

Illinois Insured Mortgage Pilot Program: Cash and cash equivalents and/or investment amounts held in the trust are reported in the proper asset category and increase the balance "Available for Appropriation or Expenditure" on the Statement of Assets and Other Debits, Liabilities and Accountabilities. The balance of the Mortgage Reserve Fund, a locally held fund related to the IIMPP, is reported in the proper asset category and reported as an "Accountability" in the Statement of Assets and Other Debits, Liabilities and Accountabilities.

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets: Items reported in the Statement of Assets and Other Debits, Liabilities and Accountabilities as “Other Assets” are transactions in process and assets not available for investment. Warrants cashed but not canceled represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller. Receivables from Universities and Agencies for Monies Advanced represent unreimbursed amounts advanced for statutorily authorized imprest funds. The cash balance of the Universities and Agencies imprest funds is reclassified to “Demand Deposits” under Cash and Cash Equivalents on the Statement of Assets, Liabilities and Accountabilities. The Treasurer’s imprest fund, the Federal Reserve Bank Settlement Account, is recorded as a cash account and an “Accountability.”

The noninterest-bearing amount, reported as “Receivable from the City of Edwardsville,” is reported as an Other Asset and is the unpaid balance of funds advanced to the City in 1967 for the planning and construction of a water main. The receivable from the City of Edwardsville is also reported as an “Accountability.” Investment income earned but not received is reported as an “Other Asset” and represents accrued income on investments not yet matured or collected. Investment income earned but not received, net of cumulative market adjustments, is reported as an “Accountability.”

Other Liabilities: The fund balance of the Protest Fund is reported separately from funds available for appropriation and is recorded as a liability for balances on deposit called “Protested Taxes.”

Available for Appropriation or Expenditure: This amount is the State of Illinois’ balance at June 30 available to be appropriated by the general assembly or expended by State agencies.

Use of Estimates: In preparing financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities during the reporting period. Actual results could differ from those estimates.

Presentation Changes: Certain presentations for the year ended June 30, 2011 have been changed to be consistent with the current year presentation.

NOTE C. COMPENSATING BANKS FOR SERVICES

The principal method of payment for receipt and disbursement processing services provided by banks is by warrant from the Treasurer’s Bank Services Trust Fund appropriation.

NOTE D. DEPOSITS AND INVESTMENTS

Overview: The Treasurer’s investment activities are governed by the Treasurer’s published investment policy that was developed in accordance with the State statute. Investments are recorded at fair market value, with the exception of Commercial Paper, Repurchase Agreements, Money Market Mutual Funds, Illinois Funds, U.S. Treasury Bills, U.S. Agency Discount Notes, and the investments in the Illinois Technology Development Program which are valued at amortized cost. The Treasurer’s investments in U.S. Treasury Bills and U.S. Agency Discount Notes are short-term investments with no coupon payments, and the investments in repurchase agreements have maturities less than one year from date of acquisition; therefore GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, permits the Treasurer to record them at amortized cost. The Treasurer’s investments in the Illinois Technology Development Program are investments in venture capital limited partnerships and valued using cost-based measures.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

Short-term investments have a maturity date of less than one year. Unrealized gains and losses are accounted for in the investment in which the change in fair value occurred. In addition, the Treasurer's Office has adopted its own investment practices that supplement the statutory requirements.

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Treasurer's investment policy limits the investment portfolio to maturities not to exceed five years with the majority required to be in authorized investments with less than one-year maturity. No more than 10% of the investment portfolio shall be allocated to investments with a 2 to 4 year maturity band. No more than 10% of the investment portfolio shall be allocated to investments with a 4 to 5 year maturity band. The portfolio shall not deviate from these guidelines unless specifically authorized by the Treasurer in writing. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk. Certain investments purchased prior to the adoption of the investment policy have maturities in excess of 5 years and are excluded from the investment policy requirements.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Cash received by the Treasurer is initially deposited in clearing accounts maintained in banks located in Illinois that are insured by the Federal Deposit Insurance Corporation (FDIC). Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase. Surplus funds, as determined by the Treasurer, may be invested in time deposits, certificates of deposit and other interest-bearing accounts in FDIC-insured banks and savings and loan associations located in the State, credit unions whose principal office is located in Illinois, short-term obligations of corporations whose obligations (i.e. commercial paper) were rated by two or more standard rating services at a level that is at least as high as the following: A-1 by Standard & Poor's, P-1 by Moody's Investor Service, or F-1 by Fitch, repurchase agreements or other investments approved by State law.

As of June 30, 2012, excluding the securities lending program, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1 by Standard and Poor's Ratings, and F1+ by Fitch Ratings, except for those issued by RBS Holdings USA, which were rated P-2 by Moody's Investors Service and F1 by Fitch Ratings and Mizuho Securities US, which were not rated by Fitch Ratings. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service or F1+ by Fitch Ratings. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service, AAA by Fitch Ratings, or AA+ by Standard and Poor's Ratings. The Treasurer's short-term investment in foreign debt securities were rated A-1 by Standard & Poor's Ratings. The Treasurer's long-term investment in foreign debt securities were rated A1 by Moody's Investors Service and A+ by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAM by Standard & Poor's Ratings. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service or AAAM by Standard & Poor's Ratings.

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Notes to the Financial Statements
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NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2012, credit ratings of collateral for securities lending collateral invested in repurchase agreements is as follows:

| Standard and Poor's Rating | Percentage % (Percent of Total) | Moody's Rating | Percentage % (Percent of Total) |
|---------------------------------------|--|---------------------------|--|
| AAA | 1.07% | Aaa | 25.69% |
| AA+ | 10.26% | Aa1 | 0.50% |
| AA | 0.70% | Aa2 | 1.27% |
| AA- | 1.41% | Aa3 | 2.32% |
| A+ | 3.56% | A1 | 0.96% |
| A | 2.52% | A2 | 2.81% |
| A- | 1.97% | A3 | 1.72% |
| A-1+ | 1.63% | Baa1 | 1.84% |
| A-1 | 4.36% | Baa2 | 1.65% |
| A-2 | 1.22% | Baa3 | 0.30% |
| A-3 | 0.50% | Ba1 | 0.37% |
| BBB+ | 1.45% | Ba2 | 1.39% |
| BBB | 1.77% | Ba3 | 0.16% |
| BBB- | 0.91% | B1 | 0.63% |
| BB+ | 0.03% | B2 | 0.25% |
| BB | 0.66% | B3 | 0.54% |
| BB- | 1.31% | Caa1 | 0.97% |
| B+ | 0.68% | Caa3 | 0.06% |
| B/*+ | 0.15% | Ca | 0.01% |
| B | 0.86% | P-1 | 4.53% |
| B- | 0.73% | P-2 | 1.64% |
| CCC+ | 0.06% | Not Rated | 50.39% |
| CC | 0.01% | | |
| Not Rated | 62.18% | | |
| | 100.00% | | 100.00% |

As of June 30, 2011, excluding the securities lending program, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard and Poor's Ratings, except for those issued by Barclay's, Proctor Gamble/Wells, and Walmart/Citiglobal, which were rated A-1+ by Standard and Poor's Ratings. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service or F1+ by Fitch Ratings. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service, AAA by Fitch Ratings, or AAA by Standard and Poor's Ratings. The Treasurer's short-term investment in foreign debt securities were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings. The Treasurer's long-term investment in foreign debt securities were rated Aa1 by Moody's Investors Service and A by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAM by Standard & Poor's Ratings.

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NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAm by Standard & Poor's Ratings.

As of June 30, 2011, credit ratings of collateral for securities lending collateral invested in repurchase agreements is as follows:

| Standard and Poor's Rating | Percentage % (Percent of Total) | Moody's Rating | Percentage % (Percent of Total) |
|---------------------------------------|--|---------------------------|--|
| AAA | 6.15% | Aaa | 3.61% |
| AA+ | 0.69% | Aa1 | 1.45% |
| AA | 2.33% | Aa2 | 1.80% |
| AA- | 2.13% | Aa3 | 2.95% |
| A+ | 6.41% | A1 | 6.01% |
| A | 3.19% | A2 | 4.36% |
| A- | 6.90% | A3 | 5.59% |
| A-1+ | 12.70% | Baa1 | 5.57% |
| A-1 | 3.82% | Baa2 | 5.03% |
| A-2 | 3.25% | Baa3 | 1.73% |
| A-3 | 0.27% | Ba1 | 0.01% |
| BBB+ | 4.74% | Ba2 | 0.57% |
| BBB | 5.89% | P-1 | 16.33% |
| BBB- | 0.39% | P-2 | 3.01% |
| BB | 0.03% | P-3 | 0.55% |
| B+ | 0.01% | Not Rated | 41.43% |
| Not Rated | 41.10% | | |
| | 100.00% | | 100.00% |

The amount of the deposit not covered by Federal deposit insurance for all time deposits is required to be collateralized. Securities pledged as collateral to secure these deposits are required to have a market value at an established percentage of the deposit based on the type of security pledged. Securities that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts, which require a market value of at least 105% of the deposit. If the obligation of the United States and its agencies is a mortgage backed security, the securities pledged as collateral are required to have a market value of at least 110% of the deposit.

Other securities that may be pledged as collateral to secure time deposits are MBIA Certificates (issued by the Municipal Bond Investors Assurance Corporation), Letters of Credit (issued by Federal Home Loan Bank (FHLB)), and Share Certificates (issued by credit unions), which require a market value of at least 102% of the deposit.

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NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit was made. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial bank. Prior to placing the deposit and at least monthly thereafter, the Treasurer determines that the collateral has a market value adequate to secure the deposit.

The Treasurer has established accounts with The Illinois Funds for investment of State funds. The Illinois Funds participation provides comparable yields, a source of liquidity and requires less administrative intervention than other short-term investments. The management, custodianship and operation of The Illinois Funds are under the supervision of the State of Illinois, Office of the Treasurer.

The Treasurer purchased investments in eight mutual funds. These mutual funds provide a comparable yield to other investments, particularly during times of falling interest rates and are a source of liquidity when cash is needed. Investments to the mutual funds can be made daily and interest income is received monthly.

