

**State of Illinois
Office of the Treasurer**

Change Over Audit

Financial Audits and Agreed-Upon Procedures
For the Period July 1, 2014 through the
Opening of Business January 12, 2015

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



**State of Illinois
Office of the Treasurer**

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Part I

Fiscal Officer Responsibilities

State of Illinois
Office of the Treasurer
Fiscal Officer Responsibilities

Financial Audit
For the Period July 1, 2014 through the Opening of
Business January 12, 2015

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

Part I

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

**Financial Audit
For the Period July 1, 2014 through the
Opening of Business January 12, 2015**

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**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
January 12, 2015**

Treasurer's Office Officials

Treasurer	Honorable Dan Rutherford (through January 12, 2015) Honorable Michael W. Frerichs (January 12, 2015 – present)
Deputy Treasurer	Mr. Jay Rowell (January 12, 2015 – present)
Chief of Staff	Mr. Kyle Ham (through December 14, 2014) Justin Cajindos (January 1, 2015 – present)
Chief Investment Officer	Ms. Bridget Byron (through January 29, 2015) Mr. Rodrigo Garcia (January 13, 2015 – present)
General Counsel	Mr. Neil P. Olson (through January 31, 2015) Mr. Keith Horton (January 12, 2015 – present)
Director of Banking	Ms. Elizabeth Turner
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler (through March 31, 2015)

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

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit**

For the Period July 1, 2014 through the Opening of Business January 12, 2015

Financial Statement Report Summary

The audit 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 audit, the auditors expressed an unmodified opinion on the Treasurer's basic financial statements. The financial statements are special purpose 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 the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business January 12, 2015, 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 described in Note B; this includes determining that the financial reporting provisions determined by the Office of the State Comptroller is an acceptable basis for the preparation of the financial statements in the circumstances. 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Other Debits, Liabilities and Accountabilities of the Office of the Treasurer, Fiscal Officer Responsibilities, as of the opening of business January 12, 2015, and the respective Investment Income for the period July 1, 2014 through the opening of business January 12, 2015, in accordance with the financial reporting provisions determined by the Office of the State Comptroller described in Note B.

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 21 – 39) 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 40 – 48) 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 report dated April 22, 2015 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 current and outgoing 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
April 22, 2015

Financial Statements

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Statement of Assets and Other Debits, Liabilities and Accountabilities
As of the Opening of Business January 12, 2015**

Assets and Other Debits	
Cash and Cash Equivalents	
Demand Deposits	\$ 2,161,553
Clearing Account Deposits and Deposits in Transit	25,836,076
Total cash	<u>27,997,629</u>
Repurchase Agreements	1,012,375,654
Commercial Paper	2,199,402,193
Time Deposits	5,000,000
Federal Home Loan Mortgage Corporation Discount Notes	99,984,000
Federal Home Loan Bank Discount Notes	399,973,590
Federal Farm Credit Banks Discount Notes	49,998,389
The Illinois Funds	1,050,148,920
Money Market Mutual Funds	873,035,417
Mortgage Reserve Fund	<u>1</u>
Total Cash and Cash Equivalents	<u>5,717,915,793</u>
Deposits and Investments	
Short-term Investments	
Time Deposits	82,763,944
Commercial Paper	839,411,604
U.S. Treasury Bills	3,997,071,249
U.S. Treasury Notes	150,093,750
Federal Home Loan Bank	50,001,500
Federal National Mortgage Association	25,363,000
Foreign Investments	10,000,000
Long-term Investments	
Time Deposits	4,046,990
U.S. Treasury Notes	100,731,446
Federal Home Loan Mortgage Corporation	598,174,500
Federal Home Loan Bank	702,478,993
Federal National Mortgage Association	472,651,750
Federal Farm Credit Banks	272,344,175
Federal Agriculture Mortgage Corporation	91,021,130
State of Illinois Secondary Pool Investment Program	154,226
Illinois Technology Development	42,249,853
Foreign Investments	<u>15,000,000</u>
Total Deposits and Investments	<u>7,453,558,110</u>
Securities Lending Collateral	
Invested in Repurchase Agreements	<u>5,166,219,477</u>
Other Assets	
Warrants Cashed, but not Canceled	125,000
Receivables from Universities and Agencies for Moneys Advanced	2,862,500
Receivable from City of Edwardsville	245,757
Investment Income Earned, but not Received	<u>10,665,815</u>
Total Other Assets	<u>13,899,072</u>
Other Debits	
Amount of Future General Revenue Obligated for Debt Service	<u>41,313,058,429</u>
Total Assets and Other Debits	<u>\$ 59,664,650,881</u>

(Continued)

State of Illinois
Office of the Treasurer

Fiscal Officer Responsibilities
Statement of Assets and Other Debits, Liabilities and Accountabilities (Continued)
As of the Opening of Business January 12, 2015

Liabilities and Accountabilities	
Liabilities for Balances on Deposit	
Comptroller	
Protested taxes	\$ 90,849,398
Available for Appropriation or Expenditure	9,458,167,338
Agencies' Deposits Outside the State Treasury	814,412,491
Comptroller's Warrants Outstanding	<u>1,836,307,213</u>
Total Liabilities for Balances on Deposit	<u>12,199,736,440</u>
Other Liabilities	
Obligations under Securities Lending	<u>5,166,219,477</u>
Total Other Liabilities	<u>5,166,219,477</u>
General Obligation Indebtedness	
Principal and Interest Due Within One Year	2,779,802,097
Principal and Interest Due Thereafter	<u>39,506,904,094</u>
Total General Obligation Indebtedness	<u>42,286,706,191</u>
Accountabilities	
Receivable from City of Edwardsville	245,757
Investment Income Earned, but not Received (Net of Cumulative Market Adjustments)	11,743,015
Mortgage Reserve Fund	<u>1</u>
Total Accountabilities	<u>11,988,773</u>
Total Liabilities and Accountabilities	<u><u>\$ 59,664,650,881</u></u>

See Notes to the Financial Statements.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Statement of Investment Income
For the period July 1, 2014 through the Opening of Business January 12, 2015**

Investment Income Earned	<u>\$ 22,353,332</u>
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See Notes to the Financial Statements.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements**

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.

Financial Reporting Period: The Illinois State Auditing Act 30 ILCS 5/3-2.1 requires the Office of the Auditor General to conduct a changeover audit of the Illinois State Treasurer's Office at the conclusion of each Treasurer's term. As such, the changeover financial statements presented herein are for the period July 1, 2014 through the opening of business January 12, 2015.

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; Statement of Assets and Other Debits, Liabilities and Accountabilities and Statement of Investment Income have been determined by the Comptroller.

The Treasurer's financial statements consist of the Statement of Assets and Other Debits, Liabilities and Accountabilities and Statement 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.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The basis of accounting is essentially a full accrual basis in that investment 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 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 (the "Other Debits") 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. 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 (IIMPP): 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.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements**

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 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 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. Agency Discount Notes, U.S. Treasury Bills, 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. 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.

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 no limit to the amount allocated to investments with less than a two-year maturity. No more than 55% of the investment portfolio shall be allocated to investments with a 2 to 3 year maturity band. No more than 30% of the investment portfolio shall be allocated to investments with a 3 to 4 year maturity band (not including Foreign Government Securities). No more than 15% 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 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 the opening of business January 12, 2015, excluding the securities lending program, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Deutsche Bank, which were rated P-2 by Moody's Investors Services and Toronto Dominion Holding USA, which were rated A-1+ by Standard and Poor's Ratings. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service or AA+ by Standard & Poor's Ratings, except for Federal Agriculture Mortgage Corporation securities which were not rated. 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.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

As of the opening of business January 12, 2015, credit ratings of collateral for securities lending collateral invested in repurchase agreements are as follows:

Standard & Poor's Rating	Percentage % (Percent of Total)	Moody's Rating	Percentage % (Percent of Total)
AAA	1.59%	Aaa	5.50%
AA+	1.04%	Aa1	1.04%
AA	1.35%	Aa2	1.09%
AA-	3.94%	Aa3	0.71%
A+	1.17%	A1	2.66%
A	1.57%	A2	2.28%
A-	1.06%	A3	1.00%
A-1	0.27%	Baa1	1.62%
A-1+	2.49%	Baa2	4.75%
A-2	3.93%	Baa3	6.21%
A-3	0.46%	Ba1	0.61%
BBB+	1.64%	Ba2	0.21%
BBB	2.49%	Ba3	0.10%
BBB-	4.21%	B1	0.18%
BB+	0.37%	B2	0.43%
BB	0.64%	B3	1.25%
BB-	0.63%	Caa1	1.07%
B+	0.19%	Caa2	1.43%
B	0.16%	Caa3	1.19%
B-	0.76%	Ca	0.04%
CCC+	0.75%	P-1	2.75%
CCC	1.57%	P-2	4.02%
CCC-	1.43%	P-3	0.46%
CC	0.01%	Not Rated	59.40%
D	0.01%		100.00%
Not Rated	66.27%		
	100.00%		

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

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

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

The Treasurer purchased investments in four mutual funds as of the opening of business January 12, 2015. 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 in 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.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements**

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 the opening of business January 12, 2015. (Amounts are in thousands.)

	Maturing in:				Total
	Less than 1 year	1 - 5 years	6 - 10 years	NA***	
Commercial Paper *	\$ 3,038,814	\$ -	\$ -	\$ -	\$ 3,038,814
Repurchase Agreements*	1,012,376	-	-	-	1,012,376
U.S. Treasury Bills *	3,997,071	-	-	-	3,997,071
U.S. Treasury Notes	150,094	100,731	-	-	250,825
Federal Home Loan Bank	50,002	702,479	-	-	752,481
Federal Home Loan Bank Discount Notes*	399,974	-	-	-	399,974
Federal Farm Credit Banks	-	272,344	-	-	272,344
Federal Farm Credit Banks Discount Notes*	49,998	-	-	-	49,998
Federal Home Loan Mortgage Corporation	-	598,175	-	-	598,175
Federal Home Loan Mortgage Corporation Discount Notes*	99,984	-	-	-	99,984
Federal National Mortgage Association	25,363	472,652	-	-	498,015
Federal Agriculture Mortgage Corporation	-	91,021	-	-	91,021
State of Illinois Secondary Pool Investment Program	-	75	79	-	154
Foreign Investments**	10,000	15,000	-	-	25,000
Securities Lending Collateral Invested in Repurchase Agreements*	5,166,219	-	-	-	5,166,219
Illinois Technology Development*	-	-	-	42,250	42,250
The Illinois Funds*	-	-	-	1,050,149	1,050,149
Money Market Mutual Funds*	-	-	-	873,035	873,035
Total Investments and Securities Lending Collateral, excluding Time Deposits	\$ 13,999,895	\$ 2,252,477	\$ 79	\$ 1,965,434	\$ 18,217,885

* Reported at amortized cost.

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

*** Categorization not applicable.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

The Treasurer's net increase (decrease) in the fair value of investments for the period July 1, 2014 through the opening of business January 12, 2015 was \$1,640,051. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the period 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 of repurchase agreements, including accrued interest, was \$1,012,375,654 and the fair value of the collateral securities under the repurchase agreements was \$1,031,766,613, as of the opening of business January 12, 2015.

Investment Commitment: The Illinois Technology Development Program which the Treasurer administers, in accordance with 30 ILCS 265, has made commitments totaling approximately \$73 million to provide venture capital to technology businesses as of the opening of business January 12, 2015. The remaining unfunded commitment was approximately \$8 million as of the opening of business January 12, 2015.

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 as of the opening of business January 12, 2015. (Amounts are in thousands.)

	Carrying Value	% of Total Investments
Repurchase agreements:		
Mizuho Securities*	\$ 581,450	3.19
J.P. Morgan*	1,040	0.01
Commercial Paper:		
BNP Paribas Finance*	749,723	4.12
Mizuho Securities*	394,697	2.17
Securities Lending Collateral Invested in Repurchase Agreements:		
BNP Paribas Prime Brokerage *	260,000	1.43
BNP Paribas Securities Corp*	30,000	0.16
JP Morgan Clearing Corp*	974,743	5.35
Merrill Pierce Fenner Smith	950,000	5.21

* 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.

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

During the period July 1, 2014 through the opening of business January 12, 2015, 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 the period July 1, 2014 through the opening of business January 12, 2015, 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 the period July 1, 2014 through the opening of business January 12, 2015 resulting from a default of the borrowers or Deutsche Bank AG.

During the period July 1, 2014 through the opening of business January 12, 2015, 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 the opening of business January 12, 2015 were \$5,166,219,477 and \$5,136,218,429.

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. Two mortgage agreements in the pool were secured by hotel properties, the Collinsville Holiday Inn (Collinsville Hotel) and the Abraham Lincoln Hotel and Conference Center (President Lincoln Hotel). There was extensive litigation involving the hotels' default on those loans; the hotels have been sold with the proceeds deposited in the Trust account. As part of a settlement in 2010 involving the wrongful dishonor of letters of credit that were collateral for the Collinsville Hotel, the Trustee was granted title to real and personal property.

The funds of the Trust are invested in a money market account at the Trustee, U.S. 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. All real property received as part of the letters of credit settlement has been sold and the proceeds deposited in the Trust account. There is ongoing litigation in Madison County regarding the Trust's interests in personal property.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements**

NOTE F. DEFEASED DEBT

During the period July 1, 2014 through the opening of business January 12, 2015, the State of Illinois issued no General Obligation Refunding Bonds.

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. As of the opening of business January 12, 2015, \$11,600,000 of bonds outstanding was considered defeased.

NOTE G. SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER

As of the opening of business January 12, 2015, the Treasurer was responsible for \$114,671,701 of securities held in safekeeping for various State departments, agencies and institutions. These amounts are not reflected in the Statements of Assets and Other Debits, Liabilities and Accountabilities.

State of Illinois
Office of the Treasurer

Fiscal Officer Responsibilities
Notes to the Financial Statements

NOTE H. GENERAL OBLIGATION INDEBTEDNESS

A summary of the changes for the period July 1, 2014 through the opening of business January 12, 2015, in General Obligation Bonded Indebtedness by issue type follows:

	Multi-Purpose - Interest Rates varying from 1.0% to 7.35% Series 1993 through 2014, due serially to 2039	Pension Funding - Interest Rates varying from 4.05% to 5.877% Series 2003 and 2011, due serially to 2033	General Obligation Refunding - Interest Rates varying from 2.0% to 7.3% Series 2001 through 2012, due serially in 2025	Total General Obligation Indebtedness
Balance at June 30, 2014				
Principal	\$ 11,752,542,674	\$ 13,793,200,000	\$ 3,334,776,496	\$ 28,880,519,170
Interest	7,567,963,020	7,245,421,372	837,333,322	15,650,717,714
Total	19,320,505,694	21,038,621,372	4,172,109,818	44,531,236,884
Redemptions charged to Appropriations				
Principal	215,616,278	693,200,000	416,364,441	1,325,180,719
Interest	430,617,830	367,664,872	121,067,272	919,349,974
Total	646,234,108	1,060,864,872	537,431,713	2,244,530,693
Balance as of the Opening of Business January 12, 2015				
Principal	11,536,926,396	13,100,000,000	2,918,412,055	27,555,338,451
Interest	7,137,345,190	6,877,756,500	716,266,050	14,731,367,740
Total	\$ 18,674,271,586	\$ 19,977,756,500	\$ 3,634,678,105	\$ 42,286,706,191

Amounts due within one year

Principal	\$ 1,366,855,000
Interest	1,412,947,097
Total	\$ 2,779,802,097

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements**

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 as of the opening of business January 12, 2015, are as follows:

Year ending January 12	Principal	Interest	Total
2016	\$ 1,366,855,000	\$ 1,412,947,097	\$ 2,779,802,097
2017	1,661,670,000	1,346,710,297	3,008,380,297
2018	1,921,020,000	1,260,213,089	3,181,233,089
2019	1,901,040,000	1,163,108,169	3,064,148,169
2020	1,908,435,000	1,062,918,654	2,971,353,654
2021-2025	5,424,774,985	4,367,029,907	9,791,804,892
2026-2030	6,175,295,104	2,828,731,271	9,004,026,375
2031-2035	6,277,229,911	1,039,548,227	7,316,778,138
2036-2040	1,060,240,000	108,939,480	1,169,179,480
Total	<u>\$ 27,696,560,000</u>	<u>\$ 14,590,146,191</u>	<u>\$ 42,286,706,191</u>

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

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

NOTE I. COMMITMENTS AND CONTINGENCIES

In February 2014, a former employee of the Treasurer's Office filed suit in the United States District Court for the Northern District of Illinois alleging violations of his constitutional rights in the case of Michalowski v. Rutherford (Case No. 14-CV-00899). The then-Treasurer and then-Chief of Staff were originally named as defendants. In June 2014, a First Amended complaint was filed naming additional defendants, including the Illinois State Treasurer's Office and the then-Deputy Chief of Staff. All defendants have filed motions to dismiss the lawsuit in its entirety. The final litigation costs or potential liability is not presently known.

SUPPLEMENTARY INFORMATION

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits, Liabilities and Accountabilities
As of the Opening of Business January 12, 2015**

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

Assets and Other Debits	
Cash and Cash Equivalents	\$ 5,717,915,793
Deposits and Investments	7,453,558,110
Securities Lending Collateral	5,166,219,477
Other Assets	13,899,072
Other Debits	<u>41,313,058,429</u>
Total Assets and Other Debits	<u><u>\$ 59,664,650,881</u></u>
Liabilities for Balances on Deposit	
Comptroller	
Protested Taxes	\$ 90,849,398
Available for Appropriation or Expenditure	9,458,167,338
Agencies' Deposits Outside the State Treasury	814,412,491
Comptroller's Warrants Outstanding	<u>1,836,307,213</u>
Total Liabilities for Balances on Deposit	12,199,736,440
Other Liabilities	5,166,219,477
General Obligation Indebtedness	<u>42,286,706,191</u>
Total Liabilities	<u><u>59,652,662,108</u></u>
Accountabilities	
Receivable from City of Edwardsville	245,757
Investment Income Earned, but not Received	11,743,015
Mortgage Reserve Fund	<u>1</u>
Total Accountabilities	<u>11,988,773</u>
Total Liabilities and Accountabilities	<u><u>\$ 59,664,650,881</u></u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail
As of the Opening of Business January 12, 2015**

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

Cash and Cash Equivalents	
Demand Deposits	\$ 2,161,553
Clearing Account Deposits and Deposits in Transit	25,836,076
Repurchase Agreements	1,012,375,654
Commercial Paper	2,199,402,193
Time Deposits	5,000,000
Federal Home Loan Mortgage Corporation Discount Notes	99,984,000
Federal Home Loan Bank Discount Notes	399,973,590
Federal Farm Credit Banks Discount Notes	49,998,389
The Illinois Funds	1,050,148,920
Money Market Mutual Funds	873,035,417
Mortgage Reserve Fund	<u>1</u>
Total Cash and Cash Equivalents	<u><u>\$ 5,717,915,793</u></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)
As of the Opening of Business January 12, 2015**

	Collected	Float	Total
Demand deposits			
Bank of America	\$ 539,813	\$ -	\$ 539,813
JP Morgan Chase	56,315	84	56,399
Wells Fargo Bank	11,324	506	11,830
	<u>\$ 607,452</u>	<u>\$ 590</u>	608,042
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			<u>1,553,511</u>
Total demand deposits			<u>\$ 2,161,553</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)
As of the Opening of Business January 12, 2015**

	Collected	Float	Total
Clearing Account Deposits and Deposits in Transit			
Bank of America	\$ 234,507	\$ 165,371	\$ 399,878
DuQuoin State Bank	19,969	-	19,969
JP Morgan	254,010	9,363,112	9,617,122
Fifth Third	40,443	15,561,598	15,602,041
Illinois National Bank	72,798	7,982	80,780
US Bank-Springfield	111,265	-	111,265
Wells Fargo Bank	5,021	-	5,021
	<u>\$ 738,013</u>	<u>\$ 25,098,063</u>	25,836,076
Net reconciling items (e.g., deposits-in- transit and outstanding drafts)			<u>-</u>
Total clearing account deposits			<u>\$ 25,836,076</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)
As of the Opening of Business January 12, 2015**

Deposits and Investments

Most of the Treasurer's investments as of the opening of business January 12, 2015 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.

Short-Term Deposits and Investments	
Time Deposits	\$ 82,763,944
Commercial Paper	839,411,604
U.S. Treasury Bills	3,997,071,249
U.S. Treasury Notes	150,093,750
Federal Home Loan Bank	50,001,500
Federal National Mortgage Association	25,363,000
Foreign Investments	10,000,000
	<hr/>
Total Short-Term Deposits and Investments	5,154,705,047
	<hr/>
Long-Term Deposits and Investments	
Time Deposits	4,046,990
U.S. Treasury Notes	100,731,446
Federal Home Loan Mortgage Corporation	598,174,500
Federal Home Loan Bank	702,478,993
Federal National Mortgage Association	472,651,750
Federal Farm Credit Banks	272,344,175
Federal Agriculture Mortgage Coporation	91,021,130
State of Illinois Secondary Pool Investment Program	154,226
Illinois Technology Development	42,249,853
Foreign Investments	15,000,000
	<hr/>
Total Long-Term Deposits and Investments	2,298,853,063
	<hr/>
Total Deposits and Investments	\$ 7,453,558,110
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**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
As of the Opening of Business January 12, 2015**

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 financial statements during the period of July 1, 2014 through December 31, 2014 was .34%.

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.

Securities Lending Collateral

Invested in Repurchase Agreements	<u><u>\$ 5,166,219,477</u></u>
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Other Assets

This classification includes other assets not available for investment and transactions in process. Details as of the opening of business January 12, 2015 follow:

Warrants cashed, but not canceled	\$ 125,000
Receivables from Universities and Agencies for monies advanced	2,862,500
Receivable from City of Edwardsville	245,757
Investment income earned, but not received	<u>10,665,815</u>
Total Other Assets	<u><u>\$ 13,899,072</u></u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
As of the Opening of Business January 12, 2015**

Other Assets (Continued)

The account balance 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 as of the opening of business January 12, 2015. 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 period July 1, 2014 through the opening of business January 12, 2015 were \$3,838.

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:

Certificates, Bonds and Coupons Maturing Within One Year	\$ 2,779,802,097
Less - Balance on Deposit in State Treasury As of the Opening of Business January 12, 2015, Certificate and Bond Redemption and Interest Fund	<u>(973,647,762)</u>
Amount Obligated from Future General Revenue	
General Revenue - Within One Year	1,806,154,335
General Revenue - After January 12, 2016	<u>39,506,904,094</u>
Amount of Future General Revenue Obligated for Debt Service As of the Opening of Business January 12, 2015	<u><u>\$ 41,313,058,429</u></u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
As of the Opening of Business January 12, 2015**

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

A summary of the changes during the period July 1, 2014 through the opening of business January 12, 2015, in the amount of future general revenue obligated for debt service is as follows:

Balance at June 30, 2014	\$ 42,962,514,885
Bonds and Coupons Redeemed	(2,244,530,693)
Net Change in Balances on Deposit in State Treasury	<u>595,074,237</u>
Balance As of the Opening of Business January 12, 2015	<u><u>\$ 41,313,058,429</u></u>

The amount of future general revenue obligated for debt service reconciled with total indebtedness as of the opening of business January 12, 2015 is as follows:

<u>General Obligation Bonds</u>	
Amount of future general revenue obligated for debt service	\$ 41,313,058,429
Balance on deposit in the State Treasury as of the Opening of Business January 12, 2105 for bond redemption and interest	<u>973,647,762</u>
Total indebtedness as of the Opening of Business January 12, 2015	<u><u>\$ 42,286,706,191</u></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 the period July 1, 2014 through the opening of business January 12, 2015.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
As of the Opening of Business January 12, 2015**

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
As of the Opening of Business January 12, 2015**

Liabilities for Balances on Deposit

Protested Taxes: Substantially all of the \$90,849,398 in the Protest Trust Fund as of the opening of business January 12, 2015, 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 as of the opening of business January 12, 2015 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 as of the opening of business January 12, 2015 consists of:

Treasurer's Clearing Account Balances	\$ 69,292,897
Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury	128,180,999
Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts	465,235,924
Deposits in Demand Accounts in Process of Being Ordered into the State Treasury	<u>151,702,671</u>
Total Agency Deposits Outside the State Treasury	<u><u>\$ 814,412,491</u></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)
As of the Opening of Business January 12, 2015**

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” section of the “Supplementary Information – Assets and Other Debits – Detail” part of the report for information relating to outstanding general obligation indebtedness.

