

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

Financial Audit  
Years Ended June 30, 2013 and 2012

and Compliance Examination  
Year Ended June 30, 2013

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, 2013**

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**Treasurer's Office Officials**

Treasurer	Honorable Dan Rutherford
Chief of Staff	Mr. Kyle Ham
Executive Director of Finance	Ms. Bridget Byron (March 21, 2012 – present)
Deputy Treasurer/CFO	Mr. Edward Buckles (through December 31, 2011)
General Counsel	Ms. Maureen Lydon (through September 15, 2013)
	Mr. Neil P. Olson (September 16, 2013 – Present)
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**

December 16, 2013

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

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or 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, 2013. Based on this evaluation, we assert that during the year ended June 30, 2013, 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 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.

Yours very truly,

State of Illinois, Office of the Treasurer

A handwritten signature in black ink that reads "Dan Rutherford". The signature is written in a cursive style with a horizontal line underneath.

Honorable Dan Rutherford  
State Treasurer

A handwritten signature in black ink that reads "Bridget Byron". The signature is written in a cursive style with a horizontal line underneath.

Ms. Bridget Byron  
Executive Director of Finance

A handwritten signature in black ink that reads "Neil Olson". The signature is written in a cursive style with a horizontal line underneath.

Mr. Neil Olson  
General Counsel

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Year Ended June 30, 2013**

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**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.

**Accountant's Report**

The Independent Accountant's 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	0	2
Repeated findings	0	1
Prior recommendations implemented or not repeated	2	0

**Schedule of Findings**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
<b>Findings (Government Auditing Standards)</b>			
No matters were reported.			
<b>Findings (State Compliance)</b>			
No matters were reported.			
<b>Prior Findings Not Repeated</b>			
A	9	Noncompliance with Statutory Mandates	
B	9	Policies Governing Certain Investments Not Sufficient	

**Exit Conference**

The Treasurer's Office waived an exit conference in correspondence dated December 5, 2013.



## Independent Accountant's 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 (State), 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, during the year ended June 30, 2013. 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.

Our examination was conducted 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, 2013.

### **Internal Control Over Compliance**

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 to determine the examination procedures that are appropriate in the circumstances 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 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the State Treasurer 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  
December 16, 2013



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

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2013. As described in Note B of the financial statements, the financial statements are prepared by the Treasurer on the basis of the financial reporting provisions of the agreement with the Office of the Illinois State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of the State of Illinois. Our opinion was not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in black ink and is positioned above the typed name and date.

Schaumburg, Illinois  
December 16, 2013

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Schedule of Findings  
Year Ended June 30, 2013**

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**Prior Findings Not Repeated**

**A. (Noncompliance with Statutory Mandates)**

During the prior period, the Office of the Treasurer (Treasurer) could not provide documentation of approval from the Governor for certain investments required by the Deposit of State Moneys Act and the Treasurer did not establish an Identity Protection Policy as required by the Identity Protection Act by June 1, 2011. (Finding Code No. 12-1)

During the current period, it was noted that the Treasurer obtained approval of the Governor's Office via negative confirmation and it was noted that the Treasurer adopted an Identity Protection Policy that complied with the Identity Protection Act.

**B. (Policies Governing Certain Investments Not Sufficient)**

During the prior period, we reported that the Treasurer's investment policy did not address acceptable forms of investments and repurchase agreement collateral under the securities lending program and the Treasurer had not developed a policy or procedures to monitor the investments made within the Illinois Technology Development Program (TDP). (Finding Code No. 12-2)

During the current period, we noted that the Treasurer updated its investment policy to reflect investment practices in place within the securities lending program and we noted the Treasurer had created a policy and procedures to monitor the TDP program and that the TDP program was being monitored within the Investment Portfolio Committee.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
June 30, 2013**

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**Financial Statement Report**

**Summary**

The audits of the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer) were performed by McGladrey LLP.

Based on their audits, the auditors expressed an unmodified opinion on the Treasurer's basic financial statements. The financial statements are special framework financial statements prepared on a basis of accounting determined by the Office of the State Comptroller that is not in conformity with GAAP (See Note B).



## Independent Auditor's Report

The Honorable William G. Holland  
Auditor General  
State of Illinois

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Treasurer's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions determined by the Office of the State Comptroller. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Other Debits, Liabilities and Accountabilities of the Treasurer, as of June 30, 2013 and 2012, and the respective Investment Income for the years then ended in accordance with the financial reporting provisions determined by the Office of the State Comptroller described in Note B of the financial statements.

### ***Basis of Accounting***

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared by the Treasurer on the basis of the financial reporting provisions determined by the Office of the State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Illinois. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Treasurer's basic financial statements. The Supplementary Information and Other Information as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements.

The Supplementary Information (pages 32 – 50) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Information (pages 51 – 58) has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 16, 2013, and March 8, 2013 on our consideration of the Treasurer's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Treasurer's internal control over financial reporting and compliance.

### ***Restricted Use of this Auditor's Report***

Our 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, the State Treasurer 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  
December 16, 2013

## **Financial Statements**

**State of Illinois**  
**Office of the Treasurer**  
**Fiscal Officer Responsibilities**  
**Statements of Assets and Other Debits, Liabilities and Accountabilities**  
**June 30, 2013 and 2012**