Repurchase agreements are purchased from various financial institutions and rated brokerage firms located in the State. Securities pledged as collateral to secure these agreements are required to have a fair value of at least 102% of the agreement. The agreements require both parties to maintain an acceptable margin on underlying securities to ensure the agreements are adequately collateralized.

The Treasurer accepts only obligations of the United States government or its sponsored agencies as collateral for repurchase agreements (other than within the securities lending program).

All securities pledged to secure repurchase agreements are required to be delivered to a bank other than the institution from whom the investment was acquired. A written custodial agreement with the banks that hold the Treasurer's repurchase agreement collateral requires, among other things, that the collateral securities be held separately from the assets of the bank.

Commercial paper is purchased from various brokerage firms located in the State and is held in safekeeping by a bank for the Treasurer. A written custodial agreement requires, among other things, that the safekeeping bank hold the commercial paper separately from the assets of the bank.

The Treasurer's investment in the State of Illinois Secondary Pool Investment Program was deposited in a trust to purchase a security interest in a pool of Small Business Administration (SBA), Federal Home Loan Mortgage Corporation Adjustable Rate Mortgage (FHLMC ARM), and Federal National Mortgage Association Adjustable Rate Mortgage (FNMA ARM) loans. The securities have a floating rate indexed to the prime rate as quoted in *The Wall Street Journal* and are adjusted quarterly. The pool is guaranteed by the U.S. Government and/or the respective agency. The Trustee for the program is JP Morgan Chase. The primary pool assembler is Meridian Capital Markets, Inc. Dana Investment Advisors, Inc. works with Meridian to assemble the SBA pools and to establish a fair market price.

The Treasurer has purchased investments in U.S. Treasury Obligations and U.S. Agency Securities. These purchases permit greater portfolio diversification, provide comparable yields to other investment options, and provide liquidity due to the active secondary market.

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits: The carrying amount of all the Treasurer's demand and time deposits at June 30, 2012, was \$35,621,703 and \$112,459,994, respectively. The carrying amount of all the Treasurer's demand and time deposits at June 30, 2011, was \$27,030,071 and \$83,939,963, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2012, was \$33,705,077 and \$112,459,994, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2011, was \$25,845,115 and \$83,939,963, respectively.

Investments: Excluding Time Deposits, the Treasurer had the following investments, stated at fair value except as noted below and maturities as of June 30. (Amounts are in thousands.)

| <u>2012</u> | Maturing in: | | | | | Total |
|---|----------------------|---------------------|-----------------|--------------------------|---------------------|----------------------|
| | Less than 1 year | 1 - 5 years | 6 - 10 years | More than 10 years | NA*** | |
| Commercial Paper * | \$ 1,374,256 | \$ - | \$ - | \$ - | \$ - | \$ 1,374,256 |
| Repurchase Agreements* | 2,004,605 | - | - | - | - | 2,004,605 |
| U.S. Treasury Bills * | 4,497,814 | - | - | - | - | 4,497,814 |
| U.S. Treasury Notes | 150,328 | - | - | - | - | 150,328 |
| Federal Home Loan Bank | 99,971 | 249,957 | - | - | - | 349,928 |
| Federal Farm Credit Banks | - | 99,945 | - | - | - | 99,945 |
| Federal Home Loan Mortgage Corporation | - | 200,041 | - | - | - | 200,041 |
| Federal National Mortgage Association | 76,743 | 951,817 | - | - | - | 1,028,560 |
| Federal National Mortgage Association Discount Notes * | 124,952 | - | - | - | - | 124,952 |
| Federal Deposit Insurance Corporation Guarantee Notes | 65,422 | - | - | - | - | 65,422 |
| State of Illinois Secondary Pool Investment Program | - | - | 219 | 123 | - | 342 |
| Foreign Investments** | 10,000 | 15,000 | - | - | - | 25,000 |
| Securities Lending Collateral Invested in Repurchase Agreements* | 4,556,511 | - | - | - | - | 4,556,511 |
| Illinois Technology Development * | - | - | - | - | 36,172 | 36,172 |
| The Illinois Funds* | - | - | - | - | 1,127,074 | 1,127,074 |
| Money Market Mutual Funds* | - | - | - | - | 498,617 | 498,617 |
| Total Investments and Securities Lending Collateral, excluding Time Deposits | \$ 12,960,602 | \$ 1,516,760 | \$ 219 | \$ 123 | \$ 1,661,863 | \$ 16,139,567 |

*Reported at Amortized Cost
**Denominated in U.S. dollars.
*** Categorization not applicable.

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

| <u>2011</u> | Maturing in: | | | | | Total |
|---|----------------------|-------------------|-----------------|--------------------------|---------------------|----------------------|
| | Less than 1 year | 1 - 5 years | 6 - 10 years | More than 10 years | NA*** | |
| Commercial Paper * | \$ 3,076,003 | \$ - | \$ - | \$ - | \$ - | \$ 3,076,003 |
| Repurchase Agreements* | 3,275,256 | - | - | - | - | 3,275,256 |
| U.S. Treasury Bills * | 2,248,911 | - | - | - | - | 2,248,911 |
| Federal Home Loan Bank | - | 314,506 | - | - | - | 314,506 |
| Federal Home Loan Mortgage Corporation | - | 220,166 | - | - | - | 220,166 |
| Federal National Mortgage Association | 52,021 | 308,133 | - | - | - | 360,154 |
| Federal National Mortgage Association Discount Notes* | 349,464 | - | - | - | - | 349,464 |
| Federal Deposit Insurance Corporation Guarantee Notes | 75,463 | 66,121 | - | - | - | 141,584 |
| State of Illinois Secondary Pool Investment Program | - | - | 253 | 151 | - | 404 |
| Foreign Investments** | 10,000 | 20,000 | - | - | - | 30,000 |
| Securities Lending Collateral Invested in Repurchase Agreements* | 3,456,374 | - | - | - | - | 3,456,374 |
| Illinois Technology Development * | - | - | - | - | 30,042 | 30,042 |
| The Illinois Funds* | - | - | - | - | 734,408 | 734,408 |
| Money Market Mutual Funds* | - | - | - | - | 466,108 | 466,108 |
| Mortgage Reserve Fund* | - | - | - | - | 1 | 1 |
| Total Investments and Securities Lending Collateral, excluding Time Deposits | \$ 12,543,492 | \$ 928,926 | \$ 253 | \$ 151 | \$ 1,230,559 | \$ 14,703,381 |

*Reported at Amortized Cost

**Denominated in U.S. dollars.

*** Categorization not applicable.

The Treasurer's net increase/(decrease) in the fair value of investments during 2012 and 2011 was \$1,461,218 and (\$9,528,876), respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year and is reported as investment income earned on the Statement of Investment Income.

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Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount, including accrued interest, was \$2,004,604,670 and \$3,275,256,086, and the fair value of the collateral securities to be resold based on commitments under the repurchase agreements was \$2,070,406,786 and \$3,371,201,401, as of June 30, 2012 and 2011, respectively.

Investment Commitment: The Illinois Technology Development Program which the Treasurer administers, in accordance with 30 ILCS 265, has made commitments totaling approximately \$75 million and \$70 million to provide venture capital to technology businesses for June 30, 2012 and 2011, respectively. The remaining unfunded commitment was approximately \$27 million and \$31 million, as of June 30, 2012 and 2011, respectively.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Treasurer's investment in a single issuer. The following investments exceeded 5 percent of the total investments at June 30, 2012 and 2011. (Amounts are in thousands.)

| | 2012 | | 2011 | |
|--|----------------|------------------------|----------------|------------------------|
| | Carrying Value | % of Total Investments | Carrying Value | % of Total Investments |
| Repurchase agreements: | | | | |
| Northern Trust Company | \$ - | - | \$ 1,264,220 | 8.60 |
| Mizuho Securities* | 1,084,745 | 6.72 | 863,780 | 5.87 |
| UBS Finance* | - | - | 700,000 | 4.76 |
| Commercial Paper: | | | | |
| Deutsche Bank* | 449,952 | 2.79 | - | - |
| Mizuho Securities* | 349,695 | 2.17 | - | - |
| UBS Finance* | | - | 249,708 | 1.70 |
| Securities Lending Collateral Invested in Repurchase Agreements: | | | | |
| BNP Paribas Prime Brokerage | 880,000 | 5.45 | - | - |
| Citigroup Global Markets | 895,000 | 5.55 | - | - |
| Deutsche Bank* | 550,000 | 3.41 | - | - |

* Issuer total exceeds 5%

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

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Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

During fiscal year 2012 and 2011, Deutsche Bank Group lent U.S. Agency Securities, U.S. Treasury securities and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2012 and 2011 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during fiscal years 2012 and 2011 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal years 2012 and 2011, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2012 were \$4,556,511,251 and \$4,551,829,732, respectively. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2011 were \$3,456,373,500 and \$3,446,138,880, respectively.

NOTE E. ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST

The Illinois Insured Mortgage Pilot Program Trust (the Trust) was created in October 1982 in order to stimulate construction activity in the State. The State purchased \$120,000,000 of investment certificates for which the underlying collateral was a pool of mortgage loans issued for the purpose of providing financing to approved construction projects.

The funds of the Trust are invested in a money market account at the Trustee, US Bank. Pursuant to Public Act 96-1181, the Trust transferred \$16 million to the State Treasury on September 30, 2010. On October 31, 2011, approximately \$5 million was transferred to the State Treasury.

NOTE F. DEFEASED DEBT

During fiscal year 2012, the State of Illinois issued General Obligation Refunding Bonds for the purpose of defeasing certain outstanding bonds that carried a higher rate of interest. The defeasance was accomplished by depositing the proceeds from the Refunding Bonds with an escrow trustee for the purchase of U.S. government obligations. The cash from the maturity of the U.S. government obligations and interest thereon will be used to pay all the principal and interest of the defeased bonds as they become due as well as all administrative expenses of the trustee.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE F. DEFEASED DEBT (CONTINUED)

For financial reporting purposes, the obligations under the defeased bonds have been fully liquidated by the escrow deposit of the funds from the Refunding bonds, resulting in a net reduction of General Obligation Indebtedness of \$205,450,183 during fiscal year 2012, as follows:

| | Balances at June 30, 2012 | | |
|------------------------------------|---------------------------|----------------|------------------|
| | Principal | Interest | Total |
| Balance of defeased bonds issues | \$ 1,857,790,000 | \$ 736,397,497 | \$ 2,594,187,497 |
| General Obligation Refunding Bonds | 1,797,740,000 | 590,997,314 | 2,388,737,314 |
| Net decrease | \$ 60,050,000 | \$ 145,400,183 | \$ 205,450,183 |

The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$156,896,542 during fiscal year 2012. During fiscal year 2011, the State of Illinois issued no General Obligation Refunding Bonds.