Accountabilities

Refer to the “Other Assets” section of the “Supplementary Information – Assets and Other Debits – Detail” part of the report for information relating to these accountabilities.

**State of Illinois
Office of the Treasurer**

Fiscal Officer Responsibilities

Investment Income

For the Period July 1, 2014 through the Opening of Business January 12, 2015

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

General Revenue Fund	\$ 11,696,480
Other State funds	10,380,185
Segregated State trust funds	<u>276,667</u>
	<u><u>\$ 22,353,332</u></u>

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

Fund participating in pooled investments	
General Revenue Fund	\$ 11,696,480
Aggregated Operations Regulatory Fund	918
Airport Land Loan Revolving Fund	174
Alternative Compliance Market Account Fund	161
Ambulance Revolving Loan Fund	(20)
AML Reclamation Set Aside Fund	63,431
Appraisal Administration Fund	4,210
Assisted Living and Shared Housing Regulatory Fund	826
Autism Research Checkoff Fund	31
Autoimmune Disease Research Fund	84
Bank & Trust Company Fund	56,575
Brownfields Redevelopment Fund	4,645
Budget Stabilization Fund	4,627
Build Illinois Bond Retirement and Interest Fund	25,816
Build Illinois Capital Revolving Loan Fund	17,968
Build Illinois Fund	41,506
Capital Project Fund	71,914
Care Provide Per W Dev. Dis.	11,391
Cemetery Consumer Protection Fund	640
Cemetery Relief	144
Charitable Trust Stabilization Fund	5,115
Chicago State Univeristy Education Improvement Fund	3,048
Child Abuse Prevention Fund	384
Clean Air Act (CAA) Permit Fund	11,922
Coal Mining Regulatory Fund	967
Common School Fund	139,553
Community College Health Insurance Security Fund	3,905
Community DD Services Medicaid Trust Fund	74,674
Community Mental Health Medical Trust Fund	34,226
Community Water Supply Laboratory Fund	2,328
Compassionate Use of Medical Cannabis	3,415

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)**

For the Period July 1, 2014 through the Opening of Business January 12, 2015

Fund participating in pooled investments	
Conservation Police Operations Assistance Fund	\$ 2,236
County Automobile Renting Tax Fund	85
County Hospital Services Fund	9,649
County Option Motor Fuel Tax Fund	8,285
County Water Commission Tax Fund	9,196
Credit Union Fund	5,099
Criminal Justice Trust Fund	42,450
Debt Settlement Consumer Protection Fund	607
Design Professionals Administration and Investigation Fund	872
DHS Community Services Fund	11,910
DHS Technology Initiative Fund	2,328
Diabetes Research Checkoff Fund	243
Digital Divide Elimination Infrastructure Fund	128
Drug Rebate Fund	184,355
Drycleaner Environmental Response Trust Fund	2,752
Early Intervention Services Fund	8,174
Electronics Recycling Fund	1,281
Environmental Laboratory Certification Fund	231
EPA Court Ordered Trust Fund	11
Explosive Regulatory Fund	546
Facilities Management Fund	27,580
Fair Share Trust Fund	232
Family Care Fund	29,497
Federal Asset Forfeiture Fund	1,869
Federal Home Investment Trust Fund	2,030
Federal Student Loan Fund	62,834
Federal Workforce Training Fund	222
Fire Truck Revolving Loan Fund	564
Fish and Wildlife Endowment Fund	3,998
Food and Drug Safety Fund	2,503
Gaining Early Awareness Fund	10,784
General Assembly Retirement Excess Benefits Fund	42
General Assembly Retirement Fund	7,742
General Obligation Bond Retirement and Interest Fund	3,003,807
General Professions Dedicated Fund	9,668
Group Home Loan Revolving Fund	78
Group Insurance Premium Fund	14,406
Group Workers Compensation Pool Fund	3,535
Hansen-Therkelsen Memorial Deaf Student College Fund	1,881
Health and Human Services Medicaid Trust Fund	19,548
Health Information Exchange Fund	6,789
Health Insurance Reserve Fund	228,695
Healthcare Providers Relief Fund	260,951
Hearing Instrument Dispenser Examining and Disciplinary Fund	30
Help Illinois Vote Fund	13,651

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)**

For the Period July 1, 2014 through the Opening of Business January 12, 2015

Fund participating in pooled investments	
Home Inspector Administration Fund	\$ 1,894
Home Rule City Retailers' Occupation Tax Fund	96,956
Home Rule Municipal Retailers' Occupation Tax Fund	144,383
Home Services Medicaid Trust Fund	47,321
Hospital Licensure Fund	427
Hospital Provider Fund	202,159
Human Service Priority Cap Program Fund	3,148
Illinois Affordable Housing Trust Fund	28,769
Illinois Beach Marina Fund	1,355
Illinois Clean Water Act Fund	29,837
Illinois Equity Fund	1,816
Illinois Farmer and Agri-Business Loan Guarantee Fund	14,660
Illinois Habitat Fund	9,780
Illinois Power Agency Trust Fund	428
Illinois State Dental Disciplinary Fund	6,440
Illinois State Medical Disciplinary Fund	62,309
Illinois State Pharmacy Disciplinary Fund	7,183
Illinois State Podiatric Disciplinary Fund	705
Illinois State Police Federal Projects Fund	1,474
Illinois State Police Operations Assistance Fund	35,334
Illinois Veteran's Assistance Fund	418
Injured Workers Benefit Fund	4,005
Innovations in Long-Term Care Quality Demonstration Grants Fund	9,334
Intercity Passenger Rail Fund	437
Interpreters For The Deaf Fund	407
Judges Retirement Excess Benefits Fund	718
Judges Retirement Fund	45,109
Juvenile Accountability Incentive Block Grant Fund	5,371
Kaskaskia Commons Permanent School Fund	432
Large Business Attraction Fund	3,017
Law Enforcement Camera Grant Fund	1,635
Local Government Health Insurance Reserve Fund	8,573
Long Term Care Ombudsman Fund	5,304
Long-Term Care Provider Fund	43,769
Medicaid Buy-In Program Revolving Fund	3,774
Mental Health Reporting Fund	2,207
Metro East Mass Transit District Tax Fund	8,598
Metropolitan Pier and Exposition Authority Trust Fund	52,556
Money Follows The Person Budget Fund	1,380
Motor Vehicle Theft Prevention Fund	8,272
Multiple Sclerosis Research Fund	5,907
Municipal Automobile Renting Tax Fund	2,125
Non-Home Rule Municipal Retailer's Occupation Tax Fund	36,950
Nuclear Safety Emergency Preparedness Fund	13,862

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)**

For the Period July 1, 2014 through the Opening of Business January 12, 2015

Fund participating in pooled investments	
Nursing Dedicated and Professional Fund	\$ 17,364
Off-highway Vehicle Trails Fund	4,030
Oil Spill Response Fund	142
Optometric Licensing and Disciplinary Committee Fund	1,337
Personal Property Tax Replacement Fund	140,335
Plugging and Restoration Fund	3,305
Prescription Pill and Drug Disposal Fund	147
Private Sewage Disposal Program Fund	151
Professional Services Fund	23,091
Professions Indirect Cost Fund	18,741
Public Agriculture Loan Guarantee Fund	18,982
Public Health Services Revolving Fund	6,796
Public Infrastructure Construction Loan Revolving Fund	22,442
Public Pension Regulation Fund	5,489
Quality of Life Endowment Fund	2,735
Radiation Protection Fund	5,509
Radioactive Waste Facility Development and Operation Fund	3,238
Rail Freight Loan Repayment Fund	6,174
Rate Adjustment Fund	18,164
Real Estate Audit Fund	363
Real Estate License Administration Fund	69,634
Real Estate Recovery Fund	1,930
Real Estate Research and Education Fund	1,413
Regional Transit Authority Sales Tax Trust Fund	113,922
Registered CPA Administration and Disciplinary Fund	12,796
Road Fund	1,939,660
Road Transportation A Fund	187,242
Salmon Fund	154
Savings and Residential Finance Regulatory Fund	5,504
Savings Institution Regulatory Fund	755
School Technology Revolving Loan Fund	2,086
Second Injury Fund	1,685
Securities Audit and Enforcement Fund	27,400
Self-Insurers Administration Fund	1,285
Self-Insurers Security Fund	39,195
Sexual Assault Service & Prevention Fund	503
Sheffield February 1982 Agreed Order Fund	6,135
St. Jude Children Research Fund	5
State Assets Forfeiture Fund	3,784
State Construction Account Fund	575,946
State Employees Retirement Excess Benefits Fund	420
State Employees Retirement System Fund	253,563
State Employees' Deferred Compensation Plan Fund	5,375
State Furbearer Fund	274
State Migratory Waterfowl Stamp Fund	6,379

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)**

For the Period July 1, 2014 through the Opening of Business January 12, 2015

Fund participating in pooled investments	
State Pheasant Fund	\$ 3,429
State Police Firearm Service Fund	17,861
State Police Merit Board Public Safety Fund	2,941
State Police Motor Vehicle Theft Prevention Fund	107
State Rail Freight Loan Repayment Fund	26,079
State Small Business Credit Initiative Fund	40,718
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	1,056
Student Loan Operating Fund	56,054
Supreme Court Historic Preservation Fund	2,911
Teachers' Health Insurance Security Fund	63,574
Teachers' Retirement Excess Benefits Fund	47,188
Teachers' Retirement System Fund	266,730
Ticket for the Cure Fund	4,333
TOMA Consumer Protection Fund	2,386
Underground Resource Conservation Enforcement Trust Fund	4,221
Underground Storage Tank Fund	62,587
University of Illinois Hospital Services Fund	19,255
Violent Crime Victims Assistance Fund	11,440
Water Pollution Control Revolving Fund	589,263
Wildlife and Fish Fund	13,681
Wildlife and Prairie Park Fund	53
Worker's Compensation Revolving Fund	39,292
Working Capital Revolving Loan Fund	956
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Total pooled investment income	<u>\$ 22,076,665</u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015**

Segregated Investments	
College Savings Pool Administration Fund	\$ 202
Deferred Lottery Prize Winners Trust Fund	641
Homeland Security Emergency Preparedness Trust Fund	712
Illinois Habitat Endowment Trust Fund	809
Illinois Municipal Retirement Fund	1,626
Illinois Prepaid Tuition Trust Fund	536
Illinois State Toll Highway Revenue Fund	266,452
Kanerva vs State Trust Fund	2,102
Municipal Wireless Service Emergency Trust Fund	2
National Heritage Endowment Trust Fund	29
Radioactive Waste Facility Closure and Compensation Fund	8
Regulatory Trust Fund	19
Title III Social Security and Employment Service Fund	1,224
Tobacco IPTIP Fund	1,791
Unemployment Compensation Special Administration Fund	514
	<hr/>
Total segregated investment income	276,667
	<hr/>
Total investment income	\$ 22,353,332
	<hr/> <hr/>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015**

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

The Illinois Funds	\$	47,499
Time Deposits		141,598
Money Market Mutual Funds		130,203
Repurchase Agreements		155,294
Commercial Paper		2,725,816
Federal Farm Credit Bank		1,711,408
State of Illinois Secondary Pool Investment Program		(9,122)
Federal National Mortgage Association		2,449,092
Foreign Investments		157,131
Federal Home Loan Mortgage Corporation		3,207,811
Federal Home Loan Bank		2,750,193
U.S. Treasury Bills		6,811,990
U.S. Treasury Notes		2,479,758
Illinois Technology Development		(1,080,661)
Federal Agriculture Mortgage Corporation		398,655
		<hr/>
Total pooled investment income	\$	<u>22,076,665</u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Administrative Responsibilities
As of the Opening of Business January 12, 2015 and for the Period
July 1, 2014 through the Opening of Business January 12, 2015**

Protest Trust Fund

Liability at July 1, 2014	\$ 121,481,858
Add	
Trust receipts collected by other State agencies	<u>30,592,349</u>
	<u>152,074,207</u>
Deduct	
Trust disbursements for refunds of successfully protested tax payments	34,848,937
Transfers to other funds	<u>26,375,872</u>
	<u>61,224,809</u>
Liability As of the Opening of Business January 12, 2015	<u><u>\$ 90,849,398</u></u>

**State of Illinois
Office of the Treasurer**

Fiscal Officer Responsibilities

Key Performance Measures and Other Information

For the Period July 1, 2014 through Opening of Business January 12, 2015

(Unaudited)

Key Performance Measures:

- The Illinois Funds' net asset base (net position) (as of the opening of business January 12, 2015) was \$5,333,716,663.
- The Illinois Funds earned net investment income of \$356 thousand during the period July 1, 2014 through the opening of business January 12, 2015.
- Funded 67 Cultivate IL Annual AG deposits totaling \$7,635,000.
- Funded 9 Cultivate IL Long Term AG deposits totaling \$462,325.
- Funded 1 Nehemiah Expansion Project deposits totaling \$453,122.
- Total number of warrants successfully issued, countersigned and recorded: 1,319,577.
- Total number of warrants successfully canceled, paid and recorded: 1,354,137.
- Total amount of warrants successfully issued, countersigned and recorded: \$42,487,009,035.
- Total amount of estate tax collections: \$175,679,169.
- Total amount of estate tax refunds: \$10,691,408.
- The investment portfolio earned \$22,353,332 during the period July 1, 2014 through the opening of business January 12, 2015.
- Investments yielded approximately .34% through the period July 1, 2014 through December 31, 2014.
- The 12/31/2014 average investment base increased approximately \$898,105,298 from the average investment base at 6/30/2014.
- The value of the Illinois Technology Development account at cost as of the opening of business January 12, 2015 was \$42,249,853.
- The value of the Illinois Technology Development account at estimated fair value as of the opening of business January 12, 2015, was \$52,433,310. 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.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Key Performance Measures and Other Information
For the Period July 1, 2014 through the Opening of Business January 12, 2015
(Unaudited)**

Other Information (Continued):

Inheritance and Estate Taxes (Continued)

Gross inheritance and estate tax receipts for the period July 1, 2014 through the opening of business January 12, 2015, were \$175,679,169. This amount does not reflect refunds paid.

From fiscal year 2009 to 2012, the amount of Estate Tax refund requests 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 the opening of business January 12, 2015 in the amount of \$8,913,165. The Treasurer's Office anticipates the backlog of unpaid estate tax refunds to be fully paid within 1 to 2 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 for the period July 1, 2014 through the opening of business January 12, 2015:

Interest and other investment income	\$ 3,263
	<hr/>
Total Receipts and Deposits	\$ 3,263
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Investment Policy
As of the Opening of Business January 12, 2015 (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 Committee¹, to determine the effectiveness of investment decisions in meeting investment goals.

¹ *The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Chief of Staff, 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 Moneys 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 Moneys Act.

7.0 COLLATERALIZATION:

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

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. These limits will apply to the total assets in the portfolio at the time of the origination or purchase. As maturities and or calls of instruments occur these limits will be monitored and adjusted accordingly:

i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 55% 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,

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

v. No more than 55% of the investment portfolio shall be allocated to investments greater than 2 years and less than or equal to 3 years.

vi. No more than 30 % of the investment portfolio shall be allocated to investments greater than 3 years and less than or equal to 4 years. (not including Foreign Government Securities).

vii. No more than 15% of the investment portfolio shall be allocated to investments greater than 4 years and less than or equal to 5 years.

viii. 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.



**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 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 the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business January 12, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2015. 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 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 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.

A handwritten signature in cursive script that reads "McGladrey LLP".

Schaumburg, Illinois
April 22, 2015

Part II

The Illinois Funds

**State of Illinois
Office of the State Treasurer
The Illinois Funds**

Financial Audit
For the Period July 1, 2014 through the Opening of
Business January 12, 2015
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

Part II

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Financial Audit
For the Period July 1, 2014 through the
Opening of Business January 12, 2015**

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**State of Illinois
Office of the Treasurer**

The Illinois Funds

Treasurer's Office Officials

Treasurer	Honorable Dan Rutherford (through January 12, 2015) Honorable Michael W. Frerichs (January 12, 2015 – present)
Deputy Treasurer	Mr. Jay Rowell (January 12, 2015 – present)
Chief of Staff	Mr. Kyle Ham (through December 14, 2014) Justin Cajindos (January 1, 2015 – present)
Chief Investment Officer	Ms. Bridget Byron (through January 29, 2015) Mr. Rodrigo Garcia (January 13, 2015 – present)
General Counsel	Mr. Neil P. Olson (through January 31, 2015) Mr. Keith Horton (January 12, 2015 – present)
Director of IL Funds/ Investments/ E-Pay	Mr. Jose Gonzalez (through February 15, 2015) Mr. Mark Polistina (February 16, 2015 – present)
Director of Investments and IL Funds Portfolio	Mr. Mark Polistina (through February 15, 2015)
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler (through March 31, 2015)

The Office of the Treasurer maintains the following four office locations:

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

FINANCIAL STATEMENT REPORT

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Financial Audit
For the Period July 1, 2014 through the
Opening of Business January 12, 2015**

Financial Statement Report Summary

The audit of the accompanying financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer, were performed by McGladrey LLP.

Based on their audit, the auditors expressed an unmodified opinion on The Illinois Funds' financial statements.

Independent Auditor's Report



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 Illinois Funds, a fiduciary (investment trust) fund of the State of Illinois, Office of the Treasurer, as of the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business January 12, 2015, and the related notes to the financial statements, which collectively comprise The Illinois Funds' 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Illinois Funds, of the State of Illinois, Office of the Treasurer as of the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business on January 12, 2015, and the changes in financial position thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only The Illinois Funds, and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Office of the Treasurer, as of the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business January 12, 2015, and the changes in its financial position, for the period then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer. The Supplementary Information (pages 16 – 21), and the other Information (pages 22 – 27) are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The Other Information, consisting of the Money Market Fund Investment Policy has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2015, on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and its 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 current and outgoing 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
April 22, 2015

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statement of Fiduciary Net Position
As of the Opening of Business January 12, 2015**

Assets

Cash equivalents

Repurchase agreements, including accrued interest of \$6,083	\$ 1,700,006,083
Commercial paper, net of unamortized discount of \$68,980	1,339,931,020
Money market mutual funds	789,504,926
U.S. agency obligations	
Federal Agricultural Mortgage Corporation Discount Notes, net of unamortized discount of \$83	19,999,916
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$4,386	<u>95,695,613</u>

Total cash equivalents 3,945,137,558

Deposits and investments

Commercial paper, net of unamortized discount of \$35,958	299,964,042
U.S. Treasury Bills, net of unamortized discount of \$84,388	49,915,612
U.S. Treasury Notes, net of unamortized premium of \$211,584	125,211,584
U.S. agency obligations	
Federal Home Loan Bank Notes, net of unamortized discount of \$1,173	249,998,827
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$137,591	159,354,409
Federal Farm Credit Bank Discount Notes, net of unamortized discount of \$24,111	24,975,889

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statement of Fiduciary Net Position (Continued)
As of the Opening of Business January 12, 2015**

Assets (Continued)

U.S. agency obligations	
Federal Farm Credit Bank Notes	\$ 25,000,000
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$33,056	99,966,944
Federal Agriculture Mortgage Corporation Discount Notes, net of unamortized discount of \$41,223	49,958,778
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$256,948	<u>303,972,053</u>
Total deposits and investments	1,388,318,138
Accrued interest receivable	<u>394,441</u>
Total assets	<u>5,333,850,137</u>

Liabilities

Liabilities	
Bank custodial fees	52,308
State management fees	78,288
Dividend payable	<u>2,878</u>
Total liabilities	<u>133,474</u>

Net Position

Net position held in trust for pool participants	<u>\$ 5,333,716,663</u>
The pricing of shares	
Participant shares outstanding (\$1.00 par, unlimited shares authorized)	<u>5,333,716,663</u>
Participant net position value, offering and redemption price per share	<u>\$ 1.00</u>

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statement of Changes in Fiduciary Net Position
For the Period July 1, 2014 through the Opening of Business January 12, 2015**

Operations	
Investment income	
Investment earnings	\$ 2,740,991
Investment expenses	
Bank custodial fees	957,751
State management fees	1,427,090
Total investment expenses	<u>2,384,841</u>
Net investment income	<u>356,150</u>
Dividends to participants from net investment income	(356,150)
Share transactions (dollar amounts and number of shares are the same)	
Subscriptions	9,846,210,691
Reinvestments	323,047
Redemptions	<u>(9,822,302,342)</u>
Change in net position and shares resulting from share transactions	24,231,396
Net position, beginning of period	<u>5,309,485,267</u>
Net position, end of period	<u>\$ 5,333,716,663</u>

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer
The Illinois Funds**

Notes to the Financial Statements

Background

The Illinois Funds was established in 1976 (through 15 ILCS 505/17) to supplement and enhance the investment opportunities available to custodians of public agency funds throughout the State of Illinois. The management, custodianship, and operation of The Illinois Funds are under the supervision of the State of Illinois, Office of the Treasurer ("Treasurer").

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity: As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois is the primary government, which includes all funds, elected offices, departments, and agencies of the State, as well as boards, commissions, authorities, universities and colleges over which the State's executive or legislative branches exercise legal control.

The Illinois Funds is not legally separate from the State of Illinois and is, therefore, determined to be part of the primary government. The Illinois Funds is included in the Illinois Comprehensive Annual Financial Report as an investment trust fund. The Illinois Funds consists of an internal and external portion. The internal portion is the portion that belongs to the State and its component units. The external portion is the portion belonging to the noncomponent-unit participants. The scope of The Illinois Funds' financial statements presented herein is limited to the financial position of The Illinois Funds, including net position available to all participants, both internal and external, and the changes in net position. The internal portion of The Illinois Funds is included in the various funds in the Illinois Comprehensive Annual Financial Report as an investment.

As a governmental sponsored investment pool, The Illinois Funds is not eligible to register with the Securities and Exchange Commission ("SEC") and thus is not a registrant with the SEC; however, The Illinois Funds has adopted operating procedures consistent with those required of an SEC 2a-7 Fund (2a-7-like Fund). The Illinois Funds has a policy that it will, and does, operate in a manner consistent with SEC Rule 2a-7, which governs the operation of SEC regulated money market funds.

Fiduciary Fund: The Illinois Funds is classified as an investment trust fund. This investment trust fund is used to account for assets held by The Illinois Funds in a trustee capacity or as an agent for public treasurers and other custodians of public monies throughout the State of Illinois. This investment trust fund is not held in the State Treasury and is a non-appropriated fund.

Financial Reporting Period: The Illinois State Auditing Act 30 ILCS 5/3-2.1 requires the Office of the Auditor General to conduct a changeover audit of the Illinois State Treasurer's Office at the conclusion of each Treasurer's term. As such, the changeover financial statements presented herein are for the period July 1, 2014 through the opening of business January 12, 2015.

Basis of Accounting and Measurement Focus: The accounts of The Illinois Funds are maintained and reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

Cash Equivalents, Deposits, and Investments: Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 90 days or less at time of purchase.