	2013	2012
<b>Assets and Other Debits</b>		
Cash and Cash Equivalents		
Demand Deposits	\$ 3,153,724	\$ 3,976,369
Clearing Account Deposits and Deposits in Transit	32,434,686	31,645,334
Total cash	35,588,410	35,621,703
Repurchase Agreements	1,868,668,143	2,004,604,670
Commercial Paper	857,745,565	1,024,577,903
Time Deposits	6,000,000	-
U.S. Treasury Bills	-	399,945,891
The Illinois Funds	1,135,531,805	1,127,074,118
Money Market Mutual Funds	397,593,545	498,617,342
Mortgage Reserve Fund	1	-
Total Cash and Cash Equivalents	4,301,127,469	5,090,441,627
Deposits and Investments		
Short-term Investments		
Time Deposits	55,053,026	102,467,306
Commercial Paper	524,670,167	349,678,431
U.S. Treasury Bills	5,797,992,991	4,097,867,707
U.S. Treasury Notes	250,023,940	150,328,125
Federal Home Loan Mortgage Corporation	100,176,000	-
Federal Home Loan Bank	100,061,250	99,971,000
Federal National Mortgage Association	-	76,743,000
Federal National Mortgage Association Discount Notes	-	124,952,153
Federal Deposit Insurance Corporation Guarantee Notes	-	65,421,900
Federal Farm Credit Banks	25,015,250	-
Foreign Investments	15,000,000	10,000,000
Long-term Investments		
Time Deposits	6,142,600	9,992,688
Federal Home Loan Mortgage Corporation	347,520,750	200,041,500
Federal Home Loan Bank	199,849,250	249,956,750
Federal National Mortgage Association	648,221,000	951,816,500
Federal Farm Credit Banks	149,734,500	99,945,250
State of Illinois Secondary Pool Investment Program	281,726	341,601
Illinois Technology Development	40,812,899	36,171,912
Foreign Investments	10,000,000	15,000,000
Total Deposits and Investments	8,270,555,349	6,640,695,823
Securities Lending Collateral		
Invested in Repurchase Agreements	6,763,623,576	4,556,511,251
Other Assets		
Warrants Cashed, but not Canceled	20,015	120,018
Receivables from Universities and Agencies for Monies Advanced	409,937	609,231
Receivable from City of Edwardsville	257,175	265,118
Investment Income Earned, but not Received	5,561,644	5,614,286
Total Other Assets	6,248,771	6,608,653
Other Debits		
Amount of Future General Revenue Obligated for Debt Service	40,121,803,906	41,857,190,114
Total Assets and Other Debits	\$ 59,463,359,071	\$ 58,151,447,468

(Continued)

State of Illinois  
Office of the Treasurer

Fiscal Officer Responsibilities  
Statements of Assets and Other Debits, Liabilities and Accountabilities (Continued)  
June 30, 2013 and 2012

	2013	2012
<b>Liabilities and Accountabilities</b>		
Liabilities for Balances on Deposit		
Comptroller		
Protested taxes	\$ 172,875,227	\$ 217,343,043
Available for Appropriation or Expenditure	8,943,469,748	8,441,321,582
Agencies' Deposits Outside the State Treasury	759,715,466	711,305,851
Comptroller's Warrants Outstanding	1,276,379,796	1,065,680,160
	<u>11,152,440,237</u>	<u>10,435,650,636</u>
Total Liabilities for Balances on Deposit		
Other Liabilities		
Obligations under Securities Lending	6,763,623,576	4,556,511,251
	<u>6,763,623,576</u>	<u>4,556,511,251</u>
Total Other Liabilities		
General Obligation Indebtedness		
Principal and Interest Due Within One Year	3,093,271,809	2,968,722,709
Thereafter	38,448,443,047	40,178,652,685
	<u>41,541,714,856</u>	<u>43,147,375,394</u>
Total General Obligation Indebtedness		
Accountabilities		
Receivable from City of Edwardsville	257,175	265,118
Investment Income Earned, but not Received (Net of Cumulative Market Adjustments)	5,321,226	11,643,069
Federal Reserve Bank Settlement Account Reserve	2,000	2,000
Mortgage Reserve Fund	1	-
	<u>5,580,402</u>	<u>11,910,187</u>
Total Accountabilities		
Total Liabilities and Accountabilities		
	<u>\$ 59,463,359,071</u>	<u>\$ 58,151,447,468</u>

See Notes to the Financial Statements.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Statements of Investment Income  
Years Ended June 30, 2013 and 2012**

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	2013	2012
Investment Income Earned	<u>\$ 37,288,376</u>	<u>\$ 46,705,110</u>

See Notes to the Financial Statements.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2013 and 2012**

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**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 and Accounting: 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. Other exceptions to the traditional GAAP framework are that a traditional presentation of the Statement of Net Position is not included, a Statement of Revenues, Expenses and Changes in Net Position and, where applicable, a Statement of Cash Flows, are excluded entirely and some note disclosures required by GAAP are not included in the Fiscal Officer financial statements.

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, subject to certain exceptions as described in the sections that follow.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2013 and 2012**

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**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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**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.

**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 State statute. In addition, the Treasurer’s Office has adopted its own investment practices that supplement the statutory requirements. 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.

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**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.

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). 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, 2013, 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 & Poor's Ratings, and F1+ by Fitch Ratings, except for those issued by 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 (except for FHLB securities, which were not rated 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 (except for FHLB securities, which were not rated by Fitch Ratings) or AA+ by Standard & 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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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

As of June 30, 2013, credit ratings of collateral for securities lending collateral invested in repurchase agreements is as follows:

<b>Standard &amp; Poor's Rating</b>	<b>Percentage % (Percent of Total)</b>	<b>Moody's Rating</b>	<b>Percentage % (Percent of Total)</b>
AAA	3.18%	Aaa	11.80%
AA+	4.73%	Aa1	0.90%
AA	0.69%	Aa2	0.77%
AA-	1.31%	Aa3	0.47%
A+	1.16%	A1	1.24%
A	2.14%	A2	1.52%
A-	2.60%	A3	3.37%
A-1+	0.74%	Baa1	0.82%
A-1	3.79%	Baa2	1.24%
A-2	5.44%	Baa3	1.04%
A-3	0.22%	Ba1	0.07%
BBB+	0.87%	Ba2	0.01%
BBB	2.20%	Ba3	0.08%
BBB-	0.74%	B1	0.17%
BB	0.17%	B2	0.05%
BB-	0.09%	B3	0.03%
B+	0.03%	Caa1	0.02%
B	0.36%	Caa2	0.01%
B-	0.01%	Caa3	0.01%
CCC+	0.01%	P-1	4.21%
CCC	0.01%	P-2	5.65%
CC	0.01%	P-3	0.30%
Not Rated	69.50%	Not Rated	66.22%
	<b>100.00%</b>		<b>100.00%</b>

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 & 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 & 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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**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:

<b>Standard &amp; Poor's Rating</b>	<b>Percentage % (Percent of Total)</b>	<b>Moody's Rating</b>	<b>Percentage % (Percent of Total)</b>
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%		
	<b>100.00%</b>		<b>100.00%</b>

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.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

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.