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2012 and 2011, \$1,572,600,000 and \$570,605,000, respectively, of bonds outstanding was considered defeased.

NOTE G. SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER

At June 30, 2012 and 2011, the Treasurer was responsible for \$12,627,800 and \$13,822,787, respectively, of securities held in safekeeping for various State departments, agencies and institutions. These amounts are not reflected in the statements of Assets and Other Debits, Liabilities and Accountabilities.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS

A summary of the changes from June 30, 2011 to June 30, 2012, in General Obligation Bonded Indebtedness by issue type follows:

| | Multi-Purpose - Interest Rates varying from .75% to 7.35% Series 1991 through 2012, due serially to 2037 | Pension Funding - Interest Rates varying from 3.321% to 5.877% Series 2003, 2010 and 2011, due serially to 2033 | General Obligation Refunding Series 2001 through 2012 - Interest Rates varying from 1.6% to 7.3% due serially to 2025 |
|---|---|---|---|
| Balance at June 30, 2011 | | | |
| Principal | \$ 8,535,817,966 | \$ 16,272,800,000 | \$ 2,893,110,000 |
| Interest | 6,008,773,042 | 9,539,739,060 | 806,301,196 |
| Total | 14,544,591,008 | 25,812,539,060 | 3,699,411,196 |
| Redemptions charge to Appropriations | | | |
| Principal | 432,693,438 | 793,200,000 | 239,780,000 |
| Interest | 536,181,615 | 785,687,428 | 144,967,816 |
| Total | 968,875,053 | 1,578,887,428 | 384,747,816 |
| Certificates/Bonds issued | | | |
| Principal | 1,375,000,000 | - | 1,797,740,000 |
| Interest | 853,794,610 | - | 590,997,314 |
| Total | 2,228,794,610 | - | 2,388,737,314 |
| Refunding | | | |
| Principal | 1,554,110,898 | - | 303,679,102 |
| Interest | 679,017,609 | - | 57,379,888 |
| Total | 2,233,128,507 | - | 361,058,990 |
| Balance at June 30, 2012 | | | |
| Principal | 7,924,013,630 | 15,479,600,000 | 4,147,390,898 |
| Interest | 5,647,368,428 | 8,754,051,632 | 1,194,950,806 |
| Total | \$ 13,571,382,058 | \$ 24,233,651,632 | \$ 5,342,341,704 |

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

| | Total Bonded Indebtedness | General Obligation Certificates | Total General Obligation Indebtedness |
|---|------------------------------|------------------------------------|---|
| Balance at June 30, 2011 | | | |
| Principal | \$ 27,701,727,966 | \$ - | \$ 27,701,727,966 |
| Interest | 16,354,813,298 | - | 16,354,813,298 |
| Total | <u>44,056,541,264</u> | - | <u>44,056,541,264</u> |
| Redemptions charge to Appropriations | | | |
| Principal | 1,465,673,438 | - | 1,465,673,438 |
| Interest | 1,466,836,859 | - | 1,466,836,859 |
| Total | <u>2,932,510,297</u> | - | <u>2,932,510,297</u> |
| Certificates/Bonds issued | | | |
| Principal | 3,172,740,000 | - | 3,172,740,000 |
| Interest | 1,444,791,924 | - | 1,444,791,924 |
| Total | <u>4,617,531,924</u> | - | <u>4,617,531,924</u> |
| Refunding | | | |
| Principal | 1,857,790,000 | - | 1,857,790,000 |
| Interest | 736,397,497 | - | 736,397,497 |
| Total | <u>2,594,187,497</u> | - | <u>2,594,187,497</u> |
| Balance at June 30, 2012 | | | |
| Principal | 27,551,004,528 | - | 27,551,004,528 |
| Interest | 15,596,370,866 | - | 15,596,370,866 |
| Total | <u>\$ 43,147,375,394</u> | <u>\$ -</u> | <u>\$ 43,147,375,394</u> |
| Amounts due within one year | | | |
| Principal | \$ 1,605,380,000 | \$ - | \$ 1,605,380,000 |
| Interest | 1,363,342,709 | - | 1,363,342,709 |
| Total | <u>\$ 2,968,722,709</u> | <u>\$ -</u> | <u>\$ 2,968,722,709</u> |

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

A summary of the changes from June 30, 2010 to June 30, 2011, in General Obligation Bonded Indebtedness by issue type follows:

| | Multi-Purpose - Interest Rates varying from 1.75% to 7.35% Series 1990 through 2010, due serially to 2036 | Pension Funding - Interest Rates varying from 2.766% to 5.877% Series 2003, 2010 and 2011, due serially to 2033 | General Obligation Refunding Series 2001 through 2010 - Interest Rates varying from 3.0% to 7.3% due serially to 2025 | Medicaid Funding - Interest Rate 2.5% Series 2010, due 2011 |
|---|--|---|---|---|
| Balance at June 30, 2010 | | | | |
| Principal | \$ 7,778,269,168 | \$ 13,316,000,000 | \$ 3,115,718,829 | \$ 246,095,000 |
| Interest | 5,472,000,590 | 8,861,114,309 | 951,321,711 | 5,964,386 |
| Total | 13,250,269,758 | 22,177,114,309 | 4,067,040,540 | 252,059,386 |
| Redemptions charge to Appropriations | | | | |
| Principal | 442,451,202 | 743,200,000 | 222,608,829 | 246,095,000 |
| Interest | 540,081,544 | 601,177,049 | 145,020,515 | 5,964,386 |
| Total | 982,532,746 | 1,344,377,049 | 367,629,344 | 252,059,386 |
| Certificates/Bonds issued | | | | |
| Principal | 1,200,000,000 | 3,700,000,000 | - | - |
| Interest | 1,076,853,996 | 1,279,801,800 | - | - |
| Total | 2,276,853,996 | 4,979,801,800 | - | - |
| Balance at June 30, 2011 | | | | |
| Principal | 8,535,817,966 | 16,272,800,000 | 2,893,110,000 | - |
| Interest | 6,008,773,042 | 9,539,739,060 | 806,301,196 | - |
| Total | \$ 14,544,591,008 | \$ 25,812,539,060 | \$ 3,699,411,196 | \$ - |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

| | Total Bonded Indebtedness | General Obligation Certificates | Total General Obligation Indebtedness |
|---|------------------------------|------------------------------------|---|
| Balance at June 30, 2010 | | | |
| Principal | \$ 24,456,082,997 | \$ - | \$ 24,456,082,997 |
| Interest | 15,290,400,996 | - | 15,290,400,996 |
| Total | <u>39,746,483,993</u> | <u>-</u> | <u>39,746,483,993</u> |
| Redemptions charge to Appropriations | | | |
| Principal | 1,654,355,031 | 1,300,000,000 | 2,954,355,031 |
| Interest | 1,292,243,494 | 30,975,000 | 1,323,218,494 |
| Total | <u>2,946,598,525</u> | <u>1,330,975,000</u> | <u>4,277,573,525</u> |
| Certificates/Bonds issued | | | |
| Principal | 4,900,000,000 | 1,300,000,000 | 6,200,000,000 |
| Interest | 2,356,655,796 | 30,975,000 | 2,387,630,796 |
| Total | <u>7,256,655,796</u> | <u>1,330,975,000</u> | <u>8,587,630,796</u> |
| Balance at June 30, 2011 | | | |
| Principal | 27,701,727,966 | - | 27,701,727,966 |
| Interest | 16,354,813,298 | - | 16,354,813,298 |
| Total | <u>\$ 44,056,541,264</u> | <u>\$ -</u> | <u>\$ 44,056,541,264</u> |
| Amounts due within one year | | | |
| Principal | \$ 1,561,880,000 | \$ - | \$ 1,561,880,000 |
| Interest | 1,381,963,057 | - | 1,381,963,057 |
| Total | <u>\$ 2,943,843,057</u> | <u>\$ -</u> | <u>\$ 2,943,843,057</u> |

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

Interest on zero coupon bonds is reflected in the previous schedules as interest to agree to the charge to appropriations. Interest on such bonds is reflected as principal in the debt service requirement schedule below.

Future general obligation debt service requirements at June 30, 2012, are as follows:

| <u>Year ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|--------------------------|--------------------------|--------------------------|
| 2013 | \$ 1,605,380,000 | \$ 1,363,342,709 | \$ 2,968,722,709 |
| 2014 | 1,687,050,000 | 1,332,127,939 | 3,019,177,939 |
| 2015 | 1,884,625,000 | 1,264,763,207 | 3,149,388,207 |
| 2016 | 1,480,750,000 | 1,182,823,832 | 2,663,573,832 |
| 2017 | 1,771,945,000 | 1,113,501,439 | 2,885,446,439 |
| 2018-2022 | 6,220,134,945 | 4,342,949,046 | 10,563,083,991 |
| 2023-2027 | 5,078,755,113 | 2,978,379,498 | 8,057,134,611 |
| 2028-2032 | 6,128,399,991 | 1,537,670,380 | 7,666,070,371 |
| 2033-2037 | 2,002,139,951 | 172,637,344 | 2,174,777,295 |
| Total | <u>\$ 27,859,180,000</u> | <u>\$ 15,288,195,394</u> | <u>\$ 43,147,375,394</u> |

The principal amounts reflected above include accretion to date on zero-coupon bonds.

Additional information and disclosures related to the State's General Obligation Indebtedness are presented in the State of Illinois Comprehensive Annual Financial Report. This report may be obtained online at www.ioc.state.il.us or by writing to the Illinois Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858.

NOTE I. COMMITMENTS AND CONTINGENCIES

There have been several cases filed that challenge the constitutionality of legislation allowing the broader use of fee proceeds that are deposited into special funds the use of which is, by law, otherwise limited to specified purposes. The Treasurer has been named as a nominal defendant in these cases.