**State of Illinois
Office of the Treasurer
The Illinois Funds**

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Repurchase agreements (securities purchased under agreements to resell) are reported at cost plus accrued interest.

Commercial paper is stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Commercial paper utilizes the straight-line method of amortization or accretion. It is the intent of management to hold commercial paper to maturity.

Money market mutual funds are carried at cost and are purchased from various brokerage firms. The funds are comprised of U.S. Treasury and U.S. agency obligations. Mutual fund yields are subject to market rate fluctuations.

U.S. agency obligations are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. U.S. agency coupon notes utilize the constant yield method and, when applicable, all others use straight-line amortization. It is the intent of management to hold U.S. agency securities to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

U.S. Treasury obligations are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Treasury notes utilize the constant yield method and strips and bills use straight-line amortization. It is the intent of management to hold U.S. Treasury obligations to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

Investment expenses consist of bank custodial fees and State management fees. Both custodial fees and State management fees are accrued daily based on the net asset value of The Illinois Funds. For more information, see Note 4.

Management Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. These estimates may differ from actual results.

Net Position Available to Participants: The net position available to participants represents the total value of all participant deposits including late deposits held in an overnight investment account as of the opening of business January 12, 2015.

The Illinois Funds operates in a manner similar to an open-end mutual fund. Participants' deposits and withdrawals are accounted for as purchases and sales of The Illinois Funds' capital shares. The amount of net proceeds from the sale of shares represents the gross withdrawals, which are redeemed from The Illinois Funds' shares during the year. The cost of shares purchased represents the gross deposits, which are invested in The Illinois Funds' shares during the year. These amounts did not include deposits or earnings, which are remitted directly to participants versus invested (or reinvested) in The Illinois Funds' shares.

**State of Illinois
Office of the Treasurer
The Illinois Funds**

Notes to the Financial Statements

Note 2. Deposits and Investments

Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, established standards for accounting for investments held by governmental entities. The Illinois Funds operates as a 2a7-like pool and, thus, reports all investments at amortized cost rather than fair value.

Permitted Deposits and Investments: The Treasurer's investment activities are governed by the Treasurer's published investment policies, which were developed in accordance with State statute and the desire to maintain The Illinois Funds' AAAM rating from Standard & Poor's. In addition, the Treasurer's Office has adopted its own investment practices, which supplement the statutory requirements.

For The Illinois Funds, the Treasurer may invest in time deposits and other interest-bearing accounts in banks located in Illinois that are insured by the Federal Deposit Insurance Corporation ("FDIC"), credit unions whose principal office is located in Illinois, obligations of the United States and its agencies, money market mutual funds whose portfolios are limited to U.S. Treasury and agency securities and agreements to repurchase such obligations, short-term obligations of corporations whose obligations are rated among the two highest classifications established by at least two standard rating services, repurchase agreements, or other investments approved by State law.

The Illinois Funds is rated AAAM by Standard & Poor's Ratings.

The Illinois Funds determines the fair value of investments annually in connection with year-end financial reporting. A summary of investments held as of the opening of business January 12, 2015 is as follows:

Summary of Investments as of the opening of business January 12, 2015:

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 1,700,006,083	\$ 1,700,006,083	\$ 1,700,000,000	.04-.06%	01/12/2015
Commercial Paper	1,639,895,062	1,639,890,000	1,640,000,000	.081-.213%	1/12/15-3/16/15
Money Market Mutual Funds	789,504,926	789,504,926	789,504,926	N/A	N/A
United States Treasury Bills	49,915,612	49,939,250	50,000,000	.126-.276%	7/9/15-1/7/16
United States Treasury Notes	125,211,584	125,219,750	125,000,000	.138-.154%	1/15/15-10/15/15
Federal Home Loan Mtg Corp Discount Notes	159,354,409	159,359,114	159,492,000	.095-.160%	3/12/15-9/14/15
Federal National Mtg Assoc Discount Notes	99,966,944	99,961,000	100,000,000	0.085%	06/01/2015
Federal Home Loan Bank Notes	249,998,827	249,925,000	250,000,000	.131-.330%	4/1/15-1/8/16
Federal Farm Credit Bank Notes	25,000,000	24,997,000	25,000,000	0.180%	08/21/2015
Federal Farm Credit Bank Discount Notes	24,975,889	24,976,000	25,000,000	0.160%	08/17/2015
Federal Home Loan Bank Discount Notes	399,667,666	399,645,187	399,929,000	.080-.185%	1/26/15-12/2/15
Federal Agriculture Mortgage Corp Discount Notes	69,958,694	69,959,000	70,000,000	.075-.170%	1/14/15-10/6/15
	<u>\$ 5,333,455,696</u>	<u>\$ 5,333,382,310</u>	<u>\$ 5,333,925,926</u>		

**State of Illinois
Office of the Treasurer
The Illinois Funds**

Notes to the Financial Statements

Note 2. Deposits and Investments (Continued)

Custodial Credit Risk: Custodial credit risk for deposits and investments is the risk that, in the event of a financial institution failure, The Illinois Funds would not be able to recover the value of the deposits and investments in the possession of an outside party. The Office of the Treasurer has a formal policy to address custodial risk.

Repurchase agreements are purchased from various brokerage firms and financial institutions. 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 (yield) on underlying securities to ensure that the agreements are adequately collateralized. The Treasurer accepts only U.S. agency obligations and U.S. Treasury obligations as collateral for repurchase agreements. All securities pledged to secure repurchase agreements are required to be delivered to the appointed Custodian of The Illinois Funds.

Other instruments, such as U.S. Treasury obligations, may be purchased from various brokerage firms and are held in safekeeping by the appointed Custodian of The Illinois Funds.

Investments: The Illinois Funds had the following investments, stated at carrying value, and maturities as of the opening of business January 12, 2015. (Amounts are in thousands.)

	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	Total
Repurchase agreements	\$ 1,700,006	\$ -	\$ -	\$ 1,700,006
Commercial paper	1,289,969	349,926	-	1,639,895
U.S. Treasury obligations	50,000	-	125,127	175,127
U.S. agency obligations	90,698	100,518	837,707	1,028,923
Subtotal	<u>\$ 3,130,673</u>	<u>\$ 450,444</u>	<u>\$ 962,834</u>	4,543,951
Treasury-only money market mutual funds				<u>789,505</u>
Investments				<u><u>\$ 5,333,456</u></u>

The master repurchase agreements utilized by The Illinois Funds require the broker or financial institution to maintain the fair value of collateral securities at 102% of the agreement. The carrying amount of the repurchase agreements (excluding accrued interest) was \$1,700,000,000 as of the opening of business January 12, 2015. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was \$1,734,000,329 as of the opening of business January 12, 2015.

**State of Illinois
Office of the Treasurer
The Illinois Funds**

Notes to the Financial Statements

Note 2. Deposits and Investments (Continued)

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 investment policies limit the investment portfolio maturities. The Illinois Funds investment policy limits its investment portfolio to maturities not to exceed two years with a minimum of 75% required to be in authorized investments with less than one-year maturity. The investment policy specifically requires that no more than 50% of total assets can be invested in securities with maturities greater than 30 days issued by any single permissible United States government agency or instrumentality. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of the opening of business January 12, 2015, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings or Aaa by Moody's Investors Service with the exception of Federal Agricultural Mortgage Corporation obligations which were not rated. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Toronto Dominion HDG USA, which were rated A-1+ by Standard & Poor's and Deutsche Bank Financial, which were rated P-2 by Moody's Investor's Service. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's Ratings.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of The Illinois Funds' investment in a single issuer. The following investments exceeded 5% of The Illinois Funds' total investments as of the opening of business January 12, 2015. (Amounts are in thousands.)

	Carrying Value	% of Total Investments
Repurchase agreements		
HSBC*	\$ 1,400,005	26.25 %
U.S. Agency		
Federal Home Loan Bank	649,666	12.18
Commercial Paper		
HSBC*	149,979	2.81

*Issuer total exceeds 5%

No more than 5% of total assets can be invested in securities issued by any single commercial paper issuer (calculated at the time of purchase); and, a maximum of 33.3% of the portfolio may be invested in direct commercial paper obligations that do not exceed 180 days to maturity. Additionally, a maximum of 25% of the total assets may be invested in any approved AAAM Money Market Fund.

**State of Illinois
Office of the Treasurer
The Illinois Funds**

Notes to the Financial Statements

Note 3. Investment Income

The Illinois Funds follows the accounting practice known as equalization. Accordingly, distributable investment income is allocated daily and paid monthly to participants on a pro rata (per share) basis and accumulated investment income payable is credited to The Illinois Funds' net asset base. A portion of the proceeds from sales and costs of repurchases of The Illinois Funds' capital shares (equivalent, on a per share basis, to the amount of distributable investment income on the date of the transaction) are credited or charged to undistributed income. As a result, undistributed investment income per share is unaffected by sales or redemptions of The Illinois Funds capital shares.

Note 4. Administrative Fees

To administer The Illinois Funds, the Treasurer has established a division entitled "The Illinois Funds' Administrative Office." This division had an average of 17 full time equivalent employees for the period July 1, 2014 through the opening of business January 12, 2015. The revenues and expenditures of the division are recorded in an enterprise fund maintained by the Treasurer entitled The Illinois Funds' Administrative Trust Fund No. 195.

US Bank (USB) performs the custodial responsibilities for the administration of The Illinois Funds. USB calculates the administrative and custodial fees paid to the State Treasurer and USB, respectively.

Fees are calculated on a tiered structure. Both fees are paid from a charge based on the net asset value of The Illinois Funds. The fee is accrued daily and withdrawn monthly from the fund. The custodian's fee is calculated at 0.0395% for the first \$3,000,000,000; 0.0245% for the next \$2,000,000,000; 0.0235% for the next \$1,000,000,000; 0.0185% for the next \$4,000,000,000; and 0.0135% for the amount over \$10,000,000,000 per annum of the market value of the total amount of The Illinois Funds.

The State Treasurer receives up to 0.05% per annum of the net asset value of The Illinois Funds. This fee is used to defray administrative costs associated with investing The Illinois Funds' assets, to increase marketing efforts needed to expand participation in The Illinois Funds, and to improve the level of service to participants.

The Treasurer's Office has the ability to rebate to The Illinois Funds' participants any excess administrative fees collected during the fiscal year. There were no excess administrative fees rebated to The Illinois Funds' participants during the period July 1, 2014 through the opening of business January 12, 2015.

The Treasurer received fees and paid expenditures from the Administrative Trust Fund No. 195 as follows:

Fees received	\$	1,336,582
Expenditures		1,346,278

**State of Illinois
Office of the Treasurer
The Illinois Funds**

Notes to the Financial Statements

Note 5. Related Parties

The Illinois Funds' Administrative Office, a division of the State Treasurer's Office, is responsible for the administration of The Illinois Funds, including management of investments and marketing services. The Illinois Funds' Administrative Office received fees as stated in Note 4 during the period July 1, 2014 through the opening of business January 12, 2015. The Illinois Funds' Administrative Trust Fund No. 195 was maintained by the Treasurer in a separate investment account of The Illinois Funds. The cash balance as of the opening of business January 12, 2015, was approximately \$2,535,000.

The State of Illinois, its agencies, and its universities invest in The Illinois Funds. The detail follows:

	<u>As of the Opening of Business January 12, 2015</u>
Total number of participants	2,225
Number of State of Illinois participants (internal participants)	31

As of December 31, 2014 (most recent information available), State of Illinois Participants had \$1,507,707,259 invested in the Illinois Funds.

SUPPLEMENTARY INFORMATION

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments
As of the Opening of Business January 12, 2015**

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Repurchase Agreements					
HSBC SECURITIES	01/09/2015	0.040%	01/12/2015	\$ 1,400,000,000	\$ 1,400,004,666
BANK OF MONTREAL	01/09/2015	0.050%	01/12/2015	100,000,000	100,000,417
MERRILL LYNCH PIERCE FENNER SMITH	01/09/2015	0.060%	01/12/2015	200,000,000	200,001,000
				<u>\$ 1,700,000,000</u>	<u>\$ 1,700,006,083</u>
Total Repurchase Agreements					

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
As of the Opening of Business January 12, 2015**

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
Commercial Paper					
BNP PARIBAS FINANCIAL	01/09/2015	0.091%	01/12/2015	\$ 100,000,000	\$ 100,000,000
DEUTSCHE BANK	01/09/2015	0.122%	01/12/2015	265,000,000	265,000,000
TORONTO DOMINION BANK	11/13/2014	0.081%	01/12/2015	50,000,000	50,000,000
US BANK NA	01/06/2015	0.120%	01/13/2015	250,000,000	250,000,000
BNP PARIBAS FINANCIAL	01/06/2015	0.081%	01/14/2015	99,999,000	99,999,556
ABN AMRO FUNDING	12/18/2014	0.152%	01/16/2015	49,999,000	49,999,167
ABN AMRO FUNDING	01/09/2015	0.152%	01/20/2015	49,998,500	49,998,333
MUFG UNION BANK	12/16/2014	0.142%	01/20/2015	99,997,000	99,996,889
TORONTO DOMINION BANK	09/23/2014	0.112%	01/21/2015	49,998,000	49,998,625
HSBC USA INC	09/23/2014	0.172%	01/22/2015	49,998,000	49,997,639
ABN AMRO FUNDING	12/18/2014	0.197%	01/27/2015	24,998,500	24,997,971
TORONTO DOMINION BANK	11/24/2014	0.132%	01/27/2015	49,997,000	49,997,292
ING US FUNDING	11/06/2014	0.193%	02/03/2015	49,995,500	49,994,194
BNP PARIBAS FINANCIAL	01/06/2015	0.101%	02/05/2015	49,995,000	49,996,667
MIZUHO FUNDING	11/10/2014	0.193%	02/09/2015	49,994,000	49,992,611
MIZUHO FUNDING	12/15/2014	0.152%	02/13/2015	49,992,000	49,993,333
HSBC USA INC	10/20/2014	0.172%	02/17/2015	49,991,000	49,991,500
HSBC USA INC	12/03/2014	0.188%	02/20/2015	49,990,500	49,989,979
TORONTO DOMINION BANK	11/24/2014	0.142%	02/23/2015	99,979,000	99,983,667
MIZUHO FUNDING	12/08/2014	0.193%	03/06/2015	49,987,000	49,986,014
MIZUHO FUNDING	01/05/2015	0.213%	03/16/2015	49,981,000	49,981,625
Total Commercial Paper				<u>\$ 1,639,890,000</u>	<u>\$ 1,639,895,062</u>

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
As of the Opening of Business January 12, 2015**

	Cost
Money Market Mutual Funds	
First American Government Obligation	\$ 2,119,522
Western Asset Instl Gov't	374,298,715
Morgan Stanley Liquidity	403,377,457
Invesco Government Agency Portfolio	<u>9,709,232</u>
Total Money Market Mutual Funds	<u><u>\$ 789,504,926</u></u>

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
As of the Opening of Business January 12, 2015

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
United States Treasury Obligations					
U.S. Treasury Bills					
Treasury Bills	01/08/2015	0.126%	07/09/2015	\$ 24,990,000	\$ 24,984,487
Treasury Bills	01/08/2015	0.276%	01/07/2016	24,949,250	24,931,125
Total U.S. Treasury Bills				<u>\$ 49,939,250</u>	<u>\$ 49,915,612</u>
U.S. Treasury Notes					
Treasury Notes	01/23/2014	0.138%	01/15/2015	\$ 25,000,000	\$ 25,000,228
Treasury Notes	01/23/2014	0.138%	01/15/2015	25,000,000	25,000,229
Treasury Notes	08/13/2014	0.146%	08/31/2015	25,172,750	25,173,667
Treasury Notes	09/19/2014	0.147%	10/15/2015	25,023,500	25,019,350
Treasury Notes	09/22/2014	0.154%	10/15/2015	25,023,500	25,018,110
Total U.S. Treasury Notes				<u>\$ 125,219,750</u>	<u>\$ 125,211,584</u>

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
As of the Opening of Business January 12, 2015

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
United States Agency Obligations***					
Federal Home Loan Mtg Corp Discount Notes					
Federal Home Loan Mtg Corp Discount Notes	11/17/2014	0.095%	03/12/2015	\$ 1,999,800	\$ 1,999,689
Federal Home Loan Mtg Corp Discount Notes	08/26/2014	0.150%	07/10/2015	7,076,106	7,074,720
Federal Home Loan Mtg Corp Discount Notes	08/26/2014	0.155%	07/21/2015	4,698,073	4,708,145
Federal Home Loan Mtg Corp Discount Notes	08/26/2014	0.155%	07/21/2015	9,400,000	9,392,310
Federal Home Loan Mtg Corp Discount Notes	08/26/2014	0.160%	07/21/2015	9,900,000	9,891,640
Federal Home Loan Mtg Corp Discount Notes	09/19/2014	0.145%	07/22/2015	14,777,322	14,788,614
Federal Home Loan Mtg Corp Discount Notes	09/29/2014	0.130%	07/22/2015	24,300,000	24,283,240
Federal Home Loan Mtg Corp Discount Notes	08/26/2014	0.155%	07/23/2015	23,286,253	23,280,739
Federal Home Loan Mtg Corp Discount Notes	10/14/2014	0.145%	09/11/2015	13,983,060	13,986,354
Federal Home Loan Mtg Corp Discount Notes	09/18/2014	0.150%	09/14/2015	49,938,500	49,948,958
Total Federal Home Loan Mtg Corp Discount Notes				<u>\$ 159,359,114</u>	<u>\$ 159,354,409</u>
Federal Home Loan Bank Discount Notes					
Federal Home Loan Bank Discount Notes	12/22/2014	0.080%	01/26/2015	\$ 49,999,500	\$ 49,998,444
Federal Home Loan Bank Discount Notes	11/18/2014	0.085%	01/29/2015	20,699,793	20,699,169
Federal Home Loan Bank Discount Notes	11/17/2014	0.090%	02/13/2015	24,999,250	24,998,000
Federal Home Loan Bank Discount Notes	11/17/2014	0.093%	02/20/2015	9,999,600	9,998,994
Federal Home Loan Bank Discount Notes	11/17/2014	0.090%	03/04/2015	4,700,000	4,699,401
Federal Home Loan Bank Discount Notes	11/17/2014	0.100%	03/04/2015	2,028,394	2,028,712
Federal Home Loan Bank Discount Notes	11/17/2014	0.100%	03/06/2015	8,199,262	8,198,793
Federal Home Loan Bank Discount Notes	11/17/2014	0.090%	03/11/2015	14,998,500	14,997,825
Federal Home Loan Bank Discount Notes	11/17/2014	0.100%	04/06/2015	4,899,265	4,898,857
Federal Home Loan Bank Discount Notes	11/17/2014	0.100%	04/10/2015	3,699,408	3,699,096
Federal Home Loan Bank Discount Notes	05/21/2014	0.110%	05/05/2015	24,994,000	24,991,368
Federal Home Loan Bank Discount Notes	11/14/2014	0.115%	06/22/2015	15,692,935	15,691,925
Federal Home Loan Bank Discount Notes	10/08/2014	0.130%	08/03/2015	24,977,500	24,981,674
Federal Home Loan Bank Discount Notes	09/19/2014	0.160%	08/20/2015	24,975,500	24,975,556
Federal Home Loan Bank Discount Notes	09/25/2014	0.150%	08/24/2015	24,975,000	24,976,667
Federal Home Loan Bank Discount Notes	09/18/2014	0.160%	09/03/2015	17,978,940	17,981,280
Federal Home Loan Bank Discount Notes	09/24/2014	0.160%	09/04/2015	21,974,040	21,977,022
Federal Home Loan Bank Discount Notes	09/24/2014	0.160%	09/09/2015	24,970,000	24,973,333
Federal Home Loan Bank Discount Notes	09/22/2014	0.170%	09/18/2015	24,968,750	24,970,604
Federal Home Loan Bank Discount Notes	10/14/2014	0.145%	10/01/2015	4,993,250	4,994,724
Federal Home Loan Bank Discount Notes	10/14/2014	0.145%	10/14/2015	19,971,800	19,977,847
Federal Home Loan Bank Discount Notes	12/04/2014	0.185%	12/02/2015	24,950,500	24,958,375
Total Federal Home Loan Bank Discount Notes				<u>\$ 399,645,187</u>	<u>\$ 399,667,666</u>

(Continued)

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
As of the Opening of Business January 12, 2015

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
Federal Farm Credit Bank Discount Notes					
Federal Farm Credit Bank Discount Notes	12/10/2014	0.160%	08/17/2015	\$ 24,976,000	\$ 24,975,889
Total Federal Farm Credit Bank Discount Notes				\$ 24,976,000	\$ 24,975,889
Federal Farm Credit Bank Notes					
Federal Farm Credit Bank Notes	08/21/2014	0.180%	08/21/2015	\$ 24,997,000	\$ 25,000,000
Total Federal Farm Credit Bank Notes				\$ 24,997,000	\$ 25,000,000
Federal National Mortgage Association Discount Notes					
Federal National Mortgage Association Discount Notes	10/15/2014	0.085%	06/01/2015	\$ 99,961,000	\$ 99,966,944
Total Federal National Mortgage Association Discount Notes				\$ 99,961,000	\$ 99,966,944
Federal Agricultural Mortgage Corporation Discount Notes					
Federal Agricultural Mortgage Corporation Discount Notes	12/22/2014	0.075%	01/14/2015	\$ 20,000,000	\$ 19,999,916
Federal Agricultural Mortgage Corporation Discount Notes	05/19/2014	0.110%	05/19/2015	24,993,250	24,990,299
Federal Agricultural Mortgage Corporation Discount Notes	10/08/2014	0.170%	10/06/2015	24,965,750	24,968,479
Total Federal Agricultural Mortgage Corporation Discount Notes				\$ 69,959,000	\$ 69,958,694
Federal Home Loan Bank Notes					
Federal Home Loan Bank Notes	07/01/2014	0.131%	04/01/2015	\$ 24,998,000	\$ 24,998,827
Federal Home Loan Bank Notes	06/19/2014	0.160%	06/19/2015	24,998,500	25,000,000
Federal Home Loan Bank Notes	07/31/2014	0.229%	08/03/2015	24,992,500	25,000,000
Federal Home Loan Bank Notes	08/05/2014	0.245%	08/27/2015	24,988,500	25,000,000
Federal Home Loan Bank Notes	08/06/2014	0.250%	08/27/2015	24,994,250	25,000,000
Federal Home Loan Bank Notes	09/12/2014	0.250%	10/02/2015	24,985,750	25,000,000
Federal Home Loan Bank Notes	10/08/2014	0.190%	10/08/2015	24,984,750	25,000,000
Federal Home Loan Bank Notes	09/26/2014	0.270%	10/20/2015	24,982,000	25,000,000
Federal Home Loan Bank Callable Notes	12/11/2014	0.300%	01/06/2016	25,000,000	25,000,000
Federal Home Loan Bank Callable Notes	12/15/2014	0.330%	01/08/2016	25,000,750	25,000,000
Total Federal Home Loan Bank Notes				\$ 249,925,000	\$ 249,998,827

* Current value represents the face amount plus accrued interest, which approximates fair value.

** Fair value represents the closing bid price on January 9, 2015.

*** It is the intent of management to hold direct U.S. Agency Securities to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

**State of Illinois
Office of the Treasurer**

The Illinois Funds

Money Market Fund Investment Policy

**For the Period July 1, 2014 through the Opening of Business January 12, 2015
(Unaudited)**

1.0 Policy: The State Treasurer of Illinois (“Treasurer”) has authority under Section 17 of the State Treasurer’s Act (15 ILCS 505/17) to establish and administer an investment pool to supplement and enhance investment opportunities otherwise available to managers of public funds or public agencies in the state. It is the policy of the Treasurer to invest funds pooled by local governments in the Money Market Fund within The Illinois Funds (previously referred to as the Illinois Public Treasurers' Investment Pool or IPTIP) in a manner which will provide the highest investment return using authorized instruments, while meeting the daily cash flow demands of participants and conforming to all state statutes governing the investment of public funds. It is the policy of The Illinois Funds to operate in a manner consistent with SEC Rule 2a7.