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.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

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.

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.)

2013	Maturing in:					Total
	Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	NA***	
Commercial Paper *	\$ 1,382,416	\$ -	\$ -	\$ -	\$ -	\$ 1,382,416
Repurchase Agreements*	1,868,668	-	-	-	-	1,868,668
U.S. Treasury Bills *	5,797,993	-	-	-	-	5,797,993
U.S. Treasury Notes	250,024	-	-	-	-	250,024
Federal Home Loan Bank	100,061	199,849	-	-	-	299,910
Federal Farm Credit Banks	25,015	149,734	-	-	-	174,749
Federal Home Loan Mortgage Corporation	100,176	347,521	-	-	-	447,697
Federal National Mortgage Association	-	648,221	-	-	-	648,221
State of Illinois Secondary Pool Investment Program	-	12	250	20	-	282
Foreign Investments**	15,000	10,000	-	-	-	25,000
Securities Lending Collateral Invested in Repurchase Agreements*	6,763,624	-	-	-	-	6,763,624
Illinois Technology Development *	-	-	-	-	40,813	40,813
The Illinois Funds*	-	-	-	-	1,135,531	1,135,531
Money Market Mutual Funds*	-	-	-	-	397,594	397,594
<b>Total Investments and Securities Lending Collateral, excluding Time Deposits</b>	<b>\$ 16,302,977</b>	<b>\$ 1,355,337</b>	<b>\$ 250</b>	<b>\$ 20</b>	<b>\$ 1,573,938</b>	<b>\$ 19,232,522</b>

\*Reported at Amortized Cost

\*\* These securities are denominated in U.S. dollars.

\*\*\* Categorization not applicable.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

<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
<b>Total Investments and Securities Lending Collateral, excluding Time Deposits</b>	<b>\$ 12,960,602</b>	<b>\$ 1,516,760</b>	<b>\$ 219</b>	<b>\$ 123</b>	<b>\$ 1,661,863</b>	<b>\$ 16,139,567</b>

\*Reported at Amortized Cost

\*\* These securities are denominated in U.S. dollars.

\*\*\* Categorization not applicable.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

The Treasurer's net increase/(decrease) in the fair value of investments during 2013 and 2012 was (\$6,406,298) and \$1,461,218, 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.

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 \$1,868,668,143 and \$2,004,604,670, and the fair value of the collateral securities to be resold based on commitments under the repurchase agreements was \$1,926,978,142 and \$2,070,406,786, as of June 30, 2013 and 2012, respectively.

Investment Commitment: The Illinois Technology Development Program which the Treasurer administers, in accordance with 30 ILCS 265, has made commitments totaling approximately \$74 million and \$75 million to provide venture capital to technology businesses as of June 30, 2013 and 2012, respectively. The remaining unfunded commitment was approximately \$19 million and \$27 million, as of June 30, 2013 and 2012, 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, 2013 and 2012. (Amounts are in thousands.)

	2013		2012	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
Repurchase agreements:				
Mizuho Securities*	\$ 1,069,120	5.56	\$ 1,084,745	6.72
Commercial Paper:				
Deutsche Bank*	-	-	449,952	2.79
Mizuho Securities*	602,629	3.13	349,695	2.17
Securities Lending Collateral Invested in Repurchase Agreements:				
BNP Paribas	1,306,000	6.79	880,000	5.45
Citigroup Global Markets	1,138,000	5.92	895,000	5.55
Deutsche Bank*	-	-	550,000	3.41
Merrill Pierce Fenner Smith	1,330,000	6.92	-	-

\* 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 AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

During fiscal year 2013 and 2012, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury 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 2013 and 2012 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during fiscal years 2013 and 2012 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2013 and 2012, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2013 were \$6,763,623,576 and \$6,742,892,101, 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, 2012 were \$4,556,511,251 and \$4,551,829,732, 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. The last property is estimated to be sold by the end of the fiscal year 2014. Once the property is sold, the trust will be closed.

**NOTE F. DEFEASED DEBT**

During fiscal year 2013, the State of Illinois issued no General Obligation Refunding Bonds. 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 is being 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.

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**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 Bond 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.

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, 2013 and 2012, \$334,040,000 and \$1,572,600,000, respectively, of bonds outstanding was considered defeased.

**NOTE G. SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER**

At June 30, 2013 and 2012, the Treasurer was responsible for \$87,759,879 and \$12,627,800, 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.

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**NOTE H. GENERAL OBLIGATION INDEBTEDNESS**

A summary of the changes from June 30, 2012 to June 30, 2013, in General Obligation Bonded Indebtedness by issue type follows:

	Multi-Purpose - Interest Rates varying from 1.1% to 7.35% Series 1992 through 2013, due serially to 2038	Pension Funding - Interest Rates varying from 3.95% 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	Total General Obligation Indebtedness
<b>Balance at June 30, 2012</b>				
Principal	\$ 7,924,013,630	\$ 15,479,600,000	\$ 4,147,390,898	\$ 27,551,004,528
Interest	5,647,368,428	8,754,051,632	1,194,950,806	15,596,370,866
Total	<u>13,571,382,058</u>	<u>24,233,651,632</u>	<u>5,342,341,704</u>	<u>43,147,375,394</u>
<b>Redemptions charge to Appropriations</b>				
Principal	369,598,756	793,200,000	364,271,996	1,527,070,752
Interest	497,745,290	767,750,716	176,979,283	1,442,475,289
Total	<u>867,344,046</u>	<u>1,560,950,716</u>	<u>541,251,279</u>	<u>2,969,546,041</u>
<b>Certificates/Bonds issued</b>				
Principal	850,000,000	-	-	850,000,000
Interest	513,885,503	-	-	513,885,503
Total	<u>1,363,885,503</u>	<u>-</u>	<u>-</u>	<u>1,363,885,503</u>
<b>Refunding</b>				
Principal	-	-	-	-
Interest	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance at June 30, 2013</b>				
Principal	8,404,414,874	14,686,400,000	3,783,118,902	26,873,933,776
Interest	5,663,508,641	7,986,300,916	1,017,971,523	14,667,781,080
Total	<u>\$ 14,067,923,515</u>	<u>\$ 22,672,700,916</u>	<u>\$ 4,801,090,425</u>	<u>\$ 41,541,714,856</u>
<b>Amounts due within one year</b>				
				\$ 1,724,050,000
				1,369,221,809
				<u>\$ 3,093,271,809</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2013 and 2012**

**NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)**

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	Total General Obligation Indebtedness
<b>Balance at June 30, 2011</b>				
Principal	\$ 8,535,817,966	\$ 16,272,800,000	\$ 2,893,110,000	\$ 27,701,727,966
Interest	6,008,773,042	9,539,739,060	806,301,196	16,354,813,298
Total	14,544,591,008	25,812,539,060	3,699,411,196	44,056,541,264
<b>Redemptions charge to Appropriations</b>				
Principal	432,693,438	793,200,000	239,780,000	1,465,673,438
Interest	536,181,615	785,687,428	144,967,816	1,466,836,859
Total	968,875,053	1,578,887,428	384,747,816	2,932,510,297
<b>Certificates/Bonds issued</b>				
Principal	1,375,000,000	-	1,797,740,000	3,172,740,000
Interest	853,794,610	-	590,997,314	1,444,791,924
Total	2,228,794,610	-	2,388,737,314	4,617,531,924
<b>Refunding</b>				
Principal	1,554,110,898	-	303,679,102	1,857,790,000
Interest	679,017,609	-	57,379,888	736,397,497
Total	2,233,128,507	-	361,058,990	2,594,187,497
<b>Balance at June 30, 2012</b>				
Principal	7,924,013,630	15,479,600,000	4,147,390,898	27,551,004,528
Interest	5,647,368,428	8,754,051,632	1,194,950,806	15,596,370,866
Total	\$ 13,571,382,058	\$ 24,233,651,632	\$ 5,342,341,704	\$ 43,147,375,394
<b>Amounts due within one year</b>				
				\$ 1,605,380,000
				1,363,342,709
				<u>\$ 2,968,722,709</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2013 and 2012**

**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, 2013, are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,724,050,000	\$ 1,369,221,809	\$ 3,093,271,809
2015	1,921,625,000	1,302,097,407	3,223,722,407
2016	1,517,750,000	1,218,882,832	2,736,632,832
2017	1,808,945,000	1,148,211,240	2,957,156,240
2018	1,799,640,000	1,058,576,764	2,858,216,764
2019-2023	5,611,449,893	4,160,378,661	9,771,828,554
2024-2028	5,381,060,236	2,815,212,411	8,196,272,647
2029-2033	6,532,004,859	1,276,262,734	7,808,267,593
2034-2038	807,275,012	89,070,998	896,346,010
Total	<u>\$ 27,103,800,000</u>	<u>\$ 14,437,914,856</u>	<u>\$ 41,541,714,856</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](http://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  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2013 and 2012**

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**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 were complete as of June 30, 2013.

A final order was issued on June 14, 2013 to close the Claims Fund & the Administrative Fund. The remaining funds were transferred to unclaimed property or the General Revenue Fund.

**NOTE J. SUBSEQUENT EVENTS**

On July 10, 2013, the State of Illinois issued General Obligation Bonds, Series June 2013 in the amount of \$1,300,000,000 maturing in 2014 through 2038 at interest rates of 2.5% to 5.65%.

## **SUPPLEMENTARY INFORMATION**

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits, Liabilities and Accountabilities  
June 30, 2013 and 2012**

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

	June 30,	
	2013	2012
<b>Assets and Other Debits</b>		
Cash and Cash Equivalents	\$ 4,301,127,469	\$ 5,090,441,627
Deposits and Investments	8,270,555,349	6,640,695,823
Securities Lending Collateral	6,763,623,576	4,556,511,251
Other Assets	6,248,771	6,608,653
Other Debits	40,121,803,906	41,857,190,114
<b>Total Assets and Other Debits</b>	<b>\$ 59,463,359,071</b>	<b>\$ 58,151,447,468</b>
<b>Liabilities for Balances on Deposit</b>		
Comptroller		
Protested Taxes	\$ 172,875,227	\$ 217,343,043
Available for Appropriation or Expenditure	8,943,469,748	8,441,321,582
Agencies' Deposits Outside the State Treasury	759,715,466	711,305,851
Comptroller's Warrants Outstanding	1,276,379,796	1,065,680,160
<b>Total Liabilities for Balances on Deposit</b>	<b>11,152,440,237</b>	<b>10,435,650,636</b>
Other Liabilities	6,763,623,576	4,556,511,251
<b>General Obligation Indebtedness</b>	<b>41,541,714,856</b>	<b>43,147,375,394</b>
<b>Total Liabilities</b>	<b>59,457,778,669</b>	<b>58,139,537,281</b>
<b>Accountabilities</b>		
Receivable from City of Edwardsville	257,175	265,118
Investment Income Earned, but not Received	5,321,226	11,643,069
Federal Reserve Bank Settlement Account Reserve	2,000	2,000
Mortgage Reserve Fund	1	-
<b>Total Accountabilities</b>	<b>5,580,402</b>	<b>11,910,187</b>
<b>Total Liabilities and Accountabilities</b>	<b>\$ 59,463,359,071</b>	<b>\$ 58,151,447,468</b>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail  
June 30, 2013 and 2012**

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

	June 30,	
	2013	2012
Cash and Cash Equivalents		
Demand Deposits	\$ 3,153,724	\$ 3,976,369
Clearing Account Deposits and Deposits in Transit	32,434,686	31,645,334
Repurchase Agreements	1,868,668,143	2,004,604,670
Commercial Paper	857,745,565	1,024,577,903
Time Deposits	6,000,000	-
U.S. Treasury Bills	-	399,945,891
The Illinois Funds	1,135,531,805	1,127,074,118
Money Market Mutual Funds	397,593,545	498,617,342
Mortgage Reserve Fund	1	-
Total Cash and Cash Equivalents	<u>\$ 4,301,127,469</u>	<u>\$ 5,090,441,627</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  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits - Detail (Continued)  
June 30, 2013 and 2012**