The lead case is *Illinois State Chamber of Commerce v. Filan*. This case arose out of the following set of facts. In the fiscal year 2004 Budget Implementation Act, the legislature authorized the Director of the Governor's Office of Management and Budget to transfer funds from specialized or dedicated funds to the General Revenue Fund. Some of the dedicated funds are funded by fees. The Chamber of Commerce, as an employer, pays a surcharge (fee) to the Division of Insurance. The fee is then used by the Workers' Compensation Commission (Commission) for the Commission's operations. The stated purpose of the fee is to reduce the amount of the Commission's operating expenses being paid from general tax revenues. However, the surcharge and fee generated more than twice the sum needed for the Commission's operating budget, and the excess money was transferred to the General Revenue Fund.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2012 and 2011**

NOTE I. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Chamber of Commerce alleged that this practice violates the tax uniformity clause of the Illinois Constitution, the due process clause of the Illinois Constitution and the United States Constitution, and the due takings clause, claiming the fee is, in effect, a disproportional and unfair tax.

In March 2010, the parties executed an agreement to settle this litigation, which was preliminarily approved by the court. A final fairness hearing was scheduled for June 16, 2010.

At the final hearing, the settlement agreement was approved. Distribution of settlements proceeds and transfers of money between funds, pursuant to the settlement agreement, is ongoing. The court continues to retain jurisdiction of this matter until the distribution of funds has been completed.

The other fee transfer cases remain on hold until the Circuit Court renders a final decision. In the aggregate, these cases involve an amount in excess of \$10 million, and may amount to as much as \$17 million.

NOTE J. SUBSEQUENT EVENTS

On September 25, 2012, the State of Illinois issued General Obligation Bonds, Series September 2012 in the amount of \$50,000,000 maturing in 2013 through 2022 at interest rates of 3.0% to 4.0%.

On August 29, 2012, Standard & Poor's rating service downgraded Illinois' credit rating from A+ to A.

On December 14, 2012, Moody's rating service downgraded Illinois' credit rating from A2 stable, to A-2 negative.

On January 25, 2013, Standard & Poor's lowered the rating again to A-.

SUPPLEMENTARY INFORMATION

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits, Liabilities and Accountabilities
June 30, 2012 and 2011**

The following summary compares the assets and other debits, liabilities and accountabilities of the Treasurer's Fiscal Officer accounts:

| | June 30, | |
|--|--------------------------|--------------------------|
| | 2012 | 2011 |
| Assets and Other Debits | | |
| Cash and Cash Equivalents | \$ 5,090,441,627 | \$ 4,997,766,939 |
| Deposits and Investments | 6,640,695,823 | 6,360,210,132 |
| Securities Lending Collateral | 4,556,511,251 | 3,456,373,500 |
| Other Assets | 6,608,653 | 11,109,247 |
| Other Debits | 41,857,190,114 | 42,830,269,965 |
| Total Assets and Other Debits | \$ 58,151,447,468 | \$ 57,655,729,783 |
| Liabilities for Balances on Deposit | | |
| Comptroller | | |
| Protested Taxes | \$ 217,343,043 | \$ 361,323,172 |
| Available for Appropriation or Expenditure | 8,441,321,582 | 7,541,594,485 |
| Agencies' Deposits Outside the State Treasury | 711,305,851 | 786,344,428 |
| Comptroller's Warrants Outstanding | 1,065,680,160 | 1,444,028,564 |
| Total Liabilities for Balances on Deposit | 10,435,650,636 | 10,133,290,649 |
| Other Liabilities | 4,556,511,251 | 3,456,373,500 |
| General Obligation Indebtedness | 43,147,375,394 | 44,056,541,264 |
| Total Liabilities | 58,139,537,281 | 57,646,205,413 |
| Accountabilities | | |
| Receivable from City of Edwardsville | 265,118 | 272,866 |
| Investment Income Earned, but not Received | 11,643,069 | 9,249,003 |
| Federal Reserve Bank Settlement Account Reserve | 2,000 | 1,962 |
| Mortgage Reserve Fund | - | 539 |
| Total Accountabilities | 11,910,187 | 9,524,370 |
| Total Liabilities and Accountabilities | \$ 58,151,447,468 | \$ 57,655,729,783 |

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits – Detail
June 30, 2012 and 2011**

Cash on hand, deposits and cash equivalents are summarized below:

| | June 30, | |
|---|-------------------------|-------------------------|
| | 2012 | 2011 |
| Cash and Cash Equivalents | | |
| Demand Deposits | \$ 3,976,369 | \$ 2,164,854 |
| Clearing Account Deposits and Deposits in Transit | 31,645,334 | 24,865,217 |
| Repurchase Agreements | 2,004,604,670 | 3,275,256,086 |
| Commercial Paper | 1,024,577,903 | 494,964,545 |
| U.S. Treasury Bills | 399,945,891 | - |
| The Illinois Funds | 1,127,074,118 | 734,407,528 |
| Money Market Mutual Funds | 498,617,342 | 466,108,170 |
| Mortgage Reserve Fund | - | 539 |
| | <hr/> | <hr/> |
| Total Cash and Cash Equivalents | <u>\$ 5,090,441,627</u> | <u>\$ 4,997,766,939</u> |

Demand deposit accounts are the principal accounts used to process cash and investment transactions within the State Treasury. The clearing accounts are used to process collected receipts and to identify nonsufficient fund checks. Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits - Detail (Continued)
June 30, 2012 and 2011**

| | June 30, 2012 Bank Balances | | | June 30, 2011 Bank Balances | | |
|--|--------------------------------|---------------------|---------------------|--------------------------------|-------------------|---------------------|
| | Collected | Float | Total | Collected | Float | Total |
| Demand deposits | | | | | | |
| Bank of America | \$ 579,715 | \$ - | \$ 579,715 | \$ - | \$ - | \$ - |
| JP Morgan Chase | 133,049 | 1,069,882 | 1,202,931 | 61,884 | 726,651 | 788,535 |
| Northern Trust Company, Chicago | 264,055 | - | 264,055 | 180,791 | - | 180,791 |
| Wells Fargo Bank | 13,041 | - | 13,041 | 10,572 | - | 10,572 |
| | <u>\$ 989,860</u> | <u>\$ 1,069,882</u> | 2,059,742 | <u>\$ 253,247</u> | <u>\$ 726,651</u> | 979,898 |
| Net reconciling items (e.g., deposits-in-transit and outstanding drafts) | | | <u>1,916,627</u> | | | <u>1,184,956</u> |
| Total demand deposits | | | <u>\$ 3,976,369</u> | | | <u>\$ 2,164,854</u> |

Note - The total bank balances represent all funds recorded by the financial institution. This balance includes the float and collected amounts.
The float balance represents funds credited to the ledger balance which were unavailable, subject to the clearing process.
The collected balance represents available funds which have completed the clearing process.

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits - Detail (Continued)
June 30, 2012 and 2011**

| | June 30, 2012 Bank Balances | | | June 30, 2011 Bank Balances | | |
|--|--------------------------------|----------------------|----------------------|--------------------------------|----------------------|----------------------|
| | Collected | Float | Total | Collected | Float | Total |
| Clearing Account Deposits and Deposits in Transit | | | | | | |
| Bank of America | \$ 2,956,552 | \$ 197,731 | \$ 3,154,283 | \$ - | \$ 122,595 | \$ 122,595 |
| DuQuoin State Bank | 36,146 | - | 36,146 | 28,045 | - | 28,045 |
| JP Morgan | 201 | 1,866,498 | 1,866,699 | 101 | 1,239,280 | 1,239,381 |
| Fifth Third | 35,639 | 26,338,159 | 26,373,798 | 47,452 | 23,170,401 | 23,217,853 |
| Illinois National Bank | 1 | 4,888 | 4,889 | 1 | 10,372 | 10,373 |
| US Bank-Springfield | 102,822 | - | 102,822 | 106,429 | - | 106,429 |
| Northern Trust Company, Chicago | 45,992 | 10,850 | 56,842 | 50,677 | 24,278 | 74,955 |
| Pan American Bank | 44,782 | - | 44,782 | 60,586 | - | 60,586 |
| Wells Fargo Bank | 5,073 | - | 5,073 | 5,000 | - | 5,000 |
| | <u>\$ 3,227,208</u> | <u>\$ 28,418,126</u> | 31,645,334 | <u>\$ 298,291</u> | <u>\$ 24,566,926</u> | 24,865,217 |
| Net reconciling items (e.g., deposits-in- transit and outstanding drafts) | | | <u>-</u> | | | <u>-</u> |
| Total clearing account deposits | | | <u>\$ 31,645,334</u> | | | <u>\$ 24,865,217</u> |

Note - The total bank balances represent all funds recorded by the financial institution. This balance includes the float and collected amounts.
The float balance represents funds credited to the ledger balance which were unavailable, subject to the clearing process.
The collected balance represents available funds which have completed the clearing process.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2012 and 2011**

Deposits and Investments

Most of the Treasurer's investments at June 30, 2012 and 2011 are short-term due to the responsibility to keep funds "liquid" to reimburse banks for warrants paid.