2.0 Objective: The primary objective in the investment of funds within the Money Market Fund is the safety of principal, while providing all participants a competitive rate of return and daily access to invested funds.

2.1 Safety: The safety of principal is the foremost objective of the investment program. Money Market Fund investments shall be undertaken in a manner, which seeks to ensure the preservation of principal in the portfolio. To obtain this objective, diversification among permissible investments is required to ensure that the Money Market Fund properly manages market, interest rate and credit risk.

2.2 Liquidity: The investment portfolio shall remain sufficiently liquid to enable the Money Market Fund to meet all Participant redemption demands that might be reasonably anticipated.

2.3 Return on Investment: The investment portfolio shall be designed to obtain the highest available return, taking into account the Money Market Fund's investment risk constraints and cash flow needs. The Treasurer will select accepted industry benchmarks which best reflects the Money Market Fund's portfolio and measure performance against certain benchmarks over time. The Treasurer will periodically review benchmarks for suitability.

3.0 Ethics and Conflicts of Interest: Authorized investment staff and employees in policy making positions for the Money Market Fund shall refrain from personal business activity that conflicts with proper execution of the investment program, or which impairs their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of the Money Market Fund's portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the Money Market Fund, particularly with regard to the time of purchase and sales.

4.0 Authorized Broker/Dealers and Financial Institutions: Authorized investment staff shall utilize the Treasurer's approved list of broker/dealers and financial institutions when selecting institutions to provide investment services. No monies may be deposited in any financial institution until investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services, unless the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed \$100,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 9.0. 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 also be maintained of approved security broker/dealers selected according to their credit worthiness, and their financial significance in the

**State of Illinois
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The Illinois Funds

Money Market Fund Investment Policy

**For the Period July 1, 2014 through the Opening of Business January 12, 2015
(Unaudited)**

State, which shall be measured in terms of the location of the broker/dealer's corporate office and the extent to which the broker/dealer has a large labor or economic impact on the State. They may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following or equivalent acceptable to the Treasurer, 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 National and State of Illinois registration;
- 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 parties and investments will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted.

5.0 Authorized and Suitable Investments: The following investments are permitted investments of state funds according to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2) and are authorized to the extent they are approved by Standard & Poor's for AAAm rated funds:

- In bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5).
- In bonds, notes, debentures, or similar obligations of the United States of America or its agencies; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5).
- Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of that Act and the regulations issues thereunder; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5).
- In short term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the 2 highest classifications established by at least 2 standard rating services and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporations outstanding obligations, and (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations and (iv) the corporation is not a forbidden entity as defined in Section 22.6 of the Deposit of State Moneys Act (effective Jan 27, 2006); Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5).

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Money Market Fund Investment Policy

**For the Period July 1, 2014 through the Opening of Business January 12, 2015
(Unaudited)**

- In money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio of any such money market mutual fund is limited to United States Treasury and United States Agency Securities and agreements to repurchase such obligations provided the funds are rated AAA; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5).

- Bonds, notes, debentures, or similar obligations of a foreign government, other than the Republic of Sudan (effective Jan 27, 2006), that are guaranteed by the full faith and credit of that government as to principal and interest, but only if the foreign government has not defaulted and has met its payment obligations for a period of at least 25 years immediately before the time of acquiring those obligations; Deposit of State Moneys Act (15 ILCS 520/22.5).

- Bonds issued by counties or municipal corporations of the State of Illinois; Deposit of State Moneys Act (15 ILCS 520/22.5).

- Interest bearing savings accounts, interest-bearing certificates of deposits or interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5).

Suitable securities in the Money Market Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines.

6.0 Investment Restrictions: The following restrictions will apply to all Money Market Fund investment transactions:

- Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited.

- Repurchase agreements may only be executed with financial institutions or broker/dealers meeting the Treasurer's standards, which will include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.

- There will be no investments in mortgage-backed securities of any kind.

- There will be no investments in asset-backed securities of any kind.

- Certificates of deposit may not be purchased from the Money Market Fund's custodial institution or any of its subcontractors.

- Investments in Bankers' Acceptances of any kind.

- There will be no investments prohibited by Section 22.6 of the Deposit of State Moneys Act (effective Jan. 27, 2006).

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Money Market Fund Investment Policy

**For the Period July 1, 2014 through the Opening of Business January 12, 2015
(Unaudited)**

7.0 Collateralization: All Money Market Fund deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations as required by the Treasurer 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.

8.0 Safekeeping and Custody: All direct treasury, agency and instrumentality security transactions entered into by the Money Market Fund 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. Commercial Paper will settle daily with the Depository Trust Company.

9.0 Diversification: The primary purpose of diversification in general is to control credit and market risk. The Money Market Fund portfolio will 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. The majority of Money Market Fund investments will be in direct obligations of the United States Treasury and United States Government Agencies and Instrumentalities and Cash Equivalents as listed in section 5.0. In order to properly manage any risk that may be attendant to the investment of Money Market Fund assets, The Money Market Fund portfolio will observe the following diversification limits, at the time of purchase:

- The Money Market Fund will invest no more than 50 percent of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality.
- The Money Market Fund will invest no more than 5 percent of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase).
- A maximum of 33.3 percent of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity.
- A maximum of 25 percent of total assets may be invested in any approved AAAM Money Market Fund.
- The Money Market Fund will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, issuers and broker/dealers.
- The Money Market Fund shall at no time hold certificates of deposit constituting more than 10 percent of any single financial institution's total deposits.
- The Money Market Fund shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two years maturity.

10.0 Internal Controls: The Treasurer shall establish a system of internal controls, which shall be documented in writing and filed with the Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by authorized investment staff of the Money Market Fund. The Treasurer shall publish the current investment policy on the Illinois Funds website and in accordance with the statutes.

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Money Market Fund Investment Policy

**For the Period July 1, 2014 through the Opening of Business January 12, 2015
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11.0 Asset Allocation: The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this Investment Policy.

12.0 Competitive Bidding: Authorized investment staff shall obtain competitive bids from at least three broker/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States Government Agency or Instrumentality securities or Commercial Paper from a broker/dealer. Reverse inquiry investments and investments in a new issue are exempt from this provision. Certificates of deposit shall be purchased by authorized investment staff on the basis of a financial institution's ability to pay the Treasurer's required interest rate.

13.0 Liability: Authorized investment staff, acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The Treasurer is bonded to a level of \$150,000 for the faithful performance of duties in relations to the Illinois Public Treasurers' Investment Pool.

14.0 Reporting: Reports shall be made available quarterly by the Director of The Illinois Funds to the Treasurer and The Illinois Funds' participants. The quarterly report shall contain the following:

- performance as compared to the established benchmark
- asset allocation
- any deviation from the standards established in Section 9.0 above
- any change in investment policy adopted during the quarter
- the average days to maturity

A listing of all investments in the portfolio marked to market shall be made available to the Treasurer and The Illinois Funds participants annually.

15.0 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 monies;
- b)** The Treasurer reasonably believes that deviating from the Investment Policy is in the best interest of the Participants;
- 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 notice of which shall be posted on the Treasurer's website that includes:

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**The Illinois Funds
Money Market Fund Investment Policy
For the Period July 1, 2014 through the Opening of Business January 12, 2015
(Unaudited)**

- i) The date and time that the emergency powers were invoked;
- ii) The date and time that the emergency powers were repealed, if occurred;
- 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.

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



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*

The Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, 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, the financial statements of The Illinois Funds, a fiduciary (investment trust) fund of the State of Illinois, Office of the Treasurer, as of the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business January 12, 2015, and the related notes to the financial statements, which collectively comprise The Illinois Funds' basic financial statements, and have issued our report thereon dated April 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Office of the Treasurer's internal control over financial reporting (internal control) of The Illinois Funds to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Office of the Treasurer's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Office 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Office 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 State of Illinois, Office of the Treasurer's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Schaumburg, Illinois
April 22, 2015

Part III
College Savings Program

**State of Illinois
Office of the Treasurer
College Savings Program**

Financial Audit
For the Period July 1, 2014 through the
Opening of Business January 12, 2015

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

Part III

**State of Illinois
Office of the Treasurer**

**College Savings Program
Financial Audit
For the Period July 1, 2014 through the
Opening of Business January 15, 2015**

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**State of Illinois
Office of the Treasurer**

College Savings Program

Treasurer's Office Officials

Treasurer	Honorable Dan Rutherford (through January 12, 2015) Honorable Michael W. Frerichs (January 12, 2015 – present)
Deputy Treasurer	Mr. Jay Rowell (January 12, 2015 – present)
Chief of Staff	Mr. Kyle Ham (through December 14, 2014) Justin Cajindos (January 1, 2015 – present)
Chief Investment Officer	Ms. Bridget Byron (through January 29, 2015) Mr. Rodrigo Garcia (January 13, 2015 – present)
General Counsel	Mr. Neil P. Olson (through January 31, 2015) Mr. Keith Horton (January 12, 2015 – present)
Director of College Savings Program	Mr. Randall Welsh (through March 31, 2015)
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler (through March 31, 2015)

The Office of the Treasurer maintains the following four office locations:

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

FINANCIAL STATEMENT REPORT

**State of Illinois
Office of the Treasurer**

**College Savings Program
Financial Audit
For the Period July 1, 2014 through the
Opening of Business January 12, 2015**

Financial Statement Report Summary

The audit of the accompanying financial statements of the College Savings Program of the State of Illinois, Office of the Treasurer, was performed by McGladrey LLP.

Based on their audit, the auditors expressed an unmodified opinion on the College Savings Program's financial statements.

Independent Auditor's Report



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 College Savings Program, a fiduciary (private-purpose trust) fund of the State of Illinois, Office of the Treasurer, as of the opening of business January 12, 2015 and for the period July 1, 2014 through the opening of business January 12, 2015, and the related notes to the financial statements, which collectively comprise the College Savings Program'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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College Savings Program of the State of Illinois, Office of the Treasurer, as of the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business January 12, 2015, and the changes in its financial position for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the College Savings Program and do not purport to, and do not, present fairly the financial position of the State of Illinois, or the State of Illinois, Office of the Treasurer as of the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business January 12, 2015, or the changes in its financial position, for the period then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the College Savings Program of the State of Illinois, Office of the Treasurer. The Supplementary Information (combining statements and statements by portfolio), and the Other Information (investment policies) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information consisting of the combining statements and statements by portfolio (pages 19 - 48) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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, consisting of the Bright Start and Bright Directions Investment Policies have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2015, on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of the College Savings Program, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Office of the Treasurer's internal control over financial reporting of the College Savings Program and its 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 current and outgoing 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
April 22, 2015

**State of Illinois
Office of the Treasurer**

**College Savings Program
Statement of Fiduciary Net Position
As of the Opening of Business January 12, 2015**

Assets	
Cash and cash equivalents	\$ 530,201,562
Capital shares receivable	9,094,867
Securities sold receivable	1,930,942
Dividends receivable	746,470
Mutual funds	<u>6,620,316,120</u>
Total assets	<u>\$ 7,162,289,961</u>
Liabilities and Net Position	
Liabilities	
Payable for capital shares	\$ 7,618,859
Payable for securities purchased	2,336,713
Other liabilities	<u>3,391,675</u>
Total liabilities	13,347,247
Net position held in trust for participants	<u>7,148,942,714</u>
Total liabilities and net position	<u>\$ 7,162,289,961</u>

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer**

**College Savings Program
Statement of Changes in Fiduciary Net Position
For the Period July 1, 2014 through the Opening of Business January 12, 2015**

Investment income (expense)	
Investment earnings	\$ 83,492,003
Net change in fair value of investments	(36,040,220)
Distribution fees	(2,330,767)
State administrative fees	(981,285)
Other operating expenses	(1,375)
12b-1 fees	(2,786,100)
Management and bank custodial fees	<u>(6,817,462)</u>
Net investment earnings	<u>34,534,794</u>
Distributions to participants	
Net investment income	<u>(9,819)</u>
Other participant transactions	
Program contributions	1,482,422,751
Program distributions	(1,244,675,399)
Distributions reinvested	<u>8,088</u>
Total increase from participant transactions	<u>237,755,440</u>
Change in net position	272,280,415
Net position, beginning of period	<u>6,876,662,299</u>
Net position, end of period	<u>\$ 7,148,942,714</u>

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Background

In May 1999, the General Assembly of the State of Illinois adopted Public Act 91-0607 authorizing the State Treasurer of the State of Illinois (the "Treasurer") to establish and administer a program designed to be a "qualified state tuition program" under Section 529 of the Internal Revenue Code of 1986, as amended. The program is known as the College Savings Program (the "Program"). Participants of the Program have a choice of two Section 529 investment programs, the Bright Start College Savings Program ("Bright Start") and the Bright Directions College Savings Program ("Bright Directions"). Bright Start commenced operations on March 27, 2000. Bright Directions commenced operations on November 18, 2005. Investors may participate in Bright Start directly ("Direct-sold Plan") or through participating financial advisors ("Advisor-sold Plan"). Bright Directions is available through participating financial advisors only.

The Program provides an opportunity for investors residing in Illinois to invest on a tax-favored basis toward the qualified higher education expenses of a designated beneficiary (the "Beneficiary") associated with attending an Institution of Higher Education. If the investor is not an Illinois taxpayer, depending upon the laws of the investor's home state or the home state of the investor's beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in Section 529 college savings plans may be available only if invested in the home state's Section 529 plan. Institutions of Higher Education generally include accredited postsecondary educational institutions offering credit toward a bachelor's degree, an associate's degree, a graduate level or professional degree, or another recognized postsecondary credential including certain proprietary, postsecondary vocational and foreign institutions. The institution must be eligible to participate in the U.S. Department of Education student aid programs. Qualified higher education expenses generally include tuition, fees, books, supplies, and equipment required for the Beneficiary's enrollment plus, subject to certain limitations, room and board expenses provided the Beneficiary is enrolled on at least a half-time basis.

Under the Program, Program participants (the "Account Owners") select investment portfolios for their accounts established for the purpose of helping Account Owners meet the qualified higher education expenses of the Beneficiaries designated on the Program accounts (the "Accounts"). Amounts contributed to the Program will be invested in the College Savings Trust (the "Trust"). As of the Opening of Business January 12, 2015, OFI Private Investments, Inc. provided investment advisory, administrative, recordkeeping and marketing services for the Bright Start Program. As of the Opening of Business January 12, 2015, Union Bank and Trust Company advised the Treasurer on the investment of contributions and provided administrative, recordkeeping and marketing services for the Bright Directions Program. As such, as of the Opening of Business January 12, 2015, OFI Private Investments, Inc. and Union Bank and Trust Company acted as program managers (the "Managers") of the two investment programs. The Treasurer acts as trustee and is responsible for the overall administration of the programs.

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois is the primary government which includes all funds, elected offices, departments and agencies of the State, as well as boards, commissions, authorities, universities and colleges over which the State's executive or legislative branches exercise legal control.

The College Savings Program is a separate legal entity from the State of Illinois, with the assets segregated into a Trust, and the Treasurer appointed as Trustee of the Trust, as established in the Declaration of Trust dated March 27, 2000. However, for financial reporting purposes, the College Savings Program is a part of the primary government.

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Program is included in the Illinois Comprehensive Annual Financial Report as a private-purpose trust fund. The scope of the College Savings Program financial statements presented herein is limited to the financial position of the College Savings Program private-purpose trust fund.

Fiduciary Fund

The College Savings Fund is classified as a private-purpose trust fund. This trust fund is used to account for assets held by the Treasurer in a trustee capacity. This fund is not held in the State Treasury and is a non-appropriated fund.

Financial Reporting Period

The Illinois State Auditing Act 30 ILCS 5/3-2.1 requires the Office of the Auditor General to conduct a changeover audit of the Illinois State Treasurer's Office at the conclusion of each Treasurer's term. As such, the changeover financial statements presented herein are for the period July 1, 2014 through the opening of business January 12, 2015.

Basis of Accounting and Measurement Focus

The accounts of the College Savings Program are maintained and reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

Cash and Cash Equivalents

Cash and cash equivalents consist of money market mutual funds and timing differences associated with the purchase of mutual fund shares and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

Investment Earnings

Investment earnings are a combination of dividend income and interest income generated from mutual fund investments. Mutual fund yields are subject to market rate fluctuations.

Fair Value of Investments

Investments in the underlying funds are carried at fair value based on the closing net asset or unit value per share of each Underlying Fund on the last business day prior to the Opening of Business January 12, 2015.

Management Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates may differ from actual results.

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments

Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, established standards for accounting for investments held by governmental entities. The College Savings Program has been designed as a qualified state tuition program under Section 529 of the Internal Revenue Code and reports all investments at fair value based upon quoted market value.

Bright Start College Savings Program

Permitted Investments:

The Treasurer's Bright Start investment activities are governed by the Treasurer's published Bright Start investment policy (included in the "other information" section of this report), which was developed in accordance with the State statute. In addition, the Treasurer has adopted its own investment practices, which supplements the statutory requirements.

The Bright Start Investment Policy allows funds (contributions) to be invested in one of several Portfolios, each with a designated mix of investments that is appropriate for the investment objective of the Portfolio. Each Portfolio allocates assets in a combination of underlying investments, investing among large capitalization U.S. stocks, small capitalization U.S. stocks, international stocks, fixed-income and/or short-term investments. The asset allocation of each Portfolio is established by the Treasurer and managed by the Manager. The Treasurer may adjust the weighting in stocks, bonds and cash in each Portfolio and may change the underlying investments within the Portfolios consistent with its Investment Policy Statement and its agreement with the Manager.

Investment Options:

General Overview

The Bright Start Program offered the following investment portfolios as of the Opening of Business January 12, 2015:

Direct-sold Plan:

- Blended Age-Based Portfolios
- Blended Equity Portfolio
- Blended Balanced Portfolio
- Blended Fixed Income Portfolio
- Blended Conservative Fixed Income Portfolio
- Money Market Portfolio
- Index Age-Based Portfolios
- Index Fixed Income Portfolio
- Index Equity Portfolio
- Index Balanced Portfolio

Advisor-sold Plan:

- Advisor Age-Based Portfolios
- Advisor Equity Portfolio
- Advisor Balanced Portfolio
- Advisor Fixed Income Portfolio
- Advisor Conservative Fixed Income Portfolio
- Advisor Money Market Portfolio

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments (Continued)

Brief Description of Investment Portfolios:

Age-Based Portfolios:

The goal of a portfolio under the Age-Based Option is to seek an asset allocation strategy consistent with the ages of the Beneficiaries of those Account Owners who have invested in that Portfolio.

Based on the age of the Beneficiary, the following Age-Based Portfolios are available:

Direct-sold Plan:

- Blended Age-Based 0-6 Years Portfolio
- Blended Age-Based 7-9 Years Portfolio
- Blended Age-Based 10-11 Years Portfolio
- Blended Age-Based 12-14 Years Portfolio
- Blended Age-Based 15-17 Years Portfolio
- Blended Age-Based 18+ Years Portfolio
- Index Age-Based 0-6 Years Portfolio
- Index Age-Based 7-9 Years Portfolio
- Index Age-Based 10-11 Years Portfolio
- Index Age-Based 12-14 Years Portfolio
- Index Age-Based 15-17 Years Portfolio
- Index Age-Based 18+ Years Portfolio

Advisor-sold Plan:

- Advisor Age-Based 0-6 Years Portfolio
- Advisor Age-Based 7-9 Years Portfolio
- Advisor Age-Based 10-11 Years Portfolio
- Advisor Age-Based 12-14 Years Portfolio
- Advisor Age-Based 15-17 Years Portfolio
- Advisor Age-Based 18+ Years Portfolio

Account assets generally do not remain in the Age-Based Portfolio in which they are initially invested. Account assets are redeemed by the Manager when the Beneficiary attains an age that is greater than the upper limit of the age range that corresponds to a particular Portfolio, including the Portfolio in which assets were invested initially. The Manager then reinvests these assets in the Portfolio that corresponds to the age of the Beneficiary. This continues until the Beneficiary is 18 years old, or the assets are withdrawn from the Account, whichever occurs first. The asset allocation strategy for the Age-Based Portfolio becomes increasingly conservative with each successive Portfolio.

Fixed Income Portfolios:

- Blended Fixed Income Portfolio
- Index Fixed Income Portfolio
- Advisor Fixed Income Portfolio

The goal of the Fixed Income Portfolios is to seek the relatively more stable returns of a fixed income investment in exchange for giving up the long-term return potential that the stock market may offer.

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments (Continued)

Equity Portfolios:

- Blended Equity Portfolio
- Index Equity Portfolio
- Advisor Equity Portfolio

The goal of the Equity Portfolios is to seek long-term capital appreciation through investments in equity mutual funds. The Equity Portfolio is only appropriate for investors with longer time horizons, who are comfortable with an increased level of risk while seeking higher longer-term returns, or who use this investment portfolio as part of an overall college savings strategy that includes less aggressive investments.

Balanced Portfolios:

- Blended Balanced Portfolio
- Index Balanced Portfolio
- Advisor Balanced Portfolio

The goal of the Balanced Portfolios is to seek attractive total return with reasonable safety of principal through investment in equity and fixed income securities.

Money Market Portfolios:

- Money Market Portfolio
- Advisor Money Market Portfolio

The goal of the Money Market Portfolios is to seek current income and preservation of principal.

Conservative Fixed Income Portfolios:

- Blended Conservative Fixed Income Portfolio
- Advisor Conservative Fixed Income Portfolio

The goal of the Conservative Fixed Income Portfolios is to seek total return by investing primarily in short-term government securities.

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments (Continued)

Additional Program Information:

Additional information concerning the Bright Start College Savings Program may be obtained online at www.brightstartsavings.com, www.brightstartadvisor.com or by calling toll free 1-877-432-7444.

Investment Risk:

Interest Rate and Credit Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In its investment policy, the Treasurer has adopted a long-term total return strategy. A long-term diversified asset allocation strategy based on (1) asset classes (stocks, bonds, cash, etc.), (2) geography/country, (3) industry, and (4) maturity will be the primary method of risk control.

The investments in the Bright Start College Savings Program are not guaranteed or insured by the State of Illinois, Office of the Treasurer, the Program Manager, affiliates of the Program Manager, the FDIC, or any other party.

The fair values as of the Opening of Business January 12, 2015 and interest rate risk and credit risk of the money market and fixed income funds for the Bright Start Program are detailed in the table below.

Type	Fair Value	Interest Rate Risk***	Method	Credit Risk	Rating Service
Money Market:	\$ 424,827,020	41 days	Weighted Average Maturity	AAAm	S&P
Fixed Income Mutual Funds:	890,538,284	4.891 yrs	Effective Maturity	NR*	NA**
	562,030,566	1.275 yrs	Duration	NR*	NA**
	215,753,187	5.160 yrs	Effective Duration	NR*	NA**
	<u>\$ 2,093,149,057</u>				

*Credit Risk of NR indicates that while the underlying securities within the funds may be rated, the mutual fund itself is not rated.

**Not applicable

***As of December 31, 2014, most recent available.

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments (Continued)

Bright Directions College Savings Program

Permitted Investments:

The Treasurer's Bright Directions investment activities are governed by the Treasurer's published Bright Directions investment policy (included in the "other information" section of this report), which was developed in accordance with the State statute. In addition, the Treasurer has adopted its own investment practices, which supplements the statutory requirements.