	June 30, 2013			June 30, 2012		
	Collected	Float	Total	Collected	Float	Total
Demand deposits						
Bank of America	\$ -	\$ -	\$ -	\$ 579,715	\$ -	\$ 579,715
JP Morgan Chase	80,633	547,736	628,369	133,049	1,069,882	1,202,931
Northern Trust Company, Chicago	177,196	-	177,196	264,055	-	264,055
Wells Fargo Bank	15,644	-	15,644	13,041	-	13,041
	<u>\$ 273,473</u>	<u>\$ 547,736</u>	821,209	<u>\$ 989,860</u>	<u>\$ 1,069,882</u>	2,059,742
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			<u>2,332,515</u>			<u>1,916,627</u>
Total demand deposits			<u>\$ 3,153,724</u>			<u>\$ 3,976,369</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, 2013 and 2012**

	June 30, 2013 Bank Balances			June 30, 2012 Bank Balances		
	Collected	Float	Total	Collected	Float	Total
Clearing Account Deposits and Deposits in Transit						
Bank of America	\$ -	\$ 117,322	\$ 117,322	\$ 2,956,552	\$ 197,731	\$ 3,154,283
DuQuoin State Bank	38,119	-	38,119	36,146	-	36,146
JP Morgan	200	2,449,054	2,449,254	201	1,866,498	1,866,699
Fifth Third	27,001	29,562,496	29,589,497	35,639	26,338,159	26,373,798
Illinois National Bank	1	4,942	4,943	1	4,888	4,889
US Bank-Springfield	106,150	-	106,150	102,822	-	102,822
Northern Trust Company, Chicago	34,146	32,629	66,775	45,992	10,850	56,842
Pan American Bank	57,620	-	57,620	44,782	-	44,782
Wells Fargo Bank	5,006	-	5,006	5,073	-	5,073
	<u>\$ 268,243</u>	<u>\$ 32,166,443</u>	<u>32,434,686</u>	<u>\$ 3,227,208</u>	<u>\$ 28,418,126</u>	<u>31,645,334</u>
Net reconciling items (e.g., deposits-in- transit and outstanding drafts)			<u>-</u>			<u>-</u>
Total clearing account deposits			<u>\$ 32,434,686</u>			<u>\$ 31,645,334</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, 2013 and 2012**

**Deposits and Investments**

Most of the Treasurer's investments at June 30, 2013 and 2012 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,	
	2013	2012
<b>Short-Term Deposits and Investments</b>		
Time Deposits	\$ 55,053,026	\$ 102,467,306
Commercial Paper	524,670,167	349,678,431
U.S. Treasury Bills	5,797,992,991	4,097,867,707
U.S. Treasury Notes	250,023,940	150,328,125
Federal Home Loan Mortgage Corporation	100,176,000	-
Federal Home Loan Bank	100,061,250	99,971,000
Federal National Mortgage Association	-	76,743,000
Federal National Mortgage Association Discount Notes	-	124,952,153
Federal Deposit Insurance Corporation Guarantee Notes	-	65,421,900
Federal Farm Credit Banks	25,015,250	-
Foreign Investments	15,000,000	10,000,000
Total Short-Term Deposits and Investments	<u>6,867,992,624</u>	<u>5,077,429,622</u>
<b>Long-Term Deposits and Investments</b>		
Time Deposits	6,142,600	9,992,688
Federal Home Loan Mortgage Corporation	347,520,750	200,041,500
Federal Home Loan Bank	199,849,250	249,956,750
Federal National Mortgage Association	648,221,000	951,816,500
Federal Farm Credit Banks	149,734,500	99,945,250
State of Illinois Secondary Pool Investment Program	281,726	341,601
Illinois Technology Development	40,812,899	36,171,912
Foreign Investments	10,000,000	15,000,000
Total Long-Term Deposits and Investments	<u>1,402,562,725</u>	<u>1,563,266,201</u>
Total Deposits and Investments	<u>\$ 8,270,555,349</u>	<u>\$ 6,640,695,823</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2013 and 2012**

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**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 2013 and 2012 financial statements was .36% and .42%, 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	
	2013	2012
Securities Lending Collateral		
Invested in Repurchase Agreements	<u>\$ 6,763,623,576</u>	<u>\$ 4,556,511,251</u>

**Other Assets**

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

	June 30	
	2013	2012
Warrants cashed, but not canceled	\$ 20,015	\$ 120,018
Receivables from Universities and Agencies for monies advanced	409,937	609,231
Receivable from City of Edwardsville	257,175	265,118
Investment income earned, but not received	<u>5,561,644</u>	<u>5,614,286</u>
Total Other Assets	<u>\$ 6,248,771</u>	<u>\$ 6,608,653</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2013 and 2012**

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**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, 2013 and 2012. 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, 2013 and 2012, were \$7,943 and \$7,748, 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	
	2013	2012
Certificates, Bonds and Coupons Maturing in Next Fiscal Year	\$ 3,093,271,809	\$ 2,968,722,709
Less - Balance on Deposit in State Treasury at Year End, for Certificate and Bond Redemption and Interest	(1,419,910,950)	(1,290,185,280)
Amount Obligated from Future General Revenue		
General Revenue - Next Fiscal Year	1,673,360,859	1,678,537,429
General Revenue - Thereafter	38,448,443,047	40,178,652,685
Amount of Future General Revenue Obligated for Debt Service at Fiscal Year End	<u>\$ 40,121,803,906</u>	<u>\$ 41,857,190,114</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2013 and 2012**

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

A summary of the changes during fiscal years 2013 and 2012, in the amount of future general revenue obligated for debt service is as follows:

	2013	2012
Balance at Beginning of Fiscal Year	\$ 41,857,190,114	\$ 42,830,269,965
Issuance of Certificates and Bonds	1,363,885,503	4,617,531,924
Bonds and Coupons Redeemed and Bonds Refunded	(2,969,546,041)	(2,932,510,297)
Bonds and Coupons Refunded	-	(2,594,187,497)
Net Change in Balances on Deposit in State Treasury	(129,725,670)	(63,913,981)
Balance at End of Fiscal Year	<u>\$ 40,121,803,906</u>	<u>\$ 41,857,190,114</u>

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

	June 30	
	2013	2012
<u>General Obligation Bonds</u>		
Amount of future general revenue obligated for debt service	\$ 40,121,803,906	\$ 41,857,190,114
Balance on deposit in the State Treasury at June 30 for bond redemption and interest	1,419,910,950	1,290,185,280
Total indebtedness at June 30	<u>\$ 41,541,714,856</u>	<u>\$ 43,147,375,394</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 2013 or 2012.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2013 and 2012**