Investments in the Treasurer's pooled accounts are authorized by statute. Certain investments are held in segregated accounts and are purchased at the request of the agency administering the segregated trust fund.

| | June 30, | |
|---|------------------|------------------|
| | 2012 | 2011 |
| Short-Term Deposits and Investments | | |
| Time Deposits | \$ 102,467,306 | \$ 59,774,220 |
| Commercial Paper | 349,678,431 | 2,581,038,794 |
| U.S. Treasury Bills | 4,097,867,707 | 2,248,910,503 |
| U.S. Treasury Notes | 150,328,125 | - |
| Federal Home Loan Bank | 99,971,000 | - |
| Federal National Mortgage Association | 76,743,000 | 52,021,235 |
| Federal National Mortgage Association Discount Notes | 124,952,153 | 349,464,208 |
| Federal Deposit Insurance Corporation Guarantee Notes | 65,421,900 | 75,463,200 |
| Foreign Investments | 10,000,000 | 10,000,000 |
| Total Short-Term Deposits and Investments | 5,077,429,622 | 5,376,672,160 |
| Long-Term Deposits and Investments | | |
| Time Deposits | 9,992,688 | 24,165,743 |
| Federal Home Loan Mortgage Corporation | 200,041,500 | 220,165,600 |
| Federal Home Loan Bank | 249,956,750 | 314,505,950 |
| Federal National Mortgage Association | 951,816,500 | 308,133,250 |
| Federal Farm Credit Banks | 99,945,250 | - |
| Federal Deposit Insurance Corporation Guarantee Notes | - | 66,121,350 |
| State of Illinois Secondary Pool Investment Program | 341,601 | 404,257 |
| Illinois Technology Development | 36,171,912 | 30,041,822 |
| Foreign Investments | 15,000,000 | 20,000,000 |
| Total Long-Term Deposits and Investments | 1,563,266,201 | 983,537,972 |
| Total Deposits and Investments | \$ 6,640,695,823 | \$ 6,360,210,132 |

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2012 and 2011**

Deposits and Investments (Continued)

In allocating funds for short-term investment, the portions allocated to time deposits (certificates of deposit) commercial paper, mutual funds, and bank notes are based on forecasts of anticipated receipts and disbursements to determine funds not needed for at least 30 days from date of investment. Substantially all remaining available funds are invested in repurchase agreements with banks and brokerage firms.

The average yield for investments including amounts listed as cash equivalents on the 2012 and 2011 financial statements was .42% and .48%, respectively.

As of October 1, 2011, the average yield for investments no longer includes monthly changes in market value.

Securities Lending Collateral

The securities lending collateral represents investments made with cash collateral received for U.S. Agency Securities, U.S. Treasury Bills, U.S. Treasury Notes and U.S. Agency Discount Notes lent and any remaining cash collateral received but not yet invested. The cash collateral received on each loan will be returned for the same securities in the future.

| | June 30 | |
|-----------------------------------|-------------------------|-------------------------|
| | 2012 | 2011 |
| Securities Lending Collateral | | |
| Invested in Repurchase Agreements | <u>\$ 4,556,511,251</u> | <u>\$ 3,456,373,500</u> |

Other Assets

This classification includes other assets not available for investment and transactions in process. Details at June 30 follow:

| | June 30 | |
|---|---------------------|----------------------|
| | 2012 | 2011 |
| Warrants cashed, but not canceled | \$ 120,018 | \$ 3,599,372 |
| Receivables from Universities and Agencies for monies advanced | 609,231 | 548,020 |
| Receivable from City of Edwardsville | 265,118 | 272,866 |
| Investment income earned, but not received | 5,614,286 | 6,688,989 |
| Total Other Assets | <u>\$ 6,608,653</u> | <u>\$ 11,109,247</u> |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2012 and 2011**

Other Assets (Continued)

The account balances of warrants cashed but not canceled and the receivable from universities and agencies represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2012 and 2011. The balances in these accounts will vary significantly from day to day, depending on the availability of investable funds and the timing of warrant presentation for payment.

The noninterest-bearing amount receivable from the City of Edwardsville (City) is stated as the unpaid balance of funds advanced to the City in 1967 for the planning and construction of a water main. The repayment terms require the City to pay into the State Treasury ten cents per one thousand gallons of water sold by the City to users receiving water from this main.

Repayments received for the years ended June 30, 2012 and 2011, were \$7,748 and \$8,526, respectively.

Investment income earned but not received represents accrued income on investments not yet matured or collected. The balance fluctuates based on market adjustments, total investments and investment maturity dates.

Amount of Future General Revenue Obligated for Debt Service

The following summary reflects the general revenue obligated for debt service:

| | June 30 | |
|--|--------------------------|--------------------------|
| | 2012 | 2011 |
| Certificates, Bonds and Coupons Maturing in Next Fiscal Year | \$ 2,968,722,709 | \$ 2,943,843,057 |
| Less - Balance on Deposit in State Treasury at Year End, for Certificate and Bond Redemption and Interest | (1,290,185,280) | (1,226,271,299) |
| Amount Obligated from Future General Revenue | | |
| General Revenue - Next Fiscal Year | 1,678,537,429 | 1,717,571,758 |
| General Revenue - Thereafter | 40,178,652,685 | 41,112,698,207 |
| Amount of Future General Revenue Obligated for Debt Service at Fiscal Year End | <u>\$ 41,857,190,114</u> | <u>\$ 42,830,269,965</u> |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2012 and 2011**

Amount of Future General Revenue Obligated for Debt Service (Continued)

A summary of the changes during fiscal years 2012 and 2011, in the amount of future general revenue obligated for debt service is as follows:

| | 2012 | 2011 |
|---|--------------------------|--------------------------|
| Balance at Beginning of Fiscal Year | \$ 42,830,269,965 | \$ 38,861,217,880 |
| Issuance of Certificates and Bonds | 4,617,531,924 | 8,587,630,796 |
| Bonds and Coupons Redeemed and Bonds Refunded | (2,932,510,297) | (4,277,573,525) |
| Bonds and Coupons Refunded | (2,594,187,497) | - |
| Net Change in Balances on Deposit in State Treasury | (63,913,981) | (341,005,186) |
| | <u>\$ 41,857,190,114</u> | <u>\$ 42,830,269,965</u> |
| Balance at End of Fiscal Year | <u>\$ 41,857,190,114</u> | <u>\$ 42,830,269,965</u> |

The amount of future general revenue obligated for debt service reconciled with total indebtedness at June 30 is as follows:

| | June 30 | |
|---|--------------------------|--------------------------|
| | 2012 | 2011 |
| <u>General Obligation Bonds</u> | | |
| Amount of future general revenue obligated for debt service | \$ 41,857,190,114 | \$ 42,830,269,965 |
| Balance on deposit in the State Treasury at June 30 for bond redemption and interest | 1,290,185,280 | 1,226,271,299 |
| Total indebtedness at June 30 | <u>\$ 43,147,375,394</u> | <u>\$ 44,056,541,264</u> |

The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The balancing amount included in assets in the statements of assets and other debits, liabilities and accountabilities of the Treasurer is equivalent to the amount to be derived from future general revenue for debt service. The proceeds of these certificate and bond issues are accounted for by other State agencies.

Under the Short Term Borrowing Act whenever casual deficits or failures in revenue of the State occur, monies borrowed are applied to the purpose for which they were obtained, or to pay the debts thus created, and to no other purpose. The interest and principal are paid by the Treasurer out of the General Obligation Bond Retirement and Interest Fund. All monies borrowed shall be borrowed for no longer than one year.

There were no General Obligation Certificates issued under the Short Term Borrowing Act during fiscal year 2012.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2011 and 2010**

Amount of Future General Revenue Obligated for Debt Service (Continued)

General Obligation Certificates issued under the Short Term Borrowing Act during fiscal year 2011 included one issue. The issue of General Obligation Certificates occurred on July 28, 2010, for principal of \$1,300,000,000 and premium of \$9,153,987. Of this amount, \$1,300,000,000 was deposited into the General Revenue Fund, and \$9,153,987 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on June 10, 2011.

The General Obligation Bond Act ("Act") was passed by the General Assembly in December 1984. Under this Act, effective December 1, 1984, the balance of, and monies directed to be included in the Capital Development Bond Retirement and Interest Fund, Anti-Pollution Bond Retirement and Interest Fund, Transportation Bond Series A Retirement and Interest Fund, Transportation Bond Series B Retirement and Interest Fund, Coal and Energy Development Bond Retirement and Interest Fund, and School Construction Bond Retirement and Interest Fund were transferred to and deposited in the General Obligation Bond Retirement and Interest Fund. This fund is used to make debt service payments on the State's general obligation bonds, which are payable from the funds listed above, as well as the bonds issued under the Act.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Liabilities and Accountabilities - Detail
For the Years Ended June 30, 2012 and 2011**

Liabilities for Balances on Deposit

Protested Taxes: Substantially all of the \$217,343,043 and \$361,323,172 at June 30, 2012 and 2011, respectively, in the Protest Trust Fund has been enjoined by the courts pending the outcome of cases in process. By statute, a taxpayer making a tax payment "under protest" has 30 days to initiate a court suit and obtain an injunction. If not enjoined, the tax payments are transferred to the fund in the State Treasury that would have received the original deposit.

Available for Appropriation or Expenditure: This amount is the State of Illinois' balance at June 30 available to be appropriated by the general assembly or expended by State agencies.

Agencies' Deposits Outside the State Treasury: The liability for agencies' deposits not under the statutory recordkeeping control of the Comptroller consists of:

| | 2012 | 2011 |
|--|-----------------------|-----------------------|
| Treasurer's Clearing Account Balances | \$ 168,746,710 | \$ 249,049,543 |
| Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury | 117,553,961 | (60,661,051) |
| Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts | 317,931,872 | 322,904,016 |
| Deposits in Demand Accounts in Process of Being Ordered into the State Treasury | 107,073,308 | 275,051,920 |
| Total Agency Deposits Outside the State Treasury | <u>\$ 711,305,851</u> | <u>\$ 786,344,428</u> |

The Treasurer's liability for agencies' deposits outside the State Treasury is composed principally of deposits of county and municipal retailers' occupation taxes and State income taxes awaiting designation of account distribution before being deposited in the State Treasury. Agencies' deposits outside the State Treasury consist principally of cash and short-term investments.

Comptroller's Warrants Outstanding: Warrants prepared by the Comptroller are recorded as outstanding upon countersignature by the Treasurer. Warrants outstanding are reduced when paid warrants are returned to the Comptroller.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Liabilities and Accountabilities – Detail (Continued)
June 30, 2012 and 2011**

Other Liabilities

Obligations under securities lending: This amount represents cash collateral received and invested in Repurchase Agreements for U.S. Treasury Bills, U.S. Treasury Notes, U.S. Agency Securities, and U.S. Agency Discount Notes lent that will be returned for the same securities in the future.

General Obligation Indebtedness

Refer to the “Amount of Future General Revenue Obligated for Debt Service” footnote for information relating to outstanding general obligation indebtedness.