Contributions will be invested in one or more of the available Underlying Portfolios, each composed of a designated mix of investments or an individual investment fund, which is appropriate for the age of the participant or the investment objective of the Portfolio. Each Underlying Portfolio may allocate assets among domestic equity, international equity, real estate, fixed-income, and/or money market investments. The asset allocation of each Underlying Portfolio will be established by the Treasurer and managed by Union Bank. The Treasurer may adjust the weighting in stocks, bonds, real estate, and cash in each Underlying Portfolio and may change the mutual funds within the Underlying Portfolios consistent with its Investment Policy Statement.

Investment Options:

General Overview

The Bright Directions Program offered the following investment portfolios as of the Opening of Business January 12, 2015:

- Three Age-Based Tracks, each with five portfolio options
- Seven Target Portfolios
- Thirty Individual Fund Portfolios
- Fifteen Exchange-Traded Fund Portfolios
- Two Female & Minority Owned Portfolios

The three Age-Based portfolios are designed to reduce the account's exposure to principal loss the closer the Beneficiary reaches college age; the seven Target Portfolios maintain a constant asset allocation between equity, fixed income, and money market securities; the Individual Fund Portfolios each invest in a single mutual fund; the Exchange-Traded Fund Portfolios invest in Vanguard ETF's; and the Female & Minority Owned Portfolios invest in underlying investment funds which are managed by female or minority-owned investment advisors. The Age-Based, Target, Individual, Exchange-Traded and Female & Minority Owned Fund Portfolios have been designed by the Treasurer, Manager, and Wilshire Funds Management.

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments (Continued)

Brief Description of Investment Options:

Age-Based Portfolios:

The Age-Based Portfolios generally invest in a mix of equity, fixed income, and money market funds allocated based on the current age of the Beneficiary. The Age-Based Portfolios adjust over time so that as the Beneficiary nears college age each Age-Based Portfolio's allocation between equity, fixed income, and money market funds becomes more conservative relative to the allocation in earlier years.

Program participants may choose from the following three Age-Based Tracks:

- Age-Based Aggressive Portfolio
- Age-Based Growth Portfolio
- Age-Based Balanced Portfolio

The beneficiary age bands within each of the above portfolios include: 0-8 years, 9-12 years, 13-16 years, 17-20 years and 21 years and over.

Target Portfolios:

The Target Portfolios are asset allocation portfolios that invest in a set or "static" mix of equity, fixed income, or money market funds. The allocation between equity, fixed income, and money market investments within the Target Portfolios does not change as the Beneficiary gets older. The seven Target Portfolios, ranging from the most aggressive to conservative, are as follows:

- Fund 100
- Fund 80
- Fund 60
- Fund 40
- Fund 20
- Fund 10
- Fixed Income Fund

Individual Fund Portfolios:

The Bright Directions Program offers thirty Individual Fund Portfolios. Each Individual Fund Portfolio is invested solely in shares of a single underlying mutual fund. Account balances may be allocated among one or more Individual Fund Portfolios according to the Account Owners investment objectives, investment time horizon, and risk tolerance.

The Individual Fund Portfolios offered are as follows:

- American Century Equity Growth 529 Portfolio
- American Century Growth 529 Portfolio
- American Century Value 529 Portfolio
- American Century Short Duration Inflation Protection Bond 529 Portfolio
- Baird Short-Term Bond 529 Portfolio
- BlackRock Cash Funds 529 Portfolio
- BlackRock Inflation Protected Bond 529 Portfolio

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments (Continued)

Individual Fund Portfolios (Continued)

- Calvert Equity 529 Portfolio
- Causeway Emerging Markets 529 Portfolio
- Delaware Small Cap Core 529 Portfolio
- DFA International Small Company 529 Portfolio
- Dodge & Cox International Stock 529 Portfolio
- Eagle Small Cap Growth 529 Portfolio
- MainStay Total Return Bond 529 Portfolio
- MFS Value 529 Portfolio
- Northern Funds Bond Index 529 Portfolio
- Northern Funds International Equity Index 529 Portfolio
- Northern Funds Small Cap Index 529 Portfolio
- Northern Funds Small Cap Value 529 Portfolio
- Northern Funds Stock Index 529 Portfolio
- Oppenheimer International Growth 529 Portfolio
- PIMCO Short-Term 529 Portfolio
- T. Rowe Price Balanced 529 Portfolio
- T. Rowe Price Equity Income 529 Portfolio
- T. Rowe Price Extended Equity Market Index 529 Portfolio
- T. Rowe Price Institutional Large Cap Growth 529 Portfolio
- T. Rowe Price Real Estate 529 Portfolio
- Templeton International Bond 529 Portfolio
- Voya Global Real Estate 529 Portfolio
- William Blair Mid Cap Growth 529 Portfolio

Exchange-Traded Fund Portfolios:

The Bright Directions Program offers fifteen Exchange-Traded Fund Portfolios. These portfolios are additional Individual Fund Portfolios that invest in certain exchange-traded funds added under Fee Structure F. Fee Structure F is available only to Account Owners that establish an Account through registered investment advisors or other financial advisors that are not compensated through commissions, but rather through payment of an hourly fee or a percentage of assets under management. The Exchange-Traded Fund Portfolios offered are as follows:

- Vanguard FTSE Developed Markets ETF 529 Portfolio
- Vanguard FTSE Emerging Markets ETF 529 Portfolio
- Vanguard Global Ex-U.S. Real Estate ETF 529 Portfolio
- Vanguard Mega Cap Value ETF 529 Portfolio
- Vanguard Mega Cap ETF 529 Portfolio
- Vanguard Mega Cap Growth ETF 529 Portfolio
- Vanguard Mid-Cap Value ETF 529 Portfolio
- Vanguard Mid-Cap ETF 529 Portfolio
- Vanguard Mid-Cap Growth ETF 529 Portfolio
- Vanguard REIT ETF 529 Portfolio
- Vanguard Short-Term Bond ETF 529 Portfolio
- Vanguard Small-Cap Value ETF 529 Portfolio

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments (Continued)

Exchange-Traded Fund Portfolios (Continued):

- Vanguard Small-Cap ETF 529 Portfolio
- Vanguard Small-Cap Growth ETF 529 Portfolio
- Vanguard Total Bond Market ETF 529 Portfolio

Female & Minority Owned Portfolios:

The Bright Directions Program offers two Female & Minority Owned Portfolios. Each portfolio is invested in funds which are managed by female and/or minority-owned investment advisors.

The Female & Minority Owned Portfolios are as follows:

- Ariel Fund 529 Portfolio
- Sit Dividend Growth 529 Portfolio

Additional Program Information

Additional information concerning the Bright Directions College Savings Program, including a complete description of investment options, may be obtained online at www.brightdirections.com or by calling 1-866-722-7283.

Investment Risk:

Interest Rate and Credit Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In its investment policy the Treasurer has adopted a long-term total return strategy. A long-term diversified asset allocation strategy based on (1) asset classes (stocks, bonds, cash, etc.), (2) geography/country, (3) industry, and (4) maturity will be the primary method of risk control.

The investments in the Bright Directions College Savings Program are not guaranteed or insured by the State of Illinois, Office of the Treasurer, the Program Manager, affiliates of the Program Manager, the FDIC, or any other party.

The fair values as of the Opening of Business January 12, 2015 and the interest rate risk and credit risk of the money market and fixed income funds for the Bright Directions Program are detailed in the table which follows.

**State of Illinois
Office of the Treasurer
College Savings Program**

Notes to the Financial Statements

Note 2. Investments (Continued)

Investment Risk (Continued):

Interest Rate and Credit Risk (Continued):

<u>Type</u>	<u>Fair Value</u>	<u>Interest Rate Risk***</u>	<u>Method</u>	<u>Credit Risk</u>	<u>Rating Service</u>
Money Market:	\$ 88,364,206	45 days	Weighted Average Maturity	NR*	NA**
Fixed Income Mutual Funds:					
	80,179,920	7.300 yrs	Average Maturity	NR*	NA**
	376,443,210	3.014 yrs	Effective Maturity	NR*	NA**
	36,422,530	2.740 yrs	Weighted Average Maturity	NR*	NA**
	<u>51,107,233</u>	2.874 yrs	Effective Duration	NR*	NA**
	<u>\$ 632,517,099</u>				

*Credit Risk of NR indicates that while the underlying securities within the funds may be rated, the mutual fund itself is not rated.

**Not applicable

***As of December 31, 2014, most recent available.

Note 3. Administrative Fees

To administer the College Savings Program, the Treasurer has a division entitled, "The College Savings Program Division." This division had four employees as of the Opening of Business January 12, 2015. The revenues and expenses of the division are recorded in an enterprise proprietary fund maintained by the Treasurer entitled College Savings Program Administrative Trust Fund No. 668.

The Managers of the College Savings Program receive fees for their services. The Bright Start Program Manager received an amount equal to a charge against the assets of the Trust at an annual rate of 0.15% on the blended and advisor portfolios and 0.14% on the index portfolios of the average daily balance of the net assets of the Trust. The fee is calculated daily but payable monthly. The Bright Directions Program Management fee is at an annual rate of 0.32% of the average daily net assets of each Portfolio.

The College Savings Program custodial/advisory fees paid from the Trust and the College Savings Program Administrative Trust Fund expenses are as follows:

	For the Period July 1, 2014 through the Opening of Business January 12, 2015
Custodial/advisory fees	\$ 6,817,462
Administrative Trust Fund expenses	384,708

SUPPLEMENTARY INFORMATION

**State of Illinois
Office of the Treasurer**

**College Savings Program
Combining Statement of Fiduciary Net Position
As of the Opening of Business January 12, 2015**

	<u>Bright Start</u>	<u>Bright Directions</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 441,136,349	\$ 89,065,213	\$ 530,201,562
Capital shares receivable	9,094,867	-	9,094,867
Securities sold receivable	1,930,942	-	1,930,942
Dividends receivable	604,233	142,237	746,470
Mutual funds	4,955,307,609	1,665,008,511	6,620,316,120
Total assets	<u>\$ 5,408,074,000</u>	<u>\$ 1,754,215,961</u>	<u>\$ 7,162,289,961</u>
Liabilities and Net Position			
Liabilities			
Payable for capital shares	\$ 7,618,859	\$ -	\$ 7,618,859
Payable for securities purchased	2,336,713	-	2,336,713
Other liabilities	418,587	2,973,088	3,391,675
Total liabilities	10,374,159	2,973,088	13,347,247
Net position held in trust for participants	<u>5,397,699,841</u>	<u>1,751,242,873</u>	<u>7,148,942,714</u>
Total liabilities and net position	<u>\$ 5,408,074,000</u>	<u>\$ 1,754,215,961</u>	<u>\$ 7,162,289,961</u>

State of Illinois**Office of the Treasurer****College Savings Program****Combining Statement of Changes in Fiduciary Net Position****For the Period July 1, 2014 through the Opening of Business January 12, 2015**

	Bright Start	Bright Directions	Totals
Investment income (expense)			
Investment earnings	\$ 28,654,679	\$ 54,837,324	\$ 83,492,003
Net change in fair value of investments	26,567,340	(62,607,560)	(36,040,220)
Distribution fees	(2,330,767)	-	(2,330,767)
State administrative fees	(545,737)	(435,548)	(981,285)
Other operating expenses	-	(1,375)	(1,375)
12b-1 fees	-	(2,786,100)	(2,786,100)
Management and bank custodial fees	(3,999,130)	(2,818,332)	(6,817,462)
	<u>48,346,385</u>	<u>(13,811,591)</u>	<u>34,534,794</u>
Net investment earnings (loss)			
Distributions to participants			
Net investment income	-	(9,819)	(9,819)
Other participant transactions			
Program contributions	1,072,183,222	410,239,529	1,482,422,751
Program distributions	(931,313,102)	(313,362,297)	(1,244,675,399)
Distributions reinvested	-	8,088	8,088
	<u>140,870,120</u>	<u>96,885,320</u>	<u>237,755,440</u>
Total increase from participant transactions			
Change in net position	189,216,505	83,063,910	272,280,415
Net position, beginning of period	<u>5,208,483,336</u>	<u>1,668,178,963</u>	<u>6,876,662,299</u>
Net position, end of period	<u>\$ 5,397,699,841</u>	<u>\$ 1,751,242,873</u>	<u>\$ 7,148,942,714</u>

State of Illinois
Office of the Treasurer

Bright Start College Savings Program
Statement of Fiduciary Net Position by Portfolio
As of the Opening of Business January 12, 2015

	Bright Start Advisor Age Based 0-6 years	Bright Start Advisor Age Based 7-9 years	Bright Start Advisor Age Based 10-11 years	Bright Start Advisor Age Based 12-14 years	Bright Start Advisor Age Based 15-17 years	Bright Start Advisor Age Based 18 years
Assets						
Cash and cash equivalents	\$ 1,442,260	\$ 1,917,189	\$ 761,573	\$ 2,099,717	\$ 27,723,695	\$ 29,963,228
Capital shares receivable	465,341	256,908	130,921	518,013	560,178	628,312
Securities sold receivable	-	9,326	155,327	-	235,937	398,557
Dividends receivable	7,089	19,594	19,389	57,988	59,720	37,936
Mutual funds	150,992,938	167,055,009	165,317,787	307,036,244	247,813,568	168,153,074
Total assets	<u>\$ 152,907,628</u>	<u>\$ 169,258,026</u>	<u>\$ 166,384,997</u>	<u>\$ 309,711,962</u>	<u>\$ 276,393,098</u>	<u>\$ 199,181,107</u>
Liabilities and Net Position						
Liabilities						
Payable for capital shares	\$ 154,852	\$ 63,305	\$ 238,494	\$ 387,943	\$ 421,720	\$ 1,267,127
Payable for securities purchased	248,652	-	-	358,406	-	-
Other liabilities	23,635	23,099	20,543	38,193	34,289	24,319
Total liabilities	<u>427,139</u>	<u>86,404</u>	<u>259,037</u>	<u>784,542</u>	<u>456,009</u>	<u>1,291,446</u>
Net position held in trust for participants	<u>152,480,489</u>	<u>169,171,622</u>	<u>166,125,960</u>	<u>308,927,420</u>	<u>275,937,089</u>	<u>197,889,661</u>
Total liabilities and net position	<u>\$ 152,907,628</u>	<u>\$ 169,258,026</u>	<u>\$ 166,384,997</u>	<u>\$ 309,711,962</u>	<u>\$ 276,393,098</u>	<u>\$ 199,181,107</u>

(Continued)

State of Illinois
Office of the Treasurer

Bright Start College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	Bright Start Advisor Choice Based Equity	Bright Start Advisor Choice Based Balanced	Bright Start Advisor Choice Based Fixed Income	Bright Start Advisor Choice Based Conservative Fixed Income	Bright Start Index Age Based 0-6 years	Bright Start Index Age Based 7-9 years
Assets						
Cash and cash equivalents	\$ 1,881,868	\$ 8,880,312	\$ 3,463,911	\$ 64,949	\$ 1,590,315	\$ 9,912,158
Capital shares receivable	514,685	99,290	183,713	96,342	371,579	766,138
Securities sold receivable	94,392	35,787	35,325	7,481	-	-
Dividends receivable	5	16,607	5,457	224	17,783	25,919
Mutual funds	455,197,076	77,954,630	19,844,923	3,213,888	292,099,790	180,209,444
Total assets	<u>\$ 457,688,026</u>	<u>\$ 86,986,626</u>	<u>\$ 23,533,329</u>	<u>\$ 3,382,884</u>	<u>\$ 294,079,467</u>	<u>\$ 190,913,659</u>
Liabilities and Net Position						
Liabilities						
Payable for capital shares	\$ 1,139,176	\$ 77,484	\$ 12,101	\$ 59,063	\$ 643,153	\$ 405,426
Payable for securities purchased	-	-	-	-	267,007	107,273
Other liabilities	55,052	12,201	16,957	445	12,313	7,969
Total liabilities	<u>1,194,228</u>	<u>89,685</u>	<u>29,058</u>	<u>59,508</u>	<u>922,473</u>	<u>520,668</u>
Net position held in trust for participants	<u>456,493,798</u>	<u>86,896,941</u>	<u>23,504,271</u>	<u>3,323,376</u>	<u>293,156,994</u>	<u>190,392,991</u>
Total liabilities and net position	<u>\$ 457,688,026</u>	<u>\$ 86,986,626</u>	<u>\$ 23,533,329</u>	<u>\$ 3,382,884</u>	<u>\$ 294,079,467</u>	<u>\$ 190,913,659</u>

(Continued)

State of Illinois
Office of the Treasurer

Bright Start College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	Bright Start Index Age Based 10-11 years	Bright Start Index Age Based 12-14 years	Bright Start Index Age Based 15-17 years	Bright Start Index Age Based 18 years	Bright Start Index Choice Based Equity	Bright Start Index Choice Based Balanced
Assets						
Cash and cash equivalents	\$ 6,052,078	\$ 16,491,667	\$ 23,289,734	\$ 14,964,536	\$ 2,425,124	\$ 14,865,262
Capital shares receivable	208,986	167,445	240,606	329,921	592,837	310,197
Securities sold receivable	-	-	-	55,883	-	-
Dividends receivable	21,019	33,596	40,866	33,146	28	29,573
Mutual funds	106,170,956	147,217,168	126,612,844	81,361,723	544,274,080	129,187,329
Total assets	<u>\$ 112,453,039</u>	<u>\$ 163,909,876</u>	<u>\$ 150,184,050</u>	<u>\$ 96,745,209</u>	<u>\$ 547,292,069</u>	<u>\$ 144,392,361</u>
Liabilities and Net Position						
Liabilities						
Payable for capital shares	\$ 28,106	\$ 16,305	\$ 163,079	\$ 190,017	\$ 135,487	\$ 109,503
Payable for securities purchased	35,744	22,216	53,278	-	1,105,109	31,779
Other liabilities	4,720	6,857	6,287	4,077	22,932	6,056
Total liabilities	<u>68,570</u>	<u>45,378</u>	<u>222,644</u>	<u>194,094</u>	<u>1,263,528</u>	<u>147,338</u>
Net position held in trust for participants	<u>112,384,469</u>	<u>163,864,498</u>	<u>149,961,406</u>	<u>96,551,115</u>	<u>546,028,541</u>	<u>144,245,023</u>
Total liabilities and net position	<u>\$ 112,453,039</u>	<u>\$ 163,909,876</u>	<u>\$ 150,184,050</u>	<u>\$ 96,745,209</u>	<u>\$ 547,292,069</u>	<u>\$ 144,392,361</u>

(Continued)

State of Illinois
Office of the Treasurer

Bright Start College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	Bright Start Index Choice Based Fixed Income	Bright Start Blended Age Based 0-6 years	Bright Start Blended Age Based 7-9 years	Bright Start Blended Age Based 10-11 years	Bright Start Blended Age Based 12-14 years	Bright Start Blended Age Based 15-17 years
Assets						
Cash and cash equivalents	\$ 11,267,193	\$ 938,268	\$ 827,082	\$ 1,006,907	\$ 1,244,608	\$ 34,005,825
Capital shares receivable	304,861	238,041	194,296	274,796	219,229	98,090
Securities sold receivable	36,058	27,096	-	323,234	-	6,331
Dividends receivable	31,266	3,788	12,354	13,071	42,396	32,342
Mutual funds	62,667,930	130,957,470	170,581,008	180,711,941	294,116,472	187,913,678
Total assets	<u>\$ 74,307,308</u>	<u>\$ 132,164,663</u>	<u>\$ 171,614,740</u>	<u>\$ 182,329,949</u>	<u>\$ 295,622,705</u>	<u>\$ 222,056,266</u>
Liabilities and Net Position						
Liabilities						
Payable for capital shares	\$ 131,731	\$ 113,243	\$ 213,416	\$ 133,140	\$ 22,447	\$ 143,657
Payable for securities purchased	-	-	86,535	-	17,722	-
Other liabilities	3,108	7,156	9,318	9,893	16,004	12,032
Total liabilities	<u>134,839</u>	<u>120,399</u>	<u>309,269</u>	<u>143,033</u>	<u>56,173</u>	<u>155,689</u>
Net position held in trust for participants	<u>74,172,469</u>	<u>132,044,264</u>	<u>171,305,471</u>	<u>182,186,916</u>	<u>295,566,532</u>	<u>221,900,577</u>
Total liabilities and net position	<u>\$ 74,307,308</u>	<u>\$ 132,164,663</u>	<u>\$ 171,614,740</u>	<u>\$ 182,329,949</u>	<u>\$ 295,622,705</u>	<u>\$ 222,056,266</u>

(Continued)

State of Illinois
Office of the Treasurer

Bright Start College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	Bright Start Blended Age Based 18 years	Bright Start Blended Choice Based Equity	Bright Start Blended Choice Based Fixed Income	Bright Start Blended Choice Based Balanced	Bright Start Blended Choice Based Conservative Fixed Income	Bright Start Money Market	Total
Assets							
Cash and cash equivalents	\$ 43,368,016	\$ 500,184	\$ 3,779,315	\$ 6,256,241	\$ 183,566	\$ 169,969,568	\$ 441,136,349
Capital shares receivable	189,764	192,281	51,426	33,318	63,541	793,812	9,094,867
Securities sold receivable	15,571	475,713	18,924	-	-	-	1,930,942
Dividends receivable	21,191	4	3,613	8,756	750	8,763	604,233
Mutual funds	99,357,472	373,347,591	21,072,850	54,183,431	10,685,295	-	4,955,307,609
Total assets	<u>\$ 142,952,014</u>	<u>\$ 374,515,773</u>	<u>\$ 24,926,128</u>	<u>\$ 60,481,746</u>	<u>\$ 10,933,152</u>	<u>\$ 170,772,143</u>	<u>\$ 5,408,074,000</u>
Liabilities and Net Position							
Liabilities							
Payable for capital shares	\$ 406,656	\$ 165,610	\$ 20,952	\$ 34,875	\$ 22,620	\$ 698,171	\$ 7,618,859
Payable for securities purchased	-	-	-	2,741	251	-	2,336,713
Other liabilities	7,798	20,436	1,355	3,272	581	7,690	418,587
Total liabilities	<u>414,454</u>	<u>186,046</u>	<u>22,307</u>	<u>40,888</u>	<u>23,452</u>	<u>705,861</u>	<u>10,374,159</u>
Net position held in trust for participants	<u>142,537,560</u>	<u>374,329,727</u>	<u>24,903,821</u>	<u>60,440,858</u>	<u>10,909,700</u>	<u>170,066,282</u>	<u>5,397,699,841</u>
Total liabilities and net position	<u>\$ 142,952,014</u>	<u>\$ 374,515,773</u>	<u>\$ 24,926,128</u>	<u>\$ 60,481,746</u>	<u>\$ 10,933,152</u>	<u>\$ 170,772,143</u>	<u>\$ 5,408,074,000</u>

State of Illinois
Office of the Treasurer

Bright Directions College Savings Program
Statement of Fiduciary Net Position by Portfolio
As of the Opening of Business January 12, 2015

	American Century Equity Growth 529 Portfolio	American Century Growth 529 Portfolio	American Century Short Duration Inflation Protection Bond 529 Portfolio	American Century Value 529 Portfolio	Ariel 529 Portfolio	Baird Short Term Bond Institutional 529 Portfolio	BlackRock Cash Funds 529 Portfolio
Assets							
Cash and cash equivalents	\$ -	\$ 2,109	\$ -	\$ -	\$ -	\$ -	\$ 35,578,396
Dividends receivable	-	-	-	-	-	-	970
Mutual funds	11,855,502	6,637,808	695,389	11,052,965	7,741,185	16,043,101	-
Total assets	\$ 11,855,502	\$ 6,639,917	\$ 695,389	\$ 11,052,965	\$ 7,741,185	\$ 16,043,101	\$ 35,579,366
Liabilities and Net Position							
Liabilities							
Other liabilities	\$ 15,454	\$ 7,578	\$ 557	\$ 18,175	\$ 10,354	\$ 364,278	\$ 4,915
Total liabilities	15,454	7,578	557	18,175	10,354	364,278	4,915
Net position held in trust for participants	11,840,048	6,632,339	694,832	11,034,790	7,730,831	15,678,823	35,574,451
Total liabilities and net position	\$ 11,855,502	\$ 6,639,917	\$ 695,389	\$ 11,052,965	\$ 7,741,185	\$ 16,043,101	\$ 35,579,366