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

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, 2013 and 2012**

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**Liabilities for Balances on Deposit**

Protested Taxes: Substantially all of the \$172,875,227 and \$217,343,043 at June 30, 2013 and 2012, 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:

	2013	2012
Treasurer's Clearing Account Balances	\$ 161,472,432	\$ 168,746,710
Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury	144,681,242	117,553,961
Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts	329,244,070	317,931,872
Deposits in Demand Accounts in Process of Being Ordered into the State Treasury	124,317,722	107,073,308
Total Agency Deposits Outside the State Treasury	<u>\$ 759,715,466</u>	<u>\$ 711,305,851</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, 2013 and 2012**

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**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, 2013 and 2012**

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

	2013	2012
General Revenue Fund	\$ 19,900,568	\$ 24,389,686
Other State funds	16,174,624	21,557,670
Segregated State trust funds	1,213,184	757,754
	<u>\$ 37,288,376</u>	<u>\$ 46,705,110</u>

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

Fund participating in pooled investments		
General Revenue Fund	\$ 19,900,568	\$ 24,389,686
Aggregated Operations Regulatory Fund	891	379
Airport Land Loan Revolving Fund	327	243
Alternative Compliance Market Account Fund	881	545
Ambulance Revolving Loan Fund	12,774	5,737
AML Reclamation Set Aside Fund	85,868	89,244
Assisted Living and Shared Housing Regulatory Fund	1,808	1,348
Autism Research Checkoff Fund	228	308
Autoimmune Disease Research Fund	159	216
Bank & Trust Company Fund	91,438	94,255
Brownfields Redevelopment Fund	6,983	11,959
Build Illinois Bond Retirement and Interest Fund	21,808	25,976
Build Illinois Capital Revolving Loan Fund	33,411	18,067
Build Illinois Fund	72,940	91,090
Capital Litigation Fund	-	1,988
Capital Project Fund	73,202	103,708
Care Provide Per W Dev. Dis.	11,846	19,891
Cemetery Consumer Protection Fund	1,416	2,304
Charitable Trust Stabilization Fund	6,760	5,334
Child Abuse Prevention Fund	783	1,098
Clean Air Act (CAA) Permit Fund	27,583	31,454
Coal Mining Regulatory Fund	4,368	8,028
Common School Fund	688,502	430,893
Community College Health Insurance Security Fund	23,932	9,867
Community DD Services Medicaid Trust Fund	44,383	60,700
Community Mental Health Medical Trust Fund	120,586	144,369
Community Water Supply Laboratory Fund	3,379	5,012
Conservation Police Operations Assistance Fund	86	-

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2013 and 2012**

	2013	2012
Fund participating in pooled investments		
County Automobile Renting Tax Fund	\$ 163	\$ 95
County Hospital Services Fund	9,651	17,963
County Option Motor Fuel Tax Fund	15,038	20,574
County Water Commission Tax Fund	18,311	26,625
Credit Union Fund	7,915	11,467
Criminal Justice Trust Fund	140,740	236,463
Debt Settlement Consumer Protection Fund	134	-
Design Professionals Administration and Investigation Fund	2,615	4,845
DHS Community Services Fund	47,700	681
Diabetes Research Checkoff Fund	259	1,006
Drug Rebate Fund	243,777	478,923
Drycleaner Environmental Response Trust Fund	10,395	11,702
Early Intervention Services Fund	16,142	27,105
Electronics Recycling Fund	2,063	1,879
Environmental Laboratory Certification Fund	1,008	1,287
EPA Court Ordered Trust Fund	22	29
Explosive Regulatory Fund	417	170
Facilities Management Fund	24,712	39,864
Fair Share Trust	474	800
Family Care Fund	32,064	16,886
Federal Asset Forfeiture Fund	9,031	8,443
Federal Home Investment Trust Fund	3,952	5,841
Federal Moderate Rehab Housing Fund	235	579
Federal Student Loan Fund	115,348	167,013
Federal Workforce Training Fund	608	2,089
Fire Service & Small Equipment Fund	136	31
Fire Truck Revolving Loan Fund	7,545	18,466
Fish and Wildlife Endowment Fund	7,187	9,473
Food and Drug Safety Fund	3,608	3,165
Gaining Early Awareness Fund	33,200	52,410
General Assembly Retirement Excess Benefits Fund	89	126
General Assembly Retirement Fund	12,463	15,930
General Obligation Bond Retirement and Interest Fund	4,451,471	5,282,165
General Professions Dedicated Fund	18,828	30,712
Group Home Loan Revolving Fund	240	152
Group Insurance Premium	30,444	40,326
Group Workers Compensation Pool	6,907	8,922
Hansen-Therkelsen Memorial Deaf Student College Fund	3,544	3,834
Health and Human Services Medicaid Trust Fund	50,035	94,334
Health Insurance Reserve Fund	446,927	476,712
Healthcare Providers Relief Fund	171,058	324,308
Hearing Instrument Dispenser Examining and Disciplinary Fund	66	201