Accountabilities

These captions present the balance of certain funds outside the State Treasury. Refer to “Supplementary Information - Other Assets” for information relating to these accountabilities.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income
For the Years Ended June 30, 2012 and 2011**

Investment income earned by the Treasurer is summarized by fund as follows:

| | 2012 | 2011 |
|------------------------------|----------------------|----------------------|
| General Revenue Fund | \$ 24,389,686 | \$ 22,926,060 |
| Other State funds | 21,557,670 | 25,434,903 |
| Segregated State trust funds | 757,754 | 1,527,481 |
| | <u>\$ 46,705,110</u> | <u>\$ 49,888,444</u> |

An analysis of investment income earned, classified by fund, is shown below:

| | | |
|--|---------------|---------------|
| Fund participating in pooled investments | | |
| General Revenue Fund | \$ 24,389,686 | \$ 22,926,060 |
| Aggregated Operations Regulatory Fund | 379 | 668 |
| Airport Land Loan Revolving Fund | 243 | 58 |
| Alternative Compliance Market Account Fund | 545 | 519 |
| Ambulance Revolving Loan Fund | 5,737 | 8,059 |
| AML Reclamation Set Aside Fund | 89,244 | 79,251 |
| Assisted Living and Shared Housing Regulatory Fund | 1,348 | 1,165 |
| Auction Recovery Fund | - | 173 |
| Auction Reg. Administration Fund | - | 288 |
| Autism Research Checkoff Fund | 308 | 168 |
| Autoimmune Disease Research Fund | 216 | 107 |
| Bank & Trust Company Fund | 94,255 | 91,544 |
| Brownfields Redevelopment Fund | 11,959 | 13,540 |
| Build Illinois Bond Retirement and Interest Fund | 25,976 | 26,287 |
| Build Illinois Capital Revolving Loan Fund | 18,067 | 25,946 |
| Build Illinois Fund | 91,090 | 94,413 |
| Capital Litigation Fund | 1,988 | 9,345 |
| Capital Project Fund | 103,708 | 111,106 |
| Care Provide Per W Dev. Dis. | 19,891 | 25,994 |
| Cemetery Consumer Protection Fund | 2,304 | 2,632 |
| Charitable Trust Stabilization Fund | 5,334 | 3,480 |
| Child Abuse Prevention Fund | 1,098 | 1,506 |
| Clean Air Act (CAA) Permit Fund | 31,454 | 35,981 |
| Coal Mining Regulatory Fund | 8,028 | 7,099 |
| Common School Fund | 430,893 | 278,281 |
| Community College Health Insurance Security Fund | 9,867 | 8,417 |
| Community DD Services Medicaid Trust Fund | 60,700 | 89,411 |
| Community Mental Health Medical Trust Fund | 144,369 | 144,866 |
| Community Water Supply Laboratory Fund | 5,012 | 3,632 |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2012 and 2011**

| | 2012 | 2011 |
|--|-----------|-----------|
| Fund participating in pooled investments | | |
| County Automobile Renting Tax Fund | \$ 95 | \$ 86 |
| County Hospital Services Fund | 17,963 | 15,452 |
| County Option Motor Fuel Tax Fund | 20,574 | 22,202 |
| County Water Commission Tax Fund | 26,625 | 33,603 |
| Credit Union Fund | 11,467 | 12,800 |
| Criminal Justice Trust Fund | 236,463 | 303,008 |
| Design Professionals Administration and Investigation Fund | 4,845 | 5,349 |
| DHS Community Services Fund | 681 | - |
| Diabetes Research Checkoff Fund | 1,006 | 288 |
| Drug Rebate Fund | 478,923 | 430,356 |
| Drycleaner Environmental Response Trust Fund | 11,702 | 17,982 |
| DuQuoin State Fair Harness Racing Trust Fund | - | 31 |
| Early Intervention Services Fund | 27,105 | 26,449 |
| Electronics Recycling Fund | 1,879 | 1,356 |
| Environmental Laboratory Certification Fund | 1,287 | 1,604 |
| EPA Court Ordered Trust Fund | 29 | 33 |
| Explosive Regulatory Fund | 170 | 362 |
| Facilities Management Fund | 39,864 | 34,829 |
| Fair Share Trust | 800 | 922 |
| Family Care Fund | 16,886 | 7,190 |
| Federal Asset Forfeiture Fund | 8,443 | 7,972 |
| Federal Home Investment Trust Fund | 5,841 | 7,523 |
| Federal Moderate Rehab Housing Fund | 579 | 731 |
| Federal Student Loan Fund | 167,013 | 198,984 |
| Federal Workforce Training Fund | 2,089 | 562 |
| Fire Service & Small Equipment Fund | 31 | 555 |
| Fire Truck Revolving Loan Fund | 18,466 | 10,780 |
| Fish and Wildlife Endowment Fund | 9,473 | 10,298 |
| Food and Drug Safety Fund | 3,165 | 1,906 |
| Gaining Early Awareness Fund | 52,410 | 55,900 |
| General Assembly Retirement Excess Benefits Fund | 126 | 106 |
| General Assembly Retirement Fund | 15,930 | 20,763 |
| General Obligation Bond Retirement and Interest Fund | 5,282,165 | 5,382,514 |
| General Professions Dedicated Fund | 30,712 | 14,490 |
| Group Home Loan Revolving Fund | 152 | 150 |
| Group Insurance Premium | 40,326 | 66,809 |
| Group Workers Compensation Pool | 8,922 | 9,210 |
| Hansen-Therkelsen Memorial Deaf Student College Fund | 3,834 | 2,566 |
| Health and Human Services Medicaid Trust Fund | 94,334 | 148,515 |
| Health Insurance Reserve Fund | 476,712 | 282,640 |
| Healthcare Providers Relief Fund | 324,308 | 325,337 |
| Hearing Instrument Dispenser Examining and Disciplinary Fund | 201 | 133 |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2012 and 2011**

| | 2012 | 2011 |
|--|-----------|------------|
| Help Illinois Vote Fund | \$ 86,897 | \$ 111,523 |
| Home Inspector Administration Fund | 2,439 | 2,309 |
| Home Rule City Retailers' Occupation Tax Fund | 429,977 | 342,479 |
| Home Rule Municipal Retailers' Occupation Tax Fund | 369,195 | 400,896 |
| Hospital Provider Fund | 533,386 | 598,179 |
| Human Service Priority Cap Program Fund | 4,363 | 968 |
| Hunger Relief Fund | 339 | 237 |
| Illinois Affordable Housing Trust Fund | 118,884 | 47,698 |
| Illinois Beach Marina Fund | 1,267 | 358 |
| Illinois Clean Water Act | 41,916 | 39,459 |
| Illinois Equity Fund | 2,906 | 4,007 |
| Illinois Farmer and Agri-Business Loan Guarantee Fund | 37,267 | 41,492 |
| Illinois Habitat Fund | 17,492 | 15,673 |
| Illinois Power Agency Trust Fund | 46,069 | 24,614 |
| Illinois State Dental Disciplinary Fund | 6,128 | 9,630 |
| Illinois State Medical Disciplinary Fund | 13,945 | 6,411 |
| Illinois State Pharmacy Disciplinary Fund | 7,411 | 4,772 |
| Illinois State Podiatric Disciplinary Fund | 919 | 1,495 |
| Illinois State Police Operations Assistance Fund | 50,955 | 16,597 |
| Illinois Veteran's Assistance Fund | 4,183 | 12,470 |
| Industrial Commission Surcharge Escrow Fund | - | 7,675 |
| Injured Workers Benefit Fund | 3,110 | 1,666 |
| Innovations in Long-Term Care Quality Demonstration Grants | 13,977 | 12,290 |
| Intercity Passenger Rail Fund | 216 | 2,112 |
| Interpreters for the Deaf Fund | 452 | 696 |
| Judges Retirement Excess Benefits Fund | 1,971 | 1,444 |
| Judges Retirement Fund | 89,413 | 107,836 |
| Juvenile Accountability Incentive Block Grant Fund | 24,109 | 27,660 |
| Kaskaskia Commons Permanent School Fund | 1,110 | 1,246 |
| Large Business Attraction Fund | 3,550 | 4,350 |
| Law Enforcement Camera Grant Fund | 13,019 | 2,838 |
| Local Government Health Insurance Reserve Fund | 22,527 | 15,192 |
| Long-Term Care Ombudsman Fund | 785 | 75 |
| Long-Term Care Provider Fund | 215,417 | 202,915 |
| Medicaid Buy-In Program Revolving Fund | 3,326 | 1,964 |
| Metro East Mass Transit District Tax Fund | 28,019 | 27,855 |
| Metropolitan Pier and Exposition Authority Trust Fund | 83,377 | 161,408 |
| Money Follows the Person Budget Fund | 1,615 | 2,027 |
| Motor Vehicle Theft Prevention Fund | 21,484 | 28,711 |
| Multiple Sclerosis Research Fund | 7,592 | 4,168 |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2012 and 2011**