(Continued)

State of Illinois
Office of the Treasurer

Bright Directions College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	BlackRock Inflation Protected Bond 529 Portfolio	Calvert Equity 529 Portfolio	Causeway Emerging Markets 529 Portfolio	Delaware Small Cap Core 529 Portfolio	DFA International Small Company 529 Portfolio	Dodge & Cox International Stock 529 Portfolio	Eagle Small Cap Growth 529 Portfolio
Assets							
Cash and cash equivalents	\$ -	\$ 7,862	\$ 3,734	\$ 22,212	\$ -	\$ -	\$ 537
Dividends receivable	-	-	-	-	-	-	-
Mutual funds	7,815,088	5,569,023	5,530,167	10,146,420	2,615,796	23,145,525	10,534,763
Total assets	\$ 7,815,088	\$ 5,576,885	\$ 5,533,901	\$ 10,168,632	\$ 2,615,796	\$ 23,145,525	\$ 10,535,300
Liabilities and Net Position							
Liabilities							
Other liabilities	\$ 19,257	\$ 7,015	\$ 5,918	\$ 12,372	\$ 2,535	\$ 50,759	\$ 11,604
Total liabilities	19,257	7,015	5,918	12,372	2,535	50,759	11,604
Net position held in trust for participants	7,795,831	5,569,870	5,527,983	10,156,260	2,613,261	23,094,766	10,523,696
Total liabilities and net position	\$ 7,815,088	\$ 5,576,885	\$ 5,533,901	\$ 10,168,632	\$ 2,615,796	\$ 23,145,525	\$ 10,535,300

(Continued)

State of Illinois
Office of the Treasurer

Bright Directions College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	MainStay Total Return Bond 529 Portfolio	MFS Value 529 Portfolio	Northern Bond Index 529 Portfolio	Northern International Equity Index 529 Portfolio	Northern Small Cap Index 529 Portfolio	Northern Small Cap Value 529 Portfolio	Northern Stock Index 529 Portfolio	Oppenheimer International Growth 529 Portfolio
Assets								
Cash and cash equivalents	\$ -	\$ 23,028	\$ -	\$ 7,520	\$ 3,535	\$ -	\$ 4,041	\$ 812
Dividends receivable	-	-	9,288	-	-	-	-	-
Mutual funds	35,242,632	20,288,160	6,239,173	6,604,792	5,823,367	7,534,387	19,448,598	18,384,213
Total assets	\$ 35,242,632	\$ 20,311,188	\$ 6,248,461	\$ 6,612,312	\$ 5,826,902	\$ 7,534,387	\$ 19,452,639	\$ 18,385,025
Liabilities and Net Position								
Liabilities								
Other liabilities	\$ 36,621	\$ 23,663	\$ 8,285	\$ 7,913	\$ 7,050	\$ 12,840	\$ 20,957	\$ 23,204
Total liabilities	36,621	23,663	8,285	7,913	7,050	12,840	20,957	23,204
Net position held in trust for participants	35,206,011	20,287,525	6,240,176	6,604,399	5,819,852	7,521,547	19,431,682	18,361,821
Total liabilities and net position	\$ 35,242,632	\$ 20,311,188	\$ 6,248,461	\$ 6,612,312	\$ 5,826,902	\$ 7,534,387	\$ 19,452,639	\$ 18,385,025

(Continued)

State of Illinois
Office of the Treasurer

Bright Directions College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	Pimco Low Duration 529 Portfolio	Pimco Short-Term 529 Portfolio	Pimco Total Return 529 Portfolio	Sit Dividend Growth 529 Portfolio	T.Rowe Price Extended Equity Market Index 529 Portfolio	T.Rowe Price Balanced 529 Portfolio	T.Rowe Price Equity Income 529 Portfolio
Assets							
Cash and cash equivalents	\$ 6,905	\$ -	\$ 10,563	\$ 5,189	\$ -	\$ -	\$ -
Dividends receivable	-	2,658	-	-	-	-	-
Mutual funds	-	15,781,519	-	8,374,305	13,698,117	27,562,798	27,157,666
Total assets	\$ 6,905	\$ 15,784,177	\$ 10,563	\$ 8,379,494	\$ 13,698,117	\$ 27,562,798	\$ 27,157,666
Liabilities and Net Position							
Liabilities							
Other liabilities	\$ 5,781	\$ 157,253	\$ 15,532	\$ 8,998	\$ 33,593	\$ 41,916	\$ 65,299
Total liabilities	5,781	157,253	15,532	8,998	33,593	41,916	65,299
Net position held in trust for participants	1,124	15,626,924	(4,969)	8,370,496	13,664,524	27,520,882	27,092,367
Total liabilities and net position	\$ 6,905	\$ 15,784,177	\$ 10,563	\$ 8,379,494	\$ 13,698,117	\$ 27,562,798	\$ 27,157,666

(Continued)

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Bright Directions College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	T.Rowe Price							
	Institutional Large Cap Growth 529 Portfolio	T.Rowe Price Real Estate 529 Portfolio	Templeton International Bond 529 Portfolio	Vanguard FTSE Developed Markets ETF 529 Portfolio	Vanguard FTSE Emerging Markets Stock ETF 529 Portfolio	Vanguard Global Ex-US Real Estate ETF 529 Portfolio	Vanguard Mega Cap 300 ETF 529 Portfolio	
Assets								
Cash and cash equivalents	\$ 16,496	\$ -	\$ 789	\$ -	\$ -	\$ -	\$ -	
Dividends receivable	-	-	-	-	-	-	-	
Mutual funds	28,474,767	10,085,347	7,475,051	1,237,145	1,460,452	257,696	1,832,477	
Total assets	<u>\$ 28,491,263</u>	<u>\$ 10,085,347</u>	<u>\$ 7,475,840</u>	<u>\$ 1,237,145</u>	<u>\$ 1,460,452</u>	<u>\$ 257,696</u>	<u>\$ 1,832,477</u>	
Liabilities and Net Position								
Liabilities								
Other liabilities	\$ 34,095	\$ 15,423	\$ 8,822	\$ 501	\$ 985	\$ 99	\$ 699	
Total liabilities	<u>34,095</u>	<u>15,423</u>	<u>8,822</u>	<u>501</u>	<u>985</u>	<u>99</u>	<u>699</u>	
Net position held in trust for participants	<u>28,457,168</u>	<u>10,069,924</u>	<u>7,467,018</u>	<u>1,236,644</u>	<u>1,459,467</u>	<u>257,597</u>	<u>1,831,778</u>	
Total liabilities and net position	<u>\$ 28,491,263</u>	<u>\$ 10,085,347</u>	<u>\$ 7,475,840</u>	<u>\$ 1,237,145</u>	<u>\$ 1,460,452</u>	<u>\$ 257,696</u>	<u>\$ 1,832,477</u>	

(Continued)

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Bright Directions College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	Vanguard 300 Growth ETF 529 Portfolio	Vanguard Mega Cap 300 Value ETF 529 Portfolio	Vanguard Mid-Cap ETF 529 Portfolio	Vanguard Mid-Cap Growth ETF 529 Portfolio	Vanguard Mid-Cap Value ETF 529 Portfolio	Vanguard REIT ETF 529 Portfolio	Vanguard Short-Term Bond ETF 529 Portfolio	Vanguard Small-Cap ETF 529 Portfolio
Assets								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,183	\$ -
Dividends receivable	-	-	-	-	-	-	-	-
Mutual funds	640,740	1,566,123	1,220,583	208,792	509,957	902,367	2,699,750	1,231,918
Total assets	<u>\$ 640,740</u>	<u>\$ 1,566,123</u>	<u>\$ 1,220,583</u>	<u>\$ 208,792</u>	<u>\$ 509,957</u>	<u>\$ 902,367</u>	<u>\$ 2,700,933</u>	<u>\$ 1,231,918</u>
Liabilities and Net Position								
Liabilities								
Other liabilities	\$ 243	\$ 2,434	\$ 466	\$ 72	\$ 198	\$ 553	\$ 935	\$ 469
Total liabilities	<u>243</u>	<u>2,434</u>	<u>466</u>	<u>72</u>	<u>198</u>	<u>553</u>	<u>935</u>	<u>469</u>
Net position held in trust for participants	<u>640,497</u>	<u>1,563,689</u>	<u>1,220,117</u>	<u>208,720</u>	<u>509,759</u>	<u>901,814</u>	<u>2,699,998</u>	<u>1,231,449</u>
Total liabilities and net position	<u>\$ 640,740</u>	<u>\$ 1,566,123</u>	<u>\$ 1,220,583</u>	<u>\$ 208,792</u>	<u>\$ 509,957</u>	<u>\$ 902,367</u>	<u>\$ 2,700,933</u>	<u>\$ 1,231,918</u>

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Bright Directions College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	Vanguard Small-Cap Growth ETF 529 Portfolio	Vanguard Small-Cap Value ETF 529 Portfolio	Vanguard Total Bond Market ETF 529 Portfolio	Voya Global Real Estate 529 Portfolio	William Blair Mid Cap Growth 529 Portfolio	Fixed Income Fund	Fund 10
Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 498	\$ 18,424	\$ 5,542,091	\$ 19,628,009
Dividends receivable	-	-	-	-	-	671	2,595
Mutual funds	210,948	629,005	604,991	3,532,356	12,239,096	5,518,033	29,442,014
Total assets	\$ 210,948	\$ 629,005	\$ 604,991	\$ 3,532,854	\$ 12,257,520	\$ 11,060,795	\$ 49,072,618
Liabilities and Net Position							
Liabilities							
Other liabilities	\$ 447	\$ 237	\$ 948	\$ 4,464	\$ 13,543	\$ 15,926	\$ 68,729
Total liabilities	447	237	948	4,464	13,543	15,926	68,729
Net position held in trust for participants	210,501	628,768	604,043	3,528,390	12,243,977	11,044,869	49,003,889
Total liabilities and net position	\$ 210,948	\$ 629,005	\$ 604,991	\$ 3,532,854	\$ 12,257,520	\$ 11,060,795	\$ 49,072,618

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Bright Directions College Savings Program
Statement of Fiduciary Net Position by Portfolio (Continued)
As of the Opening of Business January 12, 2015

	Fund 20	Fund 40	Fund 60	Fund 80	Fund 100	Total
Assets						
Cash and cash equivalents	\$ 27,639,767	\$ 162,158	\$ 142,522	\$ 182,265	\$ 54,568	\$ 89,065,213
Dividends receivable	18,646	28,319	34,162	44,928	-	142,237
Mutual funds	110,559,070	226,866,559	321,652,707	369,014,166	193,413,942	1,665,008,511
Total assets	<u>\$ 138,217,483</u>	<u>\$ 227,057,036</u>	<u>\$ 321,829,391</u>	<u>\$ 369,241,359</u>	<u>\$ 193,468,510</u>	<u>\$ 1,754,215,961</u>
Liabilities and Net Position						
Liabilities						
Other liabilities	\$ 407,488	\$ 301,170	\$ 408,032	\$ 449,971	\$ 236,463	\$ 2,973,088
Total liabilities	<u>407,488</u>	<u>301,170</u>	<u>408,032</u>	<u>449,971</u>	<u>236,463</u>	<u>2,973,088</u>
Net position held in trust for participants	<u>137,809,995</u>	<u>226,755,866</u>	<u>321,421,359</u>	<u>368,791,388</u>	<u>193,232,047</u>	<u>1,751,242,873</u>
Total liabilities and net position	<u>\$ 138,217,483</u>	<u>\$ 227,057,036</u>	<u>\$ 321,829,391</u>	<u>\$ 369,241,359</u>	<u>\$ 193,468,510</u>	<u>\$ 1,754,215,961</u>

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Bright Start College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Bright Start Advisor Age Based 0-6 years	Bright Start Advisor Age Based 7-9 years	Bright Start Advisor Age Based 10-11 years	Bright Start Advisor Age Based 12-14 years	Bright Start Advisor Age Based 15-17 years	Bright Start Advisor Age Based 18 years
Investment income (expense)						
Investment earnings	\$ 439,960	\$ 628,704	\$ 582,119	\$ 1,387,889	\$ 1,244,531	\$ 732,155
Net change in fair value of investments	1,419,798	1,046,198	1,057,427	1,235,370	481,393	71,573
Distribution fees	(268,133)	(240,497)	(199,932)	(368,277)	(325,268)	(232,721)
State administrative fees	(24,160)	(26,935)	(26,525)	(48,436)	(42,252)	(31,449)
Management fees	(120,800)	(134,672)	(132,626)	(242,182)	(211,263)	(157,243)
Net investment earnings (loss)	1,446,665	1,272,798	1,280,463	1,964,364	1,147,141	382,315
Participant transactions						
Program contributions	22,980,129	36,144,632	47,503,141	67,720,621	68,732,766	58,128,254
Program distributions	(25,919,505)	(39,416,077)	(52,298,586)	(58,157,327)	(50,871,634)	(59,426,679)
Total increase (decrease) from participant transactions	(2,939,376)	(3,271,445)	(4,795,445)	9,563,294	17,861,132	(1,298,425)
Change in net position	(1,492,711)	(1,998,647)	(3,514,982)	11,527,658	19,008,273	(916,110)
Net position, beginning of period	153,973,200	171,170,269	169,640,942	297,399,762	256,928,816	198,805,771
Net position, end of period	\$ 152,480,489	\$ 169,171,622	\$ 166,125,960	\$ 308,927,420	\$ 275,937,089	\$ 197,889,661

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Bright Start College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Bright Start Advisor Choice Based Equity	Bright Start Advisor Choice Based Balanced	Bright Start Advisor Choice Based Fixed Income	Bright Start Advisor Choice Based Conservative Fixed Income	Bright Start Index Age Based 0-6 years	Bright Start Index Age Based 7-9 years
Investment income (expense)						
Investment earnings	\$ 1,047,037	\$ 391,457	\$ 101,839	\$ 3,745	\$ 3,116,473	\$ 1,827,897
Net change in fair value of investments	4,962,550	341,024	1,786	2,414	1,040,261	864,808
Distribution fees	(527,968)	(127,910)	(35,719)	(4,342)	-	-
State administrative fees	(72,884)	(13,502)	(3,747)	(467)	-	-
Management fees	(364,416)	(67,512)	(18,744)	(2,334)	(209,579)	(128,512)
Net investment earnings (loss)	5,044,319	523,557	45,415	(984)	3,947,155	2,564,193
Participant transactions						
Program contributions	25,068,310	12,087,250	2,669,406	1,399,910	49,179,563	57,586,904
Program distributions	(34,013,549)	(9,037,438)	(3,064,391)	(829,647)	(41,877,769)	(28,126,331)
Total increase (decrease) from participant transactions	(8,945,239)	3,049,812	(394,985)	570,263	7,301,794	29,460,573
Change in net position	(3,900,920)	3,573,369	(349,570)	569,279	11,248,949	32,024,766
Net position, beginning of period	460,394,718	83,323,572	23,853,841	2,754,097	281,908,045	158,368,225
Net position, end of period	\$ 456,493,798	\$ 86,896,941	\$ 23,504,271	\$ 3,323,376	\$ 293,156,994	\$ 190,392,991

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Office of the Treasurer

Bright Start College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Bright Start Index Age Based 10-11 years	Bright Start Index Age Based 12-14 years	Bright Start Index Age Based 15-17 years	Bright Start Index Age Based 18 years	Bright Start Index Choice Based Equity	Bright Start Index Choice Based Balanced
Investment income (expense)						
Investment earnings	\$ 1,101,743	\$ 1,474,216	\$ 1,216,349	\$ 731,798	\$ 5,720,050	\$ 1,317,017
Net change in fair value of investments	579,486	834,920	760,610	467,782	1,577,094	702,556
Distribution fees	-	-	-	-	-	-
State administrative fees	-	-	-	-	-	-
Management fees	(79,803)	(114,429)	(103,745)	(69,785)	(381,818)	(102,656)
Net investment earnings (loss)	1,601,426	2,194,707	1,873,214	1,129,795	6,915,326	1,916,917
Participant transactions						
Program contributions	37,435,521	46,543,888	40,976,233	32,393,187	69,720,235	21,432,658
Program distributions	(32,792,521)	(30,037,632)	(23,328,522)	(30,345,808)	(27,151,468)	(14,885,266)
Total increase (decrease) from participant transactions	4,643,000	16,506,256	17,647,711	2,047,379	42,568,767	6,547,392
Change in net position	6,244,426	18,700,963	19,520,925	3,177,174	49,484,093	8,464,309
Net position, beginning of period	106,140,043	145,163,535	130,440,481	93,373,941	496,544,448	135,780,714
Net position, end of period	\$ 112,384,469	\$ 163,864,498	\$ 149,961,406	\$ 96,551,115	\$ 546,028,541	\$ 144,245,023

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**Bright Start College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015**

	Bright Start Index Choice Based Fixed Income	Bright Start Blended Age Based 0-6 years	Bright Start Blended Age Based 7-9 years	Bright Start Blended Age Based 10-11 years	Bright Start Blended Age Based 12-14 years	Bright Start Blended Age Based 15-17 years
Investment income (expense)						
Investment earnings	\$ 588,504	\$ 371,370	\$ 536,027	\$ 514,955	\$ 1,112,256	\$ 728,012
Net change in fair value of investments	490,370	1,031,245	1,383,451	1,536,384	1,288,672	860,774
Distribution fees	-	-	-	-	-	-
State administrative fees	-	(21,123)	(28,029)	(29,011)	(45,739)	(34,191)
Management fees	(52,330)	(105,620)	(140,138)	(145,059)	(228,696)	(170,961)
Net investment earnings (loss)	1,026,544	1,275,872	1,751,311	1,877,269	2,126,493	1,383,634
Participant transactions						
Program contributions	15,064,586	18,426,831	33,141,040	53,150,597	64,162,852	55,366,820
Program distributions	(9,921,732)	(25,398,281)	(47,506,253)	(53,383,900)	(49,418,690)	(40,398,074)
Total increase (decrease) from participant transactions	5,142,854	(6,971,450)	(14,365,213)	(233,303)	14,744,162	14,968,746
Change in net position	6,169,398	(5,695,578)	(12,613,902)	1,643,966	16,870,655	16,352,380
Net position, beginning of period	68,003,071	137,739,842	183,919,373	180,542,950	278,695,877	205,548,197
Net position, end of period	\$ 74,172,469	\$ 132,044,264	\$ 171,305,471	\$ 182,186,916	\$ 295,566,532	\$ 221,900,577

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State of Illinois
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Bright Start College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Bright Start Blended Age Based 18 years	Bright Start Blended Choice Based Equity	Bright Start Blended Choice Based Fixed Income	Bright Start Blended Choice Based Balanced	Bright Start Blended Choice Based Conservative Fixed Income	Bright Start Money Market	Total
Investment income (expense)							
Investment earnings	\$ 410,199	\$ 986,986	\$ 63,237	\$ 229,832	\$ 11,539	\$ 36,783	\$ 28,654,679
Net change in fair value of investments	396,862	1,641,806	196,795	287,306	6,625	-	26,567,340
Distribution fees	-	-	-	-	-	-	(2,330,767)
State administrative fees	(22,617)	(59,941)	(3,886)	(9,405)	(1,438)	-	(545,737)
Management fees	(113,086)	(299,706)	(19,431)	(47,023)	(7,189)	(27,772)	(3,999,130)
Net investment earnings (loss)	671,358	2,269,145	236,715	460,710	9,537	9,011	48,346,385
Participant transactions							
Program contributions	47,172,183	24,098,155	3,593,314	7,796,444	4,896,246	47,611,546	1,072,183,222
Program distributions	(49,115,116)	(31,342,764)	(3,138,268)	(6,092,279)	(2,279,463)	(51,738,132)	(931,313,102)
Total increase (decrease) from participant transactions	(1,942,933)	(7,244,609)	455,046	1,704,165	2,616,783	(4,126,586)	140,870,120
Change in net position	(1,271,575)	(4,975,464)	691,761	2,164,875	2,626,320	(4,117,575)	189,216,505
Net position, beginning of period	143,809,135	379,305,191	24,212,060	58,275,983	8,283,380	174,183,857	5,208,483,336
Net position, end of period	\$ 142,537,560	\$ 374,329,727	\$ 24,903,821	\$ 60,440,858	\$ 10,909,700	\$ 170,066,282	\$ 5,397,699,841

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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	American Century Equity Growth 529 Portfolio	American Century Growth 529 Portfolio	American Century Short Duration Inflation Protection Bond 529 Portfolio	American Century Value 529 Portfolio	Ariel 529 Portfolio	Baird Short Term Bond Institutional 529 Portfolio
Investment income (expense)						
Investment earnings	\$ 1,274,236	\$ 1,289,630	\$ 6,336	\$ 741,940	\$ 941,866	\$ 60,840
Net change in fair value of investments	(706,297)	(1,010,691)	(23,304)	(381,247)	(658,676)	(32,862)
Admin fee	(2,878)	(1,636)	(163)	(2,760)	(1,919)	(1,116)
12b-1 fees	(16,497)	(9,410)	(537)	(16,055)	(11,449)	(5,991)
Other operating expenses	-	-	-	-	-	-
Management fees	(18,491)	(10,511)	(1,046)	(17,733)	(12,330)	(7,143)
Net investment earnings (loss)	530,073	257,382	(18,714)	324,145	257,492	13,728
Distributions to participants						
Net investment income	-	-	-	-	-	-
Other participant transactions						
Program contributions	1,436,450	781,004	202,410	1,472,945	844,860	17,000,596
Program distributions	(660,216)	(316,692)	(49,935)	(914,995)	(547,937)	(1,335,501)
Distributions reinvested	-	-	-	-	-	-
Total increase (decrease) from participant transactions	776,234	464,312	152,475	557,950	296,923	15,665,095
Change in net position	1,306,307	721,694	133,761	882,095	554,415	15,678,823
Net position, beginning of period	10,533,741	5,910,645	561,071	10,152,695	7,176,416	-
Net position, end of period	\$ 11,840,048	\$ 6,632,339	\$ 694,832	\$ 11,034,790	\$ 7,730,831	\$ 15,678,823

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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	BlackRock Cash Funds 529 Portfolio	BlackRock Inflation Protected Bond 529 Portfolio	Calvert Equity 529 Portfolio	Causeway Emerging Markets 529 Portfolio	Delaware Small Cap Core 529 Portfolio	DFA International Small Company 529 Portfolio
Investment income (expense)						
Investment earnings	\$ 21,682	\$ 119,704	\$ 470,422	\$ 124,274	\$ 506,419	\$ 126,665
Net change in fair value of investments	-	(290,053)	(105,777)	(431,823)	(317,678)	(491,734)
Admin fee	-	(2,052)	(1,366)	(1,449)	(2,454)	(663)
12b-1 fees	-	(12,591)	(9,087)	(7,424)	(15,721)	(2,719)
Other operating expenses	-	-	-	-	-	-
Management fees	(12,133)	(13,187)	(8,776)	(9,310)	(15,764)	(4,260)
Net investment earnings (loss)	9,549	(198,179)	345,416	(325,732)	154,802	(372,711)
Distributions to participants						
Net investment income	(9,819)	-	-	-	-	-
Other participant transactions						
Program contributions	22,549,987	1,303,048	737,188	979,039	1,433,133	825,253
Program distributions	(20,489,856)	(1,210,762)	(526,262)	(531,157)	(648,492)	(245,661)
Distributions reinvested	8,088	-	-	-	-	-
Total increase (decrease) from participant transactions	2,068,219	92,286	210,926	447,882	784,641	579,592
Change in net position	2,067,949	(105,893)	556,342	122,150	939,443	206,881
Net position, beginning of period	33,506,502	7,901,724	5,013,528	5,405,833	9,216,817	2,406,380
Net position, end of period	\$ 35,574,451	\$ 7,795,831	\$ 5,569,870	\$ 5,527,983	\$ 10,156,260	\$ 2,613,261