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2013 and 2012**

	2013	2012
Help Illinois Vote Fund	\$ 44,324	\$ 86,897
Home Inspector Administration Fund	3,300	2,439
Home Rule City Retailers' Occupation Tax Fund	349,552	429,977
Home Rule Municipal Retailers' Occupation Tax Fund	234,439	369,195
Home Services Medicaid Trust Fund	158,468	-
Hospital Provider Fund	380,680	533,386
Human Service Priority Cap Program Fund	5,930	4,363
Hunger Relief Fund	22	339
Illinois Affordable Housing Trust Fund	174,865	118,884
Illinois Beach Marina Fund	771	1,267
Illinois Clean Water Act	42,014	41,916
Illinois Equity Fund	3,707	2,906
Illinois Farmer and Agri-Business Loan Guarantee Fund	27,606	37,267
Illinois Habitat Fund	16,073	17,492
Illinois Power Agency Trust Fund	24	46,069
Illinois State Dental Disciplinary Fund	16,244	6,128
Illinois State Medical Disciplinary Fund	12,998	13,945
Illinois State Pharmacy Disciplinary Fund	7,733	7,411
Illinois State Podiatric Disciplinary Fund	1,045	919
Illinois State Police Federal Projects Fund	413	-
Illinois State Police Operations Assistance Fund	52,407	50,955
Illinois Veteran's Assistance Fund	1,801	4,183
Injured Workers Benefit Fund	1,615	3,110
Innovations in Long-Term Care Quality Demonstration Grants	12,443	13,977
Intercity Passenger Rail Fund	552	216
Interpreters for the Deaf Fund	668	452
Judges Retirement Excess Benefits Fund	1,527	1,971
Judges Retirement Fund	65,025	89,413
Juvenile Accountability Incentive Block Grant Fund	15,437	24,109
Kaskaskia Commons Permanent School Fund	820	1,110
Large Business Attraction Fund	4,727	3,550
Law Enforcement Camera Grant Fund	7,185	13,019
Local Government Health Insurance Reserve Fund	15,468	22,527
Long-Term Care Ombudsman Fund	5,844	785
Long-Term Care Provider Fund	83,184	215,417
Medicaid Buy-In Program Revolving Fund	5,353	3,326
Metro East Mass Transit District Tax Fund	20,430	28,019
Metropolitan Pier and Exposition Authority Trust Fund	97,167	83,377
Money Follows the Person Budget Fund	2,067	1,615
Motor Vehicle Theft Prevention Fund	15,249	21,484
Multiple Sclerosis Research Fund	12,169	7,592

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2013 and 2012**

	2013	2012
Municipal Automobile Renting Tax Fund	\$ 4,309	\$ 5,243
Municipal Economic Development Fund	120	206
Non-Home Rule Municipal Retailer's Occupation Tax Fund	60,888	87,656
Nuclear Safety Emergency Preparedness Fund	17,222	25,194
Nursing Dedicated and Professional Fund	20,698	14,137
Off-highway Vehicle Trails Fund	5,561	6,290
Oil Spill Response Fund	252	222
Optometric Licensing and Disciplinary Committee Fund	1,453	1,208
Personal Property Tax Replacement Fund	252,815	394,415
Petroleum Violation Fund	19	605
Plugging and Restoration Fund	1,291	1,570
Prescription Pill and Drug Disposal Fund	38	3
Private Sewage Disposal Program	470	400
Professional Services Fund	28,502	43,792
Professions Indirect Cost Fund	17,735	20,188
Public Agriculture Loan Guarantee	35,743	48,260
Public Health Services Revolving Fund	3,913	1,132
Public Infrastructure Construction Loan Revolving Fund	46,260	28,098
Public Pension Regulation Fund	7,927	9,782
Quality of Life Endowment Fund	10,057	10,236
Radiation Protection Fund	5,761	12,523
Radioactive Waste Facility Development and Operation Fund	5,747	5,009
Rail Freight Loan Repayment Fund	10,165	12,979
Rate Adjustment Fund	27,367	52,083
Real Estate Audit Fund	683	589
Real Estate License Administration Fund	123,296	139,141
Real Estate Recovery Fund	2,939	3,665
Real Estate Research and Education Fund	1,195	643
Regional Transit Authority Sales Tax Trust Fund	227,735	418,957
Registered CPA Administration and Disciplinary Fund	23,716	10,930
Road Fund	3,018,264	3,635,671
Road Transportation A Fund	157,019	1,214,430
Salmon Fund	344	774
Savings and Residential Finance Regulatory Fund	9,738	8,233
Savings Institution Regulatory Fund	2,159	2,063
School Technology Revolving Loan Fund	11,571	5,738
Second Injury Fund	2,814	3,204
Securities Audit and Enforcement Fund	52,608	69,521
Self-Insurers Administration Fund	185	282

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2013 and 2012**

	2013	2012
Self-Insurers Security Fund	\$ 99,673	\$ 126,348
Sheffield February 1982 Agreed Order Fund	12,625	17,762
Special Tax Inc.	9,148	11,034
St. Jude Children Research Fund	11	9
State Assets Forfeiture Fund	7,751	6,954
State Board of Elections Federal Trust Fund	-	230
State Construction Account Fund	550,890	849,835
State Employees Retirement Excess Benefits Fund	107	102
State Employees Retirement System Fund	499,942	750,520
State Employees' Deferred Compensation Plan Fund	16,629	25,747
State Furbearer Fund	467	649
State Migratory Waterfowl Stamp Fund	11,684	15,724
State Pheasant Fund	5,291	5,966
State Police Merit Board Public Safety Fund	104	-
State Police Motor Vehicle Theft Prevention Fund	6	-
State Rail Freight Loan Repayment Fund	39,736	32,381
State Small Business Credit Initiative Fund	47,579	101,343
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	1,990	2,967
Student Loan Operating Fund	45,562	103,526
Supreme Court Historic Preservation Fund	9,322	15,344
Teachers' Health Insurance Security Fund	112,581	138,902
Teachers' Retirement Excess Benefits Fund	53,246	112,759
Teachers' Retirement System Fund	366,231	502,785
Ticket for the Cure Fund	7,330	5,748
TOMA Consumer Protection	1,449	868
Underground Resource Conservation Enforcement Trust Fund	1,995	1,522
Underground Storage Tank Fund	40,465	33,495
University of Illinois Income Trust Fund	4	7
Violent Crime Victims Assistance Fund	7,527	6,476
Water Pollution Control Revolving Fund	700,183	1,245,361
Wildlife and Fish Fund	80,505	101,335
Wildlife and Prairie Park Fund	176	147
Worker's Compensation Revolving Fund	61,626	128,136
	<hr/>	<hr/>
Total pooled investment income	\$ 36,075,192	\$ 45,947,356