| | 2012 | 2011 |
|---|-----------|-----------|
| Municipal Automobile Renting Tax Fund | \$ 5,243 | \$ 5,917 |
| Municipal Economic Development Fund | 206 | 411 |
| Non-Home Rule Municipal Retailer's Occupation Tax Fund | 87,656 | 83,135 |
| Nuclear Safety Emergency Preparedness Fund | 25,194 | 31,642 |
| Nursing Dedicated and Professional Fund | 14,137 | 13,978 |
| Off-highway Vehicle Trails Fund | 6,290 | 6,444 |
| Oil Spill Response Fund | 222 | 109 |
| Optometric Licensing and Disciplinary Committee Fund | 1,208 | 574 |
| Personal Property Tax Replacement Fund | 394,415 | 410,612 |
| Petroleum Violation Fund | 605 | 2,496 |
| Plugging and Restoration Fund | 1,570 | 2,939 |
| Prescription Pill and Drug Disposal Fund | 3 | - |
| Private Sewage Disposal Program | 400 | 533 |
| Professional Services Fund | 43,792 | 39,793 |
| Professions Indirect Cost Fund | 20,188 | 14,022 |
| Public Agriculture Loan Guarantee | 48,260 | 53,904 |
| Public Health Services Revolving Fund | 1,132 | 675 |
| Public Infrastructure Construction Loan Revolving Fund | 28,098 | 15,304 |
| Public Pension Regulation Fund | 9,782 | 8,331 |
| Quality of Life Endowment Fund | 10,236 | 7,695 |
| Radiation Protection Fund | 12,523 | 10,230 |
| Radioactive Waste Facility Development and Operation Fund | 5,009 | 2,249 |
| Rail Freight Loan Repayment Fund | 12,979 | 16,045 |
| Rate Adjustment Fund | 52,083 | 98,029 |
| Real Estate Audit Fund | 589 | 300 |
| Real Estate License Administration Fund | 139,141 | 151,898 |
| Real Estate Recovery Fund | 3,665 | 4,006 |
| Real Estate Research and Education Fund | 643 | 145 |
| Regional Transit Authority Sales Tax Trust Fund | 418,957 | 460,285 |
| Registered CPA Administration and Disciplinary Fund | 10,930 | 4,955 |
| Replacement Vehicle Tax-Municipal Trust Fund | - | 3 |
| Road Fund | 3,635,671 | 3,380,416 |
| Road Transportation A Fund | 1,214,430 | 4,784,028 |
| Salmon Fund | 774 | 441 |
| Savings and Residential Finance Regulatory Fund | 8,233 | 8,428 |
| Savings Institution Regulatory Fund | 2,063 | - |
| School Technology Revolving Loan Fund | 5,738 | 5,676 |
| Second Injury Fund | 3,204 | 3,636 |
| Securities Audit and Enforcement Fund | 69,521 | 91,366 |
| Self-Insurers Administration Fund | 282 | 621 |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2012 and 2011**

| | 2012 | 2011 |
|---|----------------------|----------------------|
| Self-Insurers Security Fund | \$ 126,348 | \$ 148,018 |
| Sheffield February 1982 Agreed Order Fund | 17,762 | 20,675 |
| Special Tax Inc. | 11,034 | 15,097 |
| St. Jude Children Research Fund | 9 | 2 |
| State Assets Forfeiture Fund | 6,954 | 5,068 |
| State Board of Elections Federal Trust Fund | 230 | 1,549 |
| State Construction Account Fund | 849,835 | 705,809 |
| State Employees Retirement Excess Benefits Fund | 102 | 222 |
| State Employees Retirement System Fund | 750,520 | 448,062 |
| State Employees' Deferred Compensation Plan Fund | 25,747 | 26,289 |
| State Furbearer Fund | 649 | 744 |
| State Migratory Waterfowl Stamp Fund | 15,724 | 18,322 |
| State Pheasant Fund | 5,966 | 5,355 |
| State Rail Freight Loan Repayment Fund | 32,381 | 36,782 |
| State Small Business Credit Initiative Fund | 101,343 | - |
| State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund | 2,967 | 3,939 |
| Student Loan Operating Fund | 103,526 | 34,964 |
| Supreme Court Historic Preservation Fund | 15,344 | 20,902 |
| Teachers' Health Insurance Security Fund | 138,902 | 164,170 |
| Teachers' Retirement Excess Benefits Fund | 112,759 | 157,264 |
| Teachers' Retirement System Fund | 502,785 | 590,657 |
| Ticket for the Cure Fund | 5,748 | 3,090 |
| TOMA Consumer Protection | 868 | 479 |
| Underground Resource Conservation Enforcement Trust Fund | 1,522 | 2,170 |
| Underground Storage Tank Fund | 33,495 | 16,859 |
| University of Illinois Income Trust Fund | 7 | 9 |
| Vince Demuzio Memorial Colon Cancer Fund | - | 24 |
| Violent Crime Victims Assistance Fund | 6,476 | 4,403 |
| Water Pollution Control Revolving Fund | 1,245,361 | 2,178,845 |
| Wildlife and Fish Fund | 101,335 | 101,718 |
| Wildlife and Prairie Park Fund | 147 | 136 |
| Worker's Compensation Benefit Trust Fund | - | 8 |
| Worker's Compensation Revolving Fund | 128,136 | 180,324 |
| Total pooled investment income | \$ 45,947,356 | \$ 48,360,963 |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2012 and 2011**

| | 2012 | 2011 |
|--|---------------|---------------|
| <hr/> | | |
| Segregated Investments | | |
| Agrichemical Incident Response Trust Fund | \$ 2 | \$ 4 |
| College Savings Pool Administration Fund | 1,065 | 1,816 |
| Corn Commodity Trust Fund | 1 | - |
| Deferred Lottery Prize Winners Trust Fund | 1,000 | 5,498 |
| Horse Racing Equity Trust | 1,753 | 2,227 |
| Illinois Habitat Endowment Trust Fund | 7,244 | 6,733 |
| Illinois Municipal Retirement Fund | 7,518 | 32,180 |
| Illinois Prepaid Tuition Trust Fund | 7,500 | 7,773 |
| Illinois Rural Rehabilitation Fund | - | 1 |
| Illinois State Toll Highway Revenue Fund | 709,326 | 1,431,571 |
| National Heritage Endowment Trust Fund | 299 | 503 |
| Radioactive Waste Facility Closure and Compensation Fund | 80 | 130 |
| Title III Social Security and Employment Service | 3,145 | 5,628 |
| Tobacco IPTIP | 16,010 | 29,902 |
| Unemployment Compensation Special Administration Fund | 2,811 | 3,515 |
| | <hr/> | |
| Total segregated investment income | 757,754 | 1,527,481 |
| | <hr/> | |
| Total investment income | \$ 46,705,110 | \$ 49,888,444 |
| | <hr/> <hr/> | |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2012 and 2011**

An analysis of investment income earned by funds participating in pooled investments is shown below by type of investment:

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| The Illinois Funds | \$ 458,831 | \$ 710,511 |
| Time Deposits | 1,108,431 | 1,885,173 |
| Now Accounts | - | 293,157 |
| Money Market Mutual Fund | 119,553 | 199,428 |
| Repurchase Agreements | 1,364,459 | 2,729,240 |
| Commercial Paper | 7,351,231 | 13,715,351 |
| Federal Farm Credit Bank Notes | 380,952 | - |
| State of Illinois Secondary Pool Investment Program | 13,287 | 1,472 |
| Federal National Mortgage Association | 11,821,360 | 7,587,154 |
| Federal Agriculture Mortgage Corporation | - | 2,036 |
| Foreign Investments | 398,254 | 404,058 |
| Federal Home Loan Mortgage Corporation | 3,512,173 | 3,371,352 |
| Federal Home Loan Bank Notes | 2,218,243 | 3,496,390 |
| Federal Deposit Insurance Corporation Guarantee Notes | 664,059 | 1,382,726 |
| U.S. Treasury Bills | 8,127,197 | 6,163,908 |
| U.S. Treasury Notes | 156,299 | - |
| Illinois Technology Development | 3,264,089 | (583,553) |
| Mortgage Pilot Program | 4,988,938 | 7,002,560 |
| | <u>\$ 45,947,356</u> | <u>\$ 48,360,963</u> |
| Total pooled investment income | | |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Administrative Responsibilities
June 30, 2012 and 2011**

Protest Trust Fund

| | <u>2012</u> | <u>2011</u> |
|---|-----------------------|-----------------------|
| Liability at beginning of year | \$ 361,323,172 | \$ 336,133,520 |
| Add | | |
| Trust receipts collected by other State agencies | <u>23,756,006</u> | <u>154,077,904</u> |
| | <u>385,079,178</u> | <u>490,211,424</u> |
| Deduct | | |
| Trust disbursements for refunds of successfully protested tax payments | 14,552,206 | 58,097,030 |
| Transfers to other funds | <u>153,183,929</u> | <u>70,791,222</u> |
| | <u>167,736,135</u> | <u>128,888,252</u> |
| Liability at end of year | <u>\$ 217,343,043</u> | <u>\$ 361,323,172</u> |

Inheritance and Estate Taxes

The Treasurer's Fiscal Officer Responsibilities include joint responsibility with the Attorney General of the State of Illinois (Attorney General) for the collection of inheritance and estate taxes assessed by the circuit courts and the Attorney General, respectively, and collected by the 102 county treasurers.

Gross inheritance and estate tax receipts for the fiscal years ended June 30, 2012 and 2011, were \$234,863,879 and \$122,243,610, respectively. These amounts do not reflect refunds and fees distributed to county treasurers.

For the past four fiscal years, the amount of Estate Tax refund requests has exceeded the amount of money appropriated by the General Assembly for this purpose. As a result, there was a backlog of unpaid estate tax refund requests due as of June 30, 2012 in the amount of \$28,544,520.

Public Act 97-732 made changes to the Estate Tax law, effective July 1, 2012, that reconfigures the way estate taxes are collected from estates and how the monies are paid back to estates that are owed refunds.

As of July 1, 2012, all Illinois Estate and Inheritance taxes will be paid directly to the State Treasurer's Office by the estate rather than flowing through the county treasurers. Additionally, county treasurers will no longer receive a monthly six percent estate tax distribution for collection services. Instead, six percent of all estate tax collections will be set aside in the Estate Tax Refund Fund to be used exclusively for paying estate tax refunds. The Treasurer's Office anticipates the backlog of unpaid estate tax refunds to be fully paid within 2 to 3 years.

The State Treasurer's Office will not receive any new monies to fund its new collection responsibilities.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Administrative Responsibilities (Continued)
June 30, 2012 and 2011**

Tobacco Settlement Recovery Fund

Pursuant to Public Act 91-0646, the State Treasurer shall make deposits into the Tobacco Settlement Recovery Fund that shall contain deposits of all monies paid to the State for settlement proceeds and investment income. Pursuant to Public Act (Act) 96-0958, the Railsplitter Tobacco Settlement Authority (Authority) was established. The Act transferred the State's right to tobacco settlement proceeds to the Authority in exchange for the net proceeds of bonds and a right to the residual interest in tobacco settlement proceeds. On December 8, 2010, the Authority issued \$1.5 billion in bonds at an interest rate of 5.599%, with a maturity date of June 1, 2028. The following is a detail of the deposits into Fund Number 733:

| | 2012 | 2011 |
|--------------------------------------|-----------------------|-------------------------|
| Bond sale proceeds | \$ - | \$ 1,540,392,592 |
| Tobacco Settlement proceeds | 133,068,770 | - |
| Interest and other investment income | 11,999 | 30,732 |
| Total Receipts and Deposits | <u>\$ 133,080,769</u> | <u>\$ 1,540,423,324</u> |

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Key Performance Measures
June 30, 2012
(Unaudited)**

- The Illinois Funds' net asset base at 6/30/12 was \$5,822,502,182.
- Earned interest income of \$4.1 million during FY12 for The Illinois Funds.