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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Dodge & Cox International Stock 529 Portfolio	Eagle Small Cap Growth 529 Portfolio	MainStay Total Return Bond 529 Portfolio	MFS Value 529 Portfolio	Northern Bond Index 529 Portfolio	Northern International Equity Index 529 Portfolio
Investment income (expense)						
Investment earnings	\$ 513,726	\$ 1,126,820	\$ 323,264	\$ 724,617	\$ 74,052	\$ 256,117
Net change in fair value of investments	(2,611,054)	(836,682)	1,736	110,042	76,569	(1,133,497)
Admin fee	(6,118)	(2,721)	(2,459)	(5,185)	(1,344)	(1,827)
12b-1 fees	(33,994)	(14,178)	(15,743)	(29,491)	(8,204)	(10,310)
Other operating expenses	-	-	-	-	-	-
Management fees	(39,313)	(17,488)	(15,735)	(33,315)	(8,634)	(11,738)
Net investment earnings (loss)	(2,176,753)	255,751	291,063	766,668	132,439	(901,255)
Distributions to participants						
Net investment income	-	-	-	-	-	-
Other participant transactions						
Program contributions	3,642,915	849,521	36,645,934	2,234,179	2,112,691	716,508
Program distributions	(1,542,145)	(1,266,305)	(1,730,986)	(1,967,001)	(553,072)	(505,748)
Distributions reinvested	-	-	-	-	-	-
Total increase (decrease) from participant transactions	2,100,770	(416,784)	34,914,948	267,178	1,559,619	210,760
Change in net position	(75,983)	(161,033)	35,206,011	1,033,846	1,692,058	(690,495)
Net position, beginning of period	23,170,749	10,684,729	-	19,253,679	4,548,118	7,294,894
Net position, end of period	\$ 23,094,766	\$ 10,523,696	\$ 35,206,011	\$ 20,287,525	\$ 6,240,176	\$ 6,604,399

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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Northern Small Cap Index 529 Portfolio	Northern Small Cap Value 529 Portfolio	Northern Stock Index 529 Portfolio	Oppenheimer International Growth 529 Portfolio	Pimco Low Duration 529 Portfolio	Pimco Short-Term 529 Portfolio
Investment income (expense)						
Investment earnings	\$ 300,404	\$ 392,434	\$ 308,703	\$ 251,332	\$ 102,343	\$ 234,416
Net change in fair value of investments	(293,070)	(409,091)	574,090	(2,498,063)	(98,953)	(256,955)
Admin fee	(1,417)	(2,016)	(4,284)	(5,142)	(3,271)	(3,990)
12b-1 fees	(9,016)	(11,587)	(25,254)	(31,033)	(17,018)	(21,657)
Other operating expenses	-	-	-	-	-	-
Management fees	(9,108)	(12,953)	(27,515)	(33,053)	(21,047)	(25,630)
Net investment earnings (loss)	(12,207)	(43,213)	825,740	(2,315,959)	(37,946)	(73,816)
Distributions to participants						
Net investment income	-	-	-	-	-	-
Other participant transactions						
Program contributions	885,604	794,576	4,679,895	1,683,884	1,743,460	3,697,233
Program distributions	(603,238)	(1,061,974)	(1,142,782)	(2,007,151)	(18,980,475)	(2,868,695)
Distributions reinvested	-	-	-	-	-	-
Total increase (decrease) from participant transactions	282,366	(267,398)	3,537,113	(323,267)	(17,237,015)	828,538
Change in net position	270,159	(310,611)	4,362,853	(2,639,226)	(17,274,961)	754,722
Net position, beginning of period	5,549,693	7,832,158	15,068,829	21,001,047	17,276,085	14,872,202
Net position, end of period	\$ 5,819,852	\$ 7,521,547	\$ 19,431,682	\$ 18,361,821	\$ 1,124	\$ 15,626,924

(Continued)

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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Pimco Total Return 529 Portfolio	Sit Dividend Growth 529 Portfolio	T.Rowe Price Extended Equity Market Index 529 Portfolio	T.Rowe Price Balanced 529 Portfolio	T.Rowe Price Equity Income 529 Portfolio	T.Rowe Price Institutional Large Cap Growth 529 Portfolio
Investment income (expense)						
Investment earnings	\$ 301,826	\$ 1,021,034	\$ 633,302	\$ 1,546,067	\$ 1,662,411	\$ 1,990,392
Net change in fair value of investments	(103,687)	(606,785)	(594,937)	(1,466,886)	(1,722,008)	(889,331)
Admin fee	(7,223)	(2,104)	(3,513)	(6,806)	(7,089)	(7,203)
12b-1 fees	(44,963)	(10,662)	(20,948)	(51,154)	(42,648)	(42,881)
Other operating expenses	-	-	-	-	-	-
Management fees	(46,480)	(13,519)	(22,570)	(43,724)	(45,552)	(46,279)
Net investment earnings (loss)	99,473	387,964	(8,666)	(22,503)	(154,886)	1,004,698
Distributions to participants						
Net investment income	-	-	-	-	-	-
Other participant transactions						
Program contributions	2,822,985	936,118	1,849,579	4,954,246	2,875,466	3,593,157
Program distributions	(40,985,948)	(735,262)	(1,453,790)	(2,484,964)	(2,758,273)	(3,008,319)
Distributions reinvested	-	-	-	-	-	-
Total increase (decrease) from participant transactions	(38,162,963)	200,856	395,789	2,469,282	117,193	584,838
Change in net position	(38,063,490)	588,820	387,123	2,446,779	(37,693)	1,589,536
Net position, beginning of period	38,058,521	7,781,676	13,277,401	25,074,103	27,130,060	26,867,632
Net position, end of period	\$ (4,969)	\$ 8,370,496	\$ 13,664,524	\$ 27,520,882	\$ 27,092,367	\$ 28,457,168

(Continued)

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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	T. Rowe Price Real Estate 529 Portfolio	Templeton International Bond 529 Portfolio	Vanguard FTSE Developed Markets ETF 529 Portfolio	Vanguard FTSE Emerging Markets Stock ETF 529 Portfolio	Vanguard Global Ex-US Real Estate ETF 529 Portfolio
Investment income (expense)					
Investment earnings	\$ 114,695	\$ 197,655	\$ 13,448	\$ 21,103	\$ 7,517
Net change in fair value of investments	1,213,810	(633,043)	(157,217)	(102,855)	(14,554)
Admin fee	(2,234)	(1,963)	(180)	(227)	(35)
12b-1 fees	(13,534)	(11,388)	-	-	-
Other operating expenses	-	-	(155)	(138)	(14)
Management fees	(14,346)	(12,612)	(1,920)	(2,429)	(373)
Net investment earnings (loss)	1,298,391	(461,351)	(146,024)	(84,546)	(7,459)
Distributions to participants					
Net investment income	-	-	-	-	-
Other participant transactions					
Program contributions	1,807,460	1,208,087	334,579	293,828	54,819
Program distributions	(699,965)	(559,985)	(49,137)	(144,386)	(4,740)
Distributions reinvested	-	-	-	-	-
Total increase (decrease) from participant transactions	1,107,495	648,102	285,442	149,442	50,079
Change in net position	2,405,886	186,751	139,418	64,896	42,620
Net position, beginning of period	7,664,038	7,280,267	1,097,226	1,394,571	214,977
Net position, end of period	\$ 10,069,924	\$ 7,467,018	\$ 1,236,644	\$ 1,459,467	\$ 257,597

(Continued)

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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Vanguard Mega Cap 300 ETF 529 Portfolio	Vanguard Mega Cap 300 Growth ETF 529 Portfolio	Vanguard Mega Cap 300 Value ETF 529 Portfolio	Vanguard Mid-Cap ETF 529 Portfolio	Vanguard Mid-Cap Growth ETF 529 Portfolio	Vanguard Mid-Cap Value ETF 529 Portfolio
Investment income (expense)						
Investment earnings	\$ 15,886	\$ 3,516	\$ 17,260	\$ 15,175	\$ 952	\$ 8,051
Net change in fair value of investments	57,513	21,513	41,276	37,124	3,536	8,472
Admin fee	(232)	(69)	(204)	(155)	(15)	(74)
12b-1 fees	-	-	-	-	-	-
Other operating expenses	(156)	(57)	(140)	(62)	(24)	(27)
Management fees	(2,477)	(737)	(2,171)	(1,655)	(158)	(794)
Net investment earnings (loss)	70,534	24,166	56,021	50,427	4,291	15,628
Distributions to participants						
Net investment income	-	-	-	-	-	-
Other participant transactions						
Program contributions	634,393	300,687	523,604	456,600	147,608	85,321
Program distributions	(127,561)	(16,724)	(69,760)	(84,446)	(16,800)	(89,141)
Distributions reinvested	-	-	-	-	-	-
Total increase (decrease) from participant transactions	506,832	283,963	453,844	372,154	130,808	(3,820)
Change in net position	577,366	308,129	509,865	422,581	135,099	11,808
Net position, beginning of period	1,254,412	332,368	1,053,824	797,536	73,621	497,951
Net position, end of period	\$ 1,831,778	\$ 640,497	\$ 1,563,689	\$ 1,220,117	\$ 208,720	\$ 509,759

(Continued)

State of Illinois
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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	Vanguard Reit ETF 529 Portfolio	Vanguard Short-Term Bond ETF 529 Portfolio	Vanguard Small-Cap ETF 529 Portfolio	Vanguard Small-Cap Growth ETF 529 Portfolio	Vanguard Small-Cap Value ETF 529 Portfolio	Vanguard Total Bond Market ETF 529 Portfolio	Voya Global Real Estate 529 Portfolio
Investment income (expense)							
Investment earnings	\$ 16,538	\$ 12,756	\$ 16,891	\$ 1,568	\$ 10,531	\$ 6,673	\$ 79,268
Net change in fair value of investments	98,261	1,729	(17,910)	(2,381)	(8,242)	6,742	103,155
Admin fee	(109)	(216)	(176)	(22)	(82)	(61)	(906)
12b-1 fees	-	-	-	-	-	-	(5,968)
Other operating expenses	(46)	(409)	(35)	(16)	(31)	(65)	-
Management fees	(1,159)	(2,302)	(1,877)	(236)	(871)	(648)	(5,825)
Net investment earnings (loss)	113,485	11,558	(3,107)	(1,087)	1,305	12,641	169,724
Distributions to participants							
Net investment income	-	-	-	-	-	-	-
Other participant transactions							
Program contributions	244,300	2,115,395	232,744	93,500	196,133	342,526	394,189
Program distributions	(53,326)	(126,630)	(75,268)	(41,751)	(20,847)	(49,914)	(797,909)
Distributions reinvested	-	-	-	-	-	-	-
Total increase (decrease) from participant transactions	190,974	1,988,765	157,476	51,749	175,286	292,612	(403,720)
Change in net position	304,459	2,000,323	154,369	50,662	176,591	305,253	(233,996)
Net position, beginning of period	597,355	699,675	1,077,080	159,839	452,177	298,790	3,762,386
Net position, end of period	\$ 901,814	\$ 2,699,998	\$ 1,231,449	\$ 210,501	\$ 628,768	\$ 604,043	\$ 3,528,390

(Continued)

State of Illinois
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Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015

	William Blair Mid Cap Growth 529 Portfolio	Fixed Income Fund	Fund 10	Fund 20	Fund 40	Fund 60
Investment income (expense)						
Investment earnings	\$ 1,543,321	\$ 74,134	\$ 504,470	\$ 2,101,969	\$ 5,131,076	\$ 8,433,274
Net change in fair value of investments	(981,227)	(101,959)	(617,864)	(2,020,356)	(5,574,169)	(10,937,671)
Admin fee	(3,030)	(2,848)	(12,437)	(35,025)	(57,655)	(81,098)
12b-1 fees	(15,987)	(21,575)	(93,107)	(251,400)	(403,022)	(533,994)
Other operating expenses	-	-	-	-	-	-
Management fees	(19,462)	(18,302)	(79,904)	(225,012)	(370,417)	(521,004)
Net investment earnings (loss)	523,615	(70,550)	(298,842)	(429,824)	(1,274,187)	(3,640,493)
Distributions to participants						
Net investment income	-	-	-	-	-	-
Other participant transactions						
Program contributions	1,504,143	4,389,761	19,132,840	41,911,963	51,259,445	66,473,146
Program distributions	(809,070)	(4,075,288)	(16,331,054)	(32,819,771)	(39,205,897)	(40,063,712)
Distributions reinvested	-	-	-	-	-	-
Total increase (decrease) from participant transactions	695,073	314,473	2,801,786	9,092,192	12,053,548	26,409,434
Change in net position	1,218,688	243,923	2,502,944	8,662,368	10,779,361	22,768,941
Net position, beginning of period	11,025,289	10,800,946	46,500,945	129,147,627	215,976,505	298,652,418
Net position, end of period	\$ 12,243,977	\$ 11,044,869	\$ 49,003,889	\$ 137,809,995	\$ 226,755,866	\$ 321,421,359

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**State of Illinois
Office of the Treasurer**

**Bright Directions College Savings Program
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)
For the Period July 1, 2014 through the Opening of Business January 12, 2015**

	Fund 80	Fund 100	Total
Investment income (expense)			
Investment earnings	\$ 11,958,881	\$ 7,083,442	\$ 54,837,324
Net change in fair value of investments	(15,950,209)	(9,872,330)	(62,607,560)
Admin fee	(94,207)	(50,120)	(435,548)
12b-1 fees	(582,574)	(305,329)	(2,786,100)
Other operating expenses	-	-	(1,375)
Management fees	(605,275)	(322,029)	(2,818,332)
	<u>(5,273,384)</u>	<u>(3,466,366)</u>	<u>(13,811,591)</u>
Net investment earnings (loss)			
Distributions to participants			
Net investment income	-	-	(9,819)
Other participant transactions			
Program contributions	62,254,617	27,563,977	410,239,529
Program distributions	(42,573,515)	(21,322,106)	(313,362,297)
Distributions reinvested	-	-	8,088
Total increase (decrease) from participant transactions	<u>19,681,102</u>	<u>6,241,871</u>	<u>96,885,320</u>
Change in net position	14,407,718	2,775,505	83,063,910
Net position, beginning of period	<u>354,383,670</u>	<u>190,456,542</u>	<u>1,668,178,963</u>
Net position, end of period	<u>\$ 368,791,388</u>	<u>\$ 193,232,047</u>	<u>\$ 1,751,242,873</u>

OTHER INFORMATION

Investment Policies (Unaudited)

Included in this section are the investment policies of the Bright Start Program and the Bright Directions Program.

Bright Start College Savings Program Investment Policy Statement

Effective February 2014

I. Statement of Purpose of Investment Policy

The purpose of this Statement is to assist contractors retained by the Treasurer to provide services related to the management of the assets of the Bright Start College Savings Program (the “Program”) and to assist the Treasurer’s Office in evaluating the performance of such contractors by:

- Describing the Treasurer’s investment objectives;
- Providing general guidelines for the investment of assets of the Program;
- Describing the Treasurer’s long-term investment strategy;
- Describing the process of evaluating the performance of contractors that provide investment management services to the Program; and
- Specifying the responsibilities of any contractors that provide investment management services to the Program.

This is the official Investment Policy Statement of the Program. Deviation from this Policy is not permitted without prior, explicit, written permission from the Treasurer.

II. Establishment and Authority of Entity

The Program has been established as a “qualified tuition program” in accordance with Section 529 of the Internal Revenue Code of 1986, as amended. It was established to provide families with a new opportunity to invest toward future college education expenses.

III. Investment Philosophy

The Treasurer has adopted a long-term total return strategy regarding the Program and its investments. In order to achieve the Program’s objectives, investments shall be diversified so as to minimize the risk of loss. While some asset classes may experience short-term and intermediate-term volatility, their long-term return assumptions justify their inclusion. A long-term focus on investment results as well as prudent diversification across financial markets will be the primary risk control mechanisms.

In its investment strategy, the Treasurer has relied on prevailing financial theory, which currently utilizes a long-term diversified asset allocation strategy. A prudently allocated investment program possesses a significant level of diversification, which produces risk reduction. In terms of impact, diversification shall be considered along the following lines: (1) asset classes (Money Market Instruments, Domestic Fixed Income, International Fixed Income, Domestic Equity, and International Equity,), (2) geography/country, (3) sector, (4) maturity, and (5) duration.

Contributions to the Program will be directed to one of several portfolios (the “Portfolios”), each with a designated mix of investments. The determination of the investment parameters of each Portfolio shall be made by the Treasurer and shall take into account the financial characteristics of the investments in the Program. The investment parameters will also give due consideration to the fact that the investment horizon for Account Owners will vary from a few months to over 18 years.

The Treasurer will review the investment performance of each Portfolio at least quarterly and shall review this Investment Policy Statement at least annually.

The holdings of the Program and the Portfolios may be divided into the following broad asset classes:

- A. Money Market Instruments
- B. Domestic Fixed Income
- C. International Fixed Income
- D. Domestic Equity
- E. International Equity

The Treasurer will establish reasonable guidelines for each Portfolio, specifying (as applicable) limits on asset and asset class exposures. While the investment parameters offered under the Program are developed by the Treasurer, Account Owners bear the risk of investment results. Individual Account Owners who seek investments materially different from those offered may wish to select an investment alternative outside of the Program.

The administration and offering of the Program should not be relied upon as a guarantee to Account Owners. Each Account Owner should seek appropriate advice, as he or she deems necessary.

IV. Investment Objectives

The overall investment program for the Program and, as applicable, the individual Portfolios provided to the Account Owners shall seek to achieve the following long-term investment objectives:

- A. A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section VII hereof, and a long term rate of return on investments that is competitive with each investment's peer group.
- B. A long-term competitive rate of return on investments through indexed fund portfolios that approximately equal the applicable benchmarks shown in Section VII hereof.
- C. An investment program flexible enough to meet the needs of Account Owners based upon their age or investment objective or the age of the beneficiary and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

V. Investment Responsibilities

The Treasurer is responsible for the investment policy, the direction of investments and administration of the assets of the Program. In order to properly carry out his or her responsibilities, the Treasurer may rely on one or more contractors to assist in the administration of the Program. The Treasurer has engaged, and plans to rely heavily on, OFI Private Investments Inc. (the "*Manager*") for various investment management and related administrative services. The Treasurer also plans to rely heavily on an external investment consultant for investment advisory services. Among the current responsibilities of the Manager is the implementation of the investment strategy outlined in this Policy and the rebalancing (as described in Section VI) of the Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. The Treasurer's Office and the Manager shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

In managing the investments of the Program and the Portfolios, the Manager agrees that it will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity

and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives.

VI. Investment Parameters

Contributions will be invested in one of several Portfolios, each with a designated mix of investments that is appropriate for the investment objective of the Portfolio. Each Portfolio allocates assets in a combination of underlying investments investing among Money Market Instruments, Domestic Fixed Income, International Fixed Income, Domestic Equity, and International Equity. The asset allocation of each Portfolio will be established by the Treasurer and managed by the Manager. The Treasurer may adjust the weighting in these asset classes in each Portfolio and may change the underlying investments within the Portfolios consistent with this Investment Policy Statement and its agreement with the Manager.

The policy target asset allocations and benchmarks for the underlying investments within the Portfolios are shown below. Under normal market conditions, there is a permissible range of plus or minus a 10% deviation from the target allocation for each asset class. However, during periods of extreme volatility or market crisis, the actual asset allocations for each underlying investment may exceed plus or minus 10% of the target allocations and any rebalancing will occur quarterly.

VII.

Direct Plan: Blended Age Based Portfolios

Asset Class	Benchmark*	#1	#2	#3	#4	#5	#6
		Portfolio (0-6 yrs.)	Portfolio (7-9 yrs.)	Portfolio (10-11 yrs.)	Portfolio (12-14 yrs.)	Portfolio (15-17 yrs.)	Portfolio (18+ yrs.)
Domestic Equity	S&P 500 Index	63%	49%	42%	35%	21%	7%
	Russell 2500 Index	9%	7%	6%	5%	3%	1%
International Equity	MSCI AC World (ex-US) Index	18%	14%	12%	10%	6%	2%
Domestic Fixed Income	Barclays Aggregate Bond Index	8%	15%	20%	15%	15%	15%
	Barclays 1-5 Yr. Government Index	0%	10%	15%	25%	30%	35%
	Credit Suisse Leveraged Loan Index	2%	5%	5%	10%	10%	10%
Money Market Instruments	iMoney Net First Tier Institutional Money Market Index	0%	0%	0%	0%	15%	30%

Direct Plan: Index Age Based Portfolios

		#1	#2	#3	#4	#5	#6
		Portfolio	Portfolio	Portfolio	Portfolio	Portfolio	Portfolio
Asset Class	Benchmark*	(0-6 yrs.)	(7-9 yrs.)	(10-11 yrs.)	(12-14 yrs.)	(15-17 yrs.)	(18+ yrs.)
Domestic Equity	S&P 500 Index	63%	49%	42%	35%	21%	7%
	S&P Completion Index	9%	7%	6%	5%	3%	1%
International Equity	FTSE Developed (ex- North America) Index	18%	14%	12%	10%	6%	2%
Domestic Fixed Income	Barclays Aggregate Bond Index	8%	15%	20%	20%	25%	25%
	Barclays 1-5 Yr. Government/ Credit Index	2%	10%	15%	20%	30%	50%
Money Market Instruments	iMoney Net First Tier Institutional Money Market Index	0%	5%	5%	10%	15%	15%

Blended Direct Plan: Fixed Income, Conservative Fixed Income, Equity, Balanced or Money Market Options

Asset Class	Benchmark*	Fixed Income Portfolio	Conservative Fixed Income Portfolio	Equity Portfolio	Balanced Portfolio	Money Market Portfolio
Domestic Equity	S&P 500 Index	0%	0%	70%	35%	0%
	Russell 2500 Index	0%	0%	10%	5%	0%
International Equity	MSCI AC World (ex-US) Index	0%	0%	20%	10%	0%
Domestic Fixed Income	Barclays Aggregate Bond Index	40%	0%	0%	20%	0%
	Barclays 1-3 Yr. Government Index	0%	95%	0%	0%	0%
	Barclays 1-5 Yr. Government Index	35%	0%	0%	10%	0%
	Credit Suisse Leveraged Loan Index	10%	5%	0%	10%	0%
Money Market Instruments	iMoney Net First Tier Institutional Money Market Index	15%	0%	0%	10%	100%

Index Direct Plan: Fixed Income, Equity or Balanced Options

Asset Class	Benchmark*	Fixed Income Portfolio	Equity Portfolio	Balanced Portfolio
Domestic Equity	S&P 500 Index	0%	70%	35%
	S&P Completion Index	0%	10%	5%
International Equity	FTSE Developed (ex-North America) Index	0%	20%	10%
Domestic Fixed Income	Barclays Aggregate Bond Index	40%	0%	20%
	Barclays 1-5 Yr. Government/Credit Index	45%	0%	20%
Money Market Instruments	iMoney Net First Tier Institutional Money Market Index	15%	0%	10%

Advisor Plan: Active Age Based Portfolios

		#1	#2	#3	#4	#5	#6
		Portfolio	Portfolio	Portfolio	Portfolio	Portfolio	Portfolio
Asset Class	Benchmark*	(0-6 yrs.)	(7-9 yrs.)	(10-11 yrs.)	(12-14 yrs.)	(15-17 yrs.)	(18+ yrs.)
Domestic Equity	Russell 1000 Index	25%	21%	18%	15%	9%	3%
	Russell 1000 Value Index	16%	12%	10%	8.5%	5%	2%
	Russell 1000 Growth Index	16%	12%	10%	8.5%	5%	2%
	Russell 2500 Index	15%	11%	10%	8%	5%	1%
International Equity	MSCI AC World (ex-US) Index	13%	10%	8.5%	7%	4.5%	1.5%
	MSCI Emerging Markets Index	5%	4%	3.5%	3%	1.5%	0.5%
Domestic Fixed Income	Barclays Aggregate Bond Index	6%	10%	15%	15%	20%	15%
	Barclays 1-3 Yr. Government Index	0%	10%	15%	20%	22%	45%
	Credit Suisse Leveraged Loan Index	2%	5%	5%	10%	10%	10%
International Fixed Income	Citi World Government Bond (ex-U.S.) Index	2%	5%	5%	5%	8%	5%
Money Market Instruments	iMoney Net First Tier Institutional Money Market Index	0%	0%	0%	0%	10%	15%

Advisor Plan: Active Fixed Income, Conservative Fixed Income, Equity, Balanced or Money Market Options

Asset Class	Benchmark*	Fixed Income Portfolio	Conservative Fixed Income Portfolio	Equity Portfolio	Balanced Portfolio	Money Market Portfolio
Domestic Equity	Russell 1000 Index	0%	0%	25%	15%	0%
	Russell 1000 Value Index	0%	0%	19.5%	9%	0%
	Russell 1000 Growth Index	0%	0%	19.5%	9%	0%
	Russell 2500 Index	0%	0%	16%	7%	0%
International Equity	MSCI AC World (ex-US) Index	0%	0%	14%	7%	0%
	MSCI EMG Mkts. Index	0%	0%	6%	3%	0%
Domestic Fixed Income	Barclays Aggregate Bond Index	30%	0%	0%	15%	0%
	Barclays 1-3 Yr. Government Index	35%	95%	0%	10%	0%
	Credit Suisse Leveraged Loan Index	10%	5%	0%	10%	0%
International Fixed Income	Citi World Government Bond (ex-U.S.) Index	10%	0%	0%	5%	0%
Money Market Instruments	iMoney Net First Tier Institutional Money Market Index	15%	0%	0%	10%	100%

*Benchmarks are subject to change as mutually agreed by the Treasurer and Manager in order to ensure that they remain appropriate for each underlying investment and consistent with industry standards.