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Segregated Investments</b>		
Agrichemical Incident Response Trust Fund	\$ 2	\$ 2
College Savings Pool Administration Fund	1,504	1,065
Corn Commodity Trust Fund	2	1
Deferred Lottery Prize Winners Trust Fund	1,445	1,000
Homeland Security Emergency Preparedness Trust Fund	5,673	-
Horse Racing Equity Trust	1,772	1,753
Illinois Habitat Endowment Trust Fund	8,901	7,244
Illinois Municipal Retirement Fund	11,864	7,518
Illinois Prepaid Tuition Trust Fund	7,197	7,500
Illinois State Toll Highway Revenue Fund	1,162,152	709,326
Municipal Wireless Service Emergency Trust Fund	61	-
National Heritage Endowment Trust Fund	313	299
Radioactive Waste Facility Closure and Compensation Fund	84	80
Title III Social Security and Employment Service	5,036	3,145
Tobacco IPTIP	3,741	16,010
Unemployment Compensation Special Administration Fund	3,437	2,811
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Total segregated investment income	1,213,184	757,754
	<hr/>	<hr/>
Total investment income	\$ 37,288,376	\$ 46,705,110

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2013 and 2012**

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

	<u>2013</u>	<u>2012</u>
The Illinois Funds	\$ 519,554	\$ 458,831
Time Deposits	469,441	1,108,431
Money Market Mutual Fund	196,905	119,553
Repurchase Agreements	1,568,683	1,364,459
Commercial Paper	3,679,351	7,351,231
Federal Farm Credit Bank Notes	1,163,791	380,952
State of Illinois Secondary Pool Investment Program	(1,805)	13,287
Federal National Mortgage Association	7,993,622	11,821,360
Foreign Investments	325,088	398,254
Federal Home Loan Mortgage Corporation	1,020,193	3,512,173
Federal Home Loan Bank Notes	1,486,240	2,218,243
Federal Deposit Insurance Corporation Guarantee Notes	487,619	664,059
U.S. Treasury Bills	14,507,936	8,127,197
U.S. Treasury Notes	356,375	156,299
Illinois Technology Development Mortgage Pilot Program	2,302,199	3,264,089
	-	4,988,938
	<u>\$ 36,075,192</u>	<u>\$ 45,947,356</u>

Total pooled investment income

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Administrative Responsibilities  
June 30, 2013 and 2012**

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**Protest Trust Fund**

	<u>2013</u>	<u>2012</u>
Liability at beginning of year	\$ 217,343,043	\$ 361,323,172
Add		
Trust receipts collected by other State agencies	<u>23,679,983</u>	<u>23,756,006</u>
	<u>241,023,026</u>	<u>385,079,178</u>
Deduct		
Trust disbursements for refunds of successfully protested tax payments	53,521,693	14,552,206
Transfers to other funds	<u>14,626,106</u>	<u>153,183,929</u>
	<u>68,147,799</u>	<u>167,736,135</u>
Liability at end of year	<u>\$ 172,875,227</u>	<u>\$ 217,343,043</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Key Performance Measures and Other Information  
June 30, 2013  
(Unaudited)**

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**Key Performance Measures:**

- The Illinois Funds' net asset base at 6/30/13 was \$5,846,341,679.
- Earned interest income of \$4.4 million during FY13 for The Illinois Funds.
  
- Funded 351 Cultivate IL Annual AG deposits totaling \$46,908,500.
- Funded 30 Cultivate IL Long Term AG deposits totaling \$1,452,147.
  
- Total number of warrants successfully issued, countersigned and recorded: 4,789,267
- Total number of warrants successfully canceled, paid and recorded: 4,709,864
- Total amount of warrants successfully issued, countersigned and recorded: \$78,785,607,667
  
- Total amount of estate tax collections: \$312,965,204
- Total amount of estate tax distributions: \$2,612,908
- Total amount of estate tax refunds: \$13,440,082
  
- The investment portfolio earned \$37,288,376 during fiscal year 2013.
- Investments yielded approximately .36% throughout the current year.
- The average investment base increased approximately \$974,790,962 from the prior year.
  
- The value of the Illinois Technology Development account at cost as of 6/30/13 was \$40,812,899.
- The value of the Illinois Technology Development account at estimated fair value as of June 30, 2013, was \$46,488,243. Fair values were estimated by the individual technology development accounts' management not the State Treasurer's Office or an independent third party.

**Other Information:**

**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.

Public Act 97-732 went into effect July 1, 2012. As a result, all Illinois Estate and Inheritance taxes are paid directly to the State Treasurer's Office by the estate rather than flowing through the county treasurers. Additionally, county treasurers no longer receive a monthly six percent estate tax distribution for collection services. Instead, six percent of all estate tax collections is deposited in the Estate Tax Refund Fund to be used exclusively for paying estate tax refunds.

Gross inheritance and estate tax receipts for the fiscal years ended June 30, 2013 and 2012, were \$312,965,204 and \$234,863,879, respectively. These amounts do not reflect refunds and fees distributed to county treasurers.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Key Performance Measures and Other Information  
June 30, 2013  
(Unaudited)**

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**Other Information (Continued):**

**Inheritance and Estate Taxes (Continued)**

For the past five 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, 2013 in the amount of \$24,138,868. 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 did not receive any new monies to fund its new collection responsibilities.

**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:

	<u>2013</u>	<u>2012</u>
Tobacco Settlement proceeds	\$ 131,287,239	\$ 133,068,770
Interest and other investment income	8,203	11,999
Total Receipts and Deposits	<u>\$ 131,295,442</u>	<u>\$ 133,080,769</u>

**Investment Policy  
June 30, 2013 (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 achieve 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 Director 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 Committee<sup>1</sup>, to determine the effectiveness of investment decisions in meeting investment goals.

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<sup>1</sup> *The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Chief of Staff, Executive Director of Finance, Director of Accounting, Director of State Portfolio and Banking, Director of Investment and Illinois Funds Portfolio Operations, General Counsel, Portfolio Investments and Cash Management Officer, Director of Operations-Illinois Funds E-Pay 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 \$250,000. 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 or a limited liability company 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) The Treasurer may lend any securities acquired under this Policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent.

#### **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:**

**a)** All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer<sup>2</sup> 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.

**b)** Securities lending cash or securities collateral shall have the meaning as set forth in the Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The Treasurer's Agent may reinvest cash collateral as indicated in the Securities Lending Agreement. The Treasurer or the Treasurer's Agent may take possession and title to any cash or securities held as collateral and hold such securities according to the Securities Lending Agreement.

## **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,

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<sup>2</sup> *The Treasurer maintains a list of acceptable collateral.*

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.

#### **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 or a statement of holdings.

#### **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 Executive Director of Finance 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.**