- Funded 533 Cultivate IL Annual AG deposits totaling \$73,758,175.
- Funded 37 Cultivate IL Long Term AG deposits totaling \$1,706,306.
- Funded 1 Employ IL Small Business Loan totaling \$550,000.
- Funded 1 Employ Business Child Care Loan totaling \$142,500.
- Funded 1 Cultivate IL Alternative AG deposit totaling \$95,000

- Total number of warrants successfully issued, countersigned and recorded: 6,053,283
- Total number of warrants successfully canceled, paid and recorded: 5,988,401
- Total amount of warrants successfully issued, countersigned and recorded: \$75,195,678,895

- Total amount of estate tax collections: \$234,863,879
- Total amount of estate tax distributions: \$13,560,706
- Total amount of estate tax refunds: \$8,354,300

- The investment portfolio earned \$46,705,110 during fiscal year 2012.
- Investments yielded approximately .42% throughout the current year.
- The average investment base decreased approximately \$198,360,116 from the prior year.

- The value of the Illinois Technology Development account at cost as of 6/30/12 was \$36,171,912.
- The value of the Illinois Technology Development account at estimated fair value as of June 30, 2012, was \$40,363,266. Fair values were estimated by the individual technology development accounts' management not the State Treasurer's Office or an independent third party.

**Investment Policy
June 30, 2012 (Unaudited)**

The following section contains the Illinois State Treasurer's investment policy

Illinois State Treasurer's Investment Policy

1.0 POLICY:

Under this instrument, the Illinois State Treasurer's Investment Policy ("Policy"), it is the policy of the Treasurer of the State of Illinois ("Treasurer") to invest all funds under his control in a manner that provides the highest investment return using authorized instruments while meeting the State's daily cash flow demands in conformance with all state statutes governing the investment of public funds.

This Policy applies to all investments entered into on or after the adoption of this instrument. Until the expiration of investments made prior to the adoption of this Policy, such investments will continue to be governed by the policies in effect at the time such investments were made.

This policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

2.0 OBJECTIVE:

The primary objective in the investment of state funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations of the State, and providing the highest investment return using authorized instruments.

2.1 Safety:

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To attain this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risk.

2.2 Liquidity:

The investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements that might be reasonably projected.

2.3 Return On Investment:

The investment portfolio shall be designed to obtain the highest available return, taking into account the Treasurer's investment risk constraints and cash flow needs. The Manager of Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee¹, to determine the effectiveness of investment decisions in meeting investment goals.

¹ *The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Chief of Staff, Deputy Treasurer – Chief Fiscal Officer, Director of State Portfolio and Banking, Portfolio Manager, General Counsel, Cash Management Officer and anyone else deemed appropriate by the Treasurer.*

3.0 ETHICS AND CONFLICTS OF INTEREST:

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could conflict, or give the appearance of a conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

4.0 AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS:

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers. No state funds may be deposited in any financial institution until receipt of the current ratings under the Community Reinvestment Act of 1977 and investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services, unless the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed \$100,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 8.0. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520).

In addition, a list shall be maintained of approved security broker/dealers selected according to their creditworthiness, and their financial significance in the state, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the state. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 240.15c3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers who want to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's authorized investment officers the following, where applicable:

- Audited financial statements or a published Statement of Condition;
- Proof of minority/female/disabled broker status;
- A signed copy of the Treasurer's trading authorization;
- Proof of State of Illinois registration;
- Proof of registration with the Securities and Exchange Commission;
- Completed Broker/Dealer Questionnaire;
- Certification of notice and knowledge of this Policy;
- Any other documentation determined necessary by the Treasurer.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer's authorized investment officers. More frequent reviews may be conducted if warranted.

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the procurement rules at 44 Ill. Adm. Code 1400.

5.0 AUTHORIZED AND SUITABLE INVESTMENTS:

The Treasurer has authorized the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- a) Securities that are guaranteed by the full faith and credit of the United States as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities;

- c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);
- d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;
- e) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States, which maintains its principal office in the State of Illinois;
- f) Commercial paper of a corporation that is organized in the United States with assets exceeding \$500,000,000 and is rated by two or more standard rating services at a level that is at least as high as the following: A-1 by Standard & Poor's, P-1 by Moody's, F-1 by Fitch, D-1 by Duff & Phelps Credit Rating Company, A1 by IBCA, and TBW-1 by Thompson Bank Watch; and the corporation is not a forbidden entity, as defined in Section 22.6 of the Deposit of State Monies Act (effective Jan. 27, 2006);
- g) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C.A. § 80a-1 et seq.) and rated at the highest classification of at least one standard rating service;
- h) The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- i) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5); and
- j) Any agency created by an act of Congress.
- k) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations.
- l) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.).
- m) Suitable securities in the Treasurer's portfolio may be lent in accordance with Federal Financial Institution Examination Council guidelines.

6.0 INVESTMENTS RESTRICTIONS:

- a) Any investments not authorized by this or any other investment policy or applicable law of the office are prohibited.
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers meeting the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
- c) Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5).
- d) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

7.0 COLLATERALIZATION:

All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer² and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

8.0 DIVERSIFICATION:

The investment portfolio shall be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In order to properly manage any risk attendant to the investment of state assets, the portfolio shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

- a)** The Treasurer shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers;
- b)** The investment portfolio shall not hold time deposits and/or term repurchase agreements that constitute more than 15% of any single financial institution's total deposits. Any deposits and/or repurchase agreements that constitute more than 10% of an institution's total deposits must qualify as community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).
- c)** No financial institution shall at any time hold more than \$100,000,000 of time deposits and/or term repurchase agreements other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that:
 - i.** Financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.
- d)** The investment portfolio shall not contain investments that exceed the following diversification limits that apply to the total assets in the portfolio at the time of the origination or purchase, as monitored on a daily basis and as maturity of instruments occur, and as adjusted as appropriate:
 - i.** With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 35% of the portfolio shall be invested in other investment categories,
 - ii.** No more than one-third of the investment portfolio shall be invested in commercial paper,
 - iii.** As much as 40% of the portfolio may be invested in time deposits when required by the cash flow of the State,
 - iv.** No more than ½ of 1% of the investment portfolio shall be invested in Foreign Government Securities, not to exceed a five year maturity, as defined in Section 5.0(k) of this Policy,
 - v.** No more than 10% of the investment portfolio shall be allocated to investments with a 2-4 year maturity band,
 - vi.** No more than 10 % of the investment portfolio shall be allocated to investments with a 4-5 year maturity band (not including Foreign Government Securities).
 - vii.** There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band.

² *The Treasurer maintains a list of acceptable collateral.*

9.0 CUSTODY AND SAFEKEEPING:

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the Treasurer's office procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer's office to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the Chief Legal Counsel.

All security transactions entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) or receipt-versus-payment (RVP) basis. Securities shall be held by a safekeeping agent designated by the Treasurer, and evidenced by safekeeping receipts.

10.0 INTERNAL CONTROLS:

The Treasurer, as the Chief Investment Officer and with the assistance of the Investment Policy Committee, shall establish a system of internal controls and written operational procedures that shall be documented and filed with Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by authorized investment officers.

a) Asset Allocation: The allocation of assets within investment categories authorized under Section 5.0 of this Policy shall be approved by the Treasurer in writing.

b) Competitive Bidding: Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments and investments of a new issue at issue are exempt from this provision.

Certificates of deposit shall be purchased by authorized investment officers on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established on a daily basis. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

11.0 LIMITATION OF LIABILITY:

The standard of prudence to be used by authorized investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Authorized investment officers acting in accordance with written procedures and this Policy and exercising due diligence will be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and necessary action is taken to control adverse developments.

12.0 REPORTING:

Monthly reports are presented by the Deputy Treasurer - Chief Fiscal Officer to the Investment Policy Committee, chaired by the Treasurer, for its review. The monthly report shall contain sufficient information to enable the Investment Policy Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer's office for safety, liquidity, rate of return, and diversification, and the general performance of the portfolio. The following information shall be included in the monthly reports:

- a)** The total amount of funds held by the State Treasurer;
- b)** The asset allocation for the investments made by the State Treasurer;
- c)** The benchmarks established by the State Treasurer;
- d)** Current and historic return information;
- e)** Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy;
- f)** Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Investment Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP"). The Treasurer reserves the right to amend this Policy at any time.

13.0 EXTERNAL ADVISORY COMMITTEE

The Investment Policy Committee may convene an External Advisory Committee at the pleasure of the Treasurer to provide independent advice and counsel to the Treasurer and the Internal Committee on investment policy, investments and investment related issues for the benefit of all Illinois citizens.

The External Committee may consist of nine (9) total members. Four (4) members shall be duly elected members of the Illinois General Assembly and shall be represented as follows: one (1) External Committee member shall be from Illinois Senate majority caucus; one (1) External Committee member shall be from Illinois Senate minority caucus; one (1) External Committee member shall be from Illinois House majority caucus; and one (1) External Committee member shall be from Illinois House minority caucus. Five (5) External Committee members shall be independent advisors that the Treasurer and the Internal Committee choose as representative of the public and private sectors.

14.0 EMERGENCY POWERS

In the event of an emergency, the Treasurer may, at his or her discretion, invoke emergency powers and suspend any or all of the provisions of this policy provided that:

- a)** The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of state monies including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;
- b)** The Treasurer reasonably believes that deviating from the Investment Policy is in the best interest of the taxpayers;
- c)** Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a copy of which shall be posted on the Treasurer's website that includes:
 - i)** The date and time that the emergency powers were invoked;
 - ii)** The date and time that emergency powers were repealed;
 - iii)** The section or sections of the Investment Policy that were affected by the emergency or use of emergency powers; and
 - iv)** The reason for deviating from the written investment policy.

15.0

All statutory references in this policy shall include any amendments to or repeals of those statutes.