Each active underlying investment's return objective is to equal or exceed, over a three-year rolling period, the annualized return of the applicable benchmark. Volatility, measured by the standard deviation of returns, is expected to be similar to the benchmark. Each underlying investment is also expected to perform favorably relative to its peer group.

To the extent that the assets of a Portfolio are invested in one or more underlying investments approved by the Treasurer having investment objectives consistent with the above-noted asset allocation categories, the above-noted percentage guidelines shall be deemed satisfied. This shall be the case even if such an underlying investment's assets may not be entirely invested in the asset class in which such underlying investment has been placed.

State of Illinois
Office of the Treasurer
BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
INVESTMENT POLICY STATEMENT
Effective November 2012

1.0 Statement of Purpose of Investment Policy: The purpose of this Statement is to assist contractors retained by the Treasurer to provide services related to the management of the assets of the Illinois College Savings Pool that are contributed to the Bright Directions College Savings Program (the “Program”) and to assist the Treasurer’s Office in evaluating the performance of such contractors by:

- Describing the Treasurer’s investment objectives;
- Providing general guidelines for the investment of assets of the Program;
- Describing the Treasurer’s long-term investment strategy;
- Describing the process of evaluating the performance of employees or contractors that provide investment management services to the Program; and
- Specifying the responsibilities of any contractors that provide investment management services to the Program.

This is the official Investment Policy Statement of the Program. Deviation from this Policy is not permitted without prior, explicit, written permission from the Treasurer.

2.0 Establishment and Authority of Entity: The Bright Directions College Savings Program has been established as part of the Illinois College Savings Pool, and is intended to qualify as a qualified tuition program in accordance with Section 529 of the Internal Revenue Code of 1986, as amended. The Program is sold through financial advisors and was established to compliment the existing Bright Start College Savings Program by allowing families to utilize a financial advisor to assist them with investing toward future college education expenses.

3.0 Participating Financial Institution: Accounts in the Program will be distributed through registered broker-dealers and financial institutions that have entered into a Selling Agent Agreement with Northern Trust Securities, Inc., acting as distributor for the Program. All new accounts in the Program will be processed through Union Bank & Trust Company (“Union Bank”) as a participating financial institution. Union Bank has elected not to accept deposits in the Program as provided in Illinois Public Act 91-0607.

4.0 Investment Philosophy: The Treasurer has adopted a long-term total return strategy regarding the Program and its investments. In order to achieve the Program’s objectives, investments shall be diversified so as to minimize the risk of loss. While some asset classes may experience short-term and intermediate-term volatility, their long-term return assumptions justify their inclusion. A long-term focus on investment results as well as prudent diversification across public security markets will be the primary risk control mechanisms.

In its investment strategy, the Treasurer has relied on prevailing financial theory, which currently utilizes a long-term diversified asset allocation strategy. A prudently allocated investment program possesses a significant level of diversification, which produces risk reduction. In terms of impact, diversification shall be considered along the following lines: (1) asset classes (stocks, bonds, cash, etc.), (2) geography/country, (3) industry, and (4) maturity.

Contributions to the Program will be directed to one or more of the available Age-Based, Target, Individual, or Female- and Minority-Owned Portfolios (“Portfolios”), each composed of a designated mix of investments or an individual investment fund. The determination of the investment parameters of each Portfolio shall be made by the Treasurer and shall take into account the financial characteristics of the investments in the Program. The investment parameters will also give due consideration to the fact that the investment horizon for participants will vary from a few months to over 18 years.

The Treasurer will review the investment performance of each Portfolio at least quarterly and shall review this Investment Policy Statement at least annually.

The holdings of the Program and the Portfolios are divided into the following broad asset categories:

- A. Short Term Investments
- B. Fixed Income Investments
- C. Real Estate Investments
- D. Domestic Equity Investments
- E. International Equity Investments

The Treasurer will establish reasonable guidelines for each Portfolio, specifying (as applicable) limits on asset and asset class exposures, risk constraints and investment return objectives. While the investment parameters offered under the Program are developed by the Treasurer, participants bear the risk of investment results. Individual participants who seek investments materially different from those offered may wish to select an investment alternative outside of the Program.

The administration and offering of the Program should not be relied upon as a guarantee to participants. Each participant should seek appropriate advice as he or she deems necessary.

5.0 Investment Objectives: The overall investment program for the Program and, as applicable, the Portfolios provided to the participants shall seek to achieve the following long-term investment objectives:

- A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section 7.0 hereof.
- An investment program flexible enough to meet the needs of participants based upon their age or investment objective and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

6.0 Investment Responsibilities: The Treasurer is responsible for the investment policy, the direction of investments and administration of the assets of the Program. In order to properly carry out his responsibilities, the Treasurer may rely on one or more contractors to assist in the administration of the Program. The Treasurer has engaged, and plans to rely heavily on Union Bank for administrative services and on Union Bank and its investment advisor, Wilshire Funds Management, the investment management business unit of Wilshire Associates Incorporated, for investment management services. The Treasurer also plans to rely heavily on an external investment consultant for investment advisory services. Among the current responsibilities of Union Bank is the implementation of the investment strategy outlined in this Policy and the rebalancing of the Age-Based and Target Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. With the Treasurer’s approval, Union Bank has retained Wilshire Funds Management to provide it with portfolio design, due diligence and ongoing monitoring services with respect to the Portfolios and the implementation of the investment strategy outlined in this policy. The Treasurer’s Office and Union Bank shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

In managing the investments of the Program and the Portfolios, Union Bank agrees that it will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives.

7.0 Investment Parameters: Contributions will be invested in one or more of the available Portfolios, each composed of a designated mix of investments or an individual investment fund, which is appropriate for the age of the participant or the investment objective of the Portfolio. Each Portfolio may allocate assets among domestic equity, international equity, real estate, fixed-income, and/or short-term investments. The asset allocation of each Portfolio will be established by the Treasurer and managed by Union Bank. The Treasurer may adjust the weighting in stocks, bonds, real estate, and cash in each Portfolio and may change the underlying investment funds within the Portfolios consistent with this Investment Policy Statement.

The policy target asset allocations and benchmarks for the underlying investments within the Age-Based and Target Portfolios are shown in the following table. There is a permissible range of plus or minus 10% of the target allocation for each underlying investment fund.

Age-Based Portfolios		age of beneficiary						
Aggressive Option		0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs		
Growth Option			0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs	
Balanced Option				0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs
Target Portfolios	Benchmark	Fund 100	Fund 80	Fund 60	Fund 40	Fund 20	Fund 10	Fixed Income
Large Cap Value	Russell 1000 Value	19.00%	15.00%	11.00%	7.00%	3.50%	2.00%	0.00%
Large Cap Blend	S&P 500	16.00%	13.00%	10.50%	7.00%	3.50%	2.00%	0.00%
Large Cap Growth	Russell 1000 Growth	19.00%	15.00%	11.00%	7.00%	3.50%	2.00%	0.00%
Small Cap Value	Russell 2000 Value	3.00%	2.50%	1.50%	2.00%	1.00%	0.50%	0.00%
Small Cap Blend	Russell 2000	4.00%	3.00%	2.00%	2.00%	1.00%	0.50%	0.00%
Small Cap Growth	Russell 2000 Growth	3.00%	2.50%	1.50%	2.00%	1.00%	0.50%	0.00%
Global Real Estate	FTSE EPRA/NAREIT Global	3.00%	2.00%	2.00%	2.00%	1.50%	0.00%	0.00%
Foreign Stock	MSCI EAFE	25.00%	21.00%	16.50%	10.00%	5.00%	2.50%	0.00%
	MSCI World ex U.S. Small Cap	4.00%	3.00%	2.00%	0.00%	0.00%	0.00%	0.00%
	MSCI Emerging Markets	4.00%	3.00%	2.00%	1.00%	0.00%	0.00%	0.00%
Money Market	3-Month T-Bills	0.00%	0.00%	0.00%	0.00%	20.00%	40.00%	50.00%
Ultra-Short Bond	3-Month T-Bills	0.00%	0.00%	0.00%	20.00%	23.00%	25.00%	28.00%
Short Bond	ML 1-3 yr Treasury	0.00%	0.00%	20.00%	19.00%	17.00%	15.00%	12.00%
Intermediate Bond	Barclays U.S. Agg. Bond	0.00%	16.00%	14.00%	12.00%	12.00%	0.00%	0.00%
Foreign Bonds	Citigroup Non-U.S. World Gov't Bond	0.00%	4.00%	3.00%	2.00%	0.00%	0.00%	0.00%
U.S. TIPS	Barclays U.S. TIPS	0.00%	0.00%	3.00%	7.00%	8.00%	10.00%	10.00%

Individual Fund Portfolios

Participants in the Program open their Accounts through registered broker-dealers and other financial advisors. As a result, the Treasurer deems it appropriate to offer individual funds as separate Portfolios in the Program. The Individual Fund Portfolios and underlying investment funds the Treasurer selects will be described in the Program's current Program Disclosure Statement and may include the following asset classes:

Asset Class	Benchmark
Money Market/Ultra Short Bond	3 Month T-Bill
Low Duration	ML 1-3 Treasury Index
Corporate Bond	Barclays U.S. Credit Index
Intermediate Bond	Barclays U.S. Aggregate Bond Index
Foreign Bonds	Citigroup Non-U.S. World Government Bond Index
U.S. TIPS	Barclays U.S. TIPS Index
Balanced	Barclays U.S. Aggregate Bond Index; S&P 500; MSCI EAFE
Large Cap Value	Russell 3000 Value Index, Russell 1000 Value Index
Large Cap Growth	Russell 1000 Growth Index
Large Cap Blend	Russell 1000 Index, S&P 500
Mid-Cap Value	Russell 2500 Value Index
Mid-Cap Growth	Russell Mid-Cap Growth Index
Mid-Cap Blend	Wilshire 4500 Index
Small-Cap Value	Russell 2000 Value Index
Small-Cap Growth	Russell 2000 Growth Index
Small-Cap Blend	Russell 2000 Index
Foreign Stock	MSCI EAFE, MSCI World ex U.S. Small Cap, and MSCI Emerging Markets
Socially Responsible	S&P 500
Real Estate	DJ Wilshire Real Estate Securities
Global Real Estate	FTSE EPRA/NAREIT Global Index

7.0 Investment Parameters – Continued

Each underlying investment fund's return objective is to equal or exceed, over a five-year rolling period, the return of the applicable benchmark. Volatility, measured by the standard deviation of quarterly returns over that period, is expected to be similar to the benchmark. Each underlying investment fund is also expected to perform favorably relative to its peer group.

To the extent that the assets of a Portfolio are invested in one or more underlying investment funds approved by the Treasurer having investment objectives consistent with the above-noted asset allocation categories, the above-noted percentage guidelines shall be deemed satisfied. This shall be the case even if such underlying investment fund's underlying assets may not be entirely invested in the asset class in which such underlying investment fund has been placed.

8.0 Female- and Minority-Owned Portfolios

The Program has included the Female- and Minority-Owned Portfolios for participants who would like to have a more diverse set of investment options. The female and minority owned underlying investment funds utilized in the program were screened on three initial criteria: 1) firms with at least 50% female and/or racial minority ownership or 2) funds that have a female and/or racial minority investment manager that makes the portfolio management decisions (i.e. a minority owned subadvisor), and 3) funds that delivered above median returns over a 3-year and/or 5-year time period. The female- and minority-owned options provided in the program include relatively high scoring female and minority owned investment managers representing a diverse set of asset classes.

Contributions will be invested in one or more of the available Portfolios, each composed of an individual investment fund, which is appropriate for the investment objective of the Portfolio. The Treasurer may change the underlying investment funds within the Female- and Minority-Owned Portfolios consistent with this Investment Policy Statement.

Independent Auditor's Report



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 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 College Savings Program, a fiduciary (private-purpose trust) fund of the State of Illinois, Office of the Treasurer, as of the opening of business January 12, 2015, and for the period July 1, 2014 through the opening of business January 12, 2015, and the related notes to the financial statements, which collectively comprise the College Savings Program's basic financial statements, and have issued our report thereon dated April 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Office of the Treasurer's internal control over financial reporting (internal control) of the College Savings Program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Office of the Treasurer's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Office 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Office 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 State of Illinois, Office of the Treasurer's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The signature of McGladrey LLP is written in a cursive, handwritten style.

Schaumburg, Illinois
April 22, 2015

Part IV

Agreed-Upon Procedures

**Agreed-Upon Procedures
Relating to the Transition
of the State of Illinois
Office of the Treasurer**

For the Period July 1, 2014 through the
Opening of Business January 12, 2015

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

Part IV



Independent Accountant's Report on Applying Agreed-Upon Procedures

Honorable William G. Holland
Auditor General
State of Illinois

Honorable Dan Rutherford
Outgoing State Treasurer
State of Illinois

Honorable Michael W. Frerichs
State Treasurer
State of Illinois

As Special Assistant Auditors for the Auditor General, we have performed the procedures enumerated below, which were agreed to by the Auditor General, the Outgoing State Treasurer and the State Treasurer, solely to assist the users in evaluating management's assertions regarding the existence and amount of: insurance in force, fixed assets, unclaimed property, locally held funds, and unexpended appropriations reported in the *Turnover Book* as of the opening of business on January 12, 2015. The State of Illinois, Office of the State Treasurer management is responsible for the information presented. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to the attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

We performed no procedures related to the responses included in the "management comment" sections, which information was provided by the Office of the State Treasurer management.

The procedures we performed and our findings are as follows:

Insurance in Force

1. We agreed the list of Office of the State Treasurer's bonds and insurance policies in force, as reported in the *Turnover Book*, to the insurance policies, insurance policy declaration pages or other documentation supporting existence of those policies provided by management.

This procedure was completed without exception.

2. We confirmed with the insurance companies or the Illinois Department of Central Management Services the policy numbers, policy terms, description of coverage, including dollar limitations and deductible amounts of each policy/bond.

This procedure was completed without exception.

3. We confirmed with the insurance companies or the Illinois Department of Central Management Services that the insurance policies/bonds listed as being in force remained in force as of the opening of business on January 12, 2015.

This procedure was completed without exception.

Fixed Assets

1. We haphazardly selected a sample of 50 fixed assets from the *Fixed Asset Listing* provided by management. This listing contains the fixed asset inventory of the Office of the State Treasurer as of November 30, 2014, used to prepare the summary "Fixed Asset Totals by Building/Floor" in the *Turnover Book*. We performed the following procedures:

Note: 50 items were sampled per this procedure, as well as 2 fixed asset additions between the date the report was generated and the beginning of the agreed-upon procedures on January 12, 2015. For each fixed asset in the sample:

- a. We located the sample items at the Office of the State Treasurer's offices between January 21, 2015 and January 27, 2015.

This procedure was completed without exception.

- b. We agreed the property identification number listed in the *Fixed Asset Listing* to the property identification tag number on the asset.

This procedure was completed without exception.

- c. We agreed the fixed asset to the description noted in the *Fixed Asset Listing*.

This procedure was completed without exception.

- d. We agreed each fixed asset in the sample into the total item count reported in the *Fixed Asset Listing*.

This procedure was completed without exception.

- e. We examined the *Deletions List* for fixed asset disposals for all sample items that were disposed of between the *Fixed Asset Listing* date of November 30, 2014 and the dates we performed procedure a., above (January 21, 2015 through January 27, 2015).

This procedure was completed without exception.

2. We haphazardly selected a sample of 50 fixed assets from various locations in the Office of the State Treasurer's Chicago and Springfield offices on January 26, 2015. For each sample item, we performed the following procedures:

- a. We agreed each item to the *Fixed Asset Listing*.

This procedure was completed without exception.

- b. We agreed the property identification tag number to the number listed in the *Fixed Asset Listing*.

This procedure was completed without exception.

- c. We agreed the fixed asset to the description noted in the *Fixed Asset Listing*.

This procedure was completed without exception.

- d. We agreed each asset in the sample into the total item count reported in the *Fixed Asset Listing*

This procedure was completed without exception.

- e. We examined *the Additions List* for all sample items that were acquired between the *Fixed Asset Listing* date of November 30, 2014 and the date we observed the fixed asset inventory item (January 21, 2015).

This procedure was completed without exception, and these items were tested per procedure 1 of the Fixed Asset testing without exception.

3. We footed the *Fixed Asset Listing* for mathematical accuracy.

This procedure was completed without exception.

4. We agreed the total property count reported on the *Fixed Asset Listing* to the item count reported in the "Fixed Asset Totals by Building/Floor" reported in the *Turnover Book*.

This procedure was completed without exception.

5. We requested from management, copies of all lease and installment purchase agreements entered into during the period July 1, 2014 through the opening of business on January 12, 2015.

No new lease or installment purchases were entered into, per discussion with management.

6. We contacted the Illinois Office of the Comptroller (IOC) and obtained a listing of all *Accounting for Leases-Lessee* forms (SCO-560) filed with the IOC on behalf of the Office of the State Treasurer, for the period July 1, 2014 through the opening of business on January 12, 2015. These forms are completed when a new lease is entered into.

We were informed by the IOC that there were no new forms submitted during this period.

7. For each Form SCO-560, we performed the following procedures for each capital lease and installment purchase agreement:

- a. We agreed the terms of the lease or installment purchase agreement as reported on the Form SCO-560 to the lease or installment purchase agreement obtained from management.

This step was not applicable, per the explanation at procedure 6 above.

- b. We obtained the capital lease documentation from the IOC and agreed it to the fixed asset recorded in the *Agency Report of State Property*.

This step was not applicable, per the explanation at procedure 6 above.

Unclaimed Property

1. We haphazardly selected a sample of 55 items from the *Safekeeping Property Items Report* provided by management as of November 30, 2014. We performed the following procedures:

- a. We located each sample item in the unclaimed property vault during our site visits on January 26, 2015 and February 23, 2015.

Exceptions: Sixteen (16) of 55 (29%) items selected for testing could not be located in the unclaimed property vault. In four (4) of those instances, the property could not be located at

all. In the other 12 instances, the items were either sold, returned, or destroyed under the supervision of the previous group in charge of unclaimed property, and the system was not properly updated. This group was the Illinois Department of Financial Institutions, who was responsible for the inventory until 1999.

Management comment:

Upon review of the listed exceptions, UPD has determined 15 of the 16 exceptions (94%) were based on information entered into the database by the Department of Financial Institutions (the predecessor institution in control of the inventory). The Division makes every effort to correct the information on any and all older items as the discrepancies are discovered. The ability of the staff to correct these older records is hampered by the incomplete hard-copy records at their disposal for research.

- b. We agreed the property identification number listed in the *Safekeeping Property Items Report* to the identification number on the property.

This procedure was completed without exception.

- c. We agreed the item to the description noted in the *Safekeeping Property Items Report*.

This procedure was completed without exception.

- d. We agreed missing items to the *Transactions Report* for items sold, deleted or returned to claimants between November 30, 2014 and the date of our site visit procedures in item a. (January 26, 2015 and February 23, 2015).

This procedure was completed without exception.

- 2. We haphazardly selected a sample of 55 items from the unclaimed property vault during our site visit on January 26, 2015. We performed the following procedures:

- a. We agreed each sample item to the *Safekeeping Property Items Report*.

This procedure was completed without exception.

- b. We agreed the property identification number to the number listed in the *Safekeeping Property Items Report*.

This procedure was completed without exception.

- c. We agreed the item to the description noted in the *Safekeeping Property Items Report*.

Exceptions: Three (3) of 55 (5%) items selected for testing did not match the description noted in the *Safekeeping Property Items Report*. Two of these exceptions pertain to the location differing from the listed location. The last exception pertains to the item descriptions being different.

Management comment:

The Division agrees with the three (3) exceptions noted. Procedures are being reviewed to determine if there are corrective steps that could be made that would ensure the accuracy of information entered into the database.

- d. For items not included in the *Safekeeping Property Items Report*, we agreed the sample item to the *Transactions Report* for the period between November 30, 2014, through the date we performed our site visit (January 26, 2015).

This procedure was completed without exception.

3. We agreed the total unclaimed property item count reported on the *Safekeeping Property Items Report* to the item count reported in the "Unclaimed Safe Deposit Box Contents" in the *Turnover Book*.

Exception: We noted a discrepancy between the amount reported in the *Turnover Book* and the amount reported in the *Safekeeping Property Items Report*. Per *Turnover Book*, the total items were 117,280. Per our recalculation of the amounts reported on the *Safekeeping Property Items Report* (including the additions and deletions between December 1, 2014 and January 9, 2015), the total items were 117,281. A difference of one item was noted.

Management comment:

UPD is reviewing all reports and the underlying queries to determine the reason for this discrepancy to avoid a future occurrence.

4. We confirmed with ACS, a Xerox Company, the shares of stock and mutual funds held as of the opening of business on January 12, 2015 and agreed the number of shares to the *Custody Holding by Security Report*.

This procedure was completed without exception.

5. We agreed the confirmed number of shares held by ACS, a Xerox Company, as of the opening of business on January 12, 2015 to the number of shares reported in the "Summary of Unclaimed Stocks and Mutual Funds Held" in the *Turnover Book*.

This procedure was completed without exception.

6. For a haphazard sample of 25 other mutual fund brokers, we confirmed the number of shares held as of December 31, 2014 and agreed the number of shares to the Office of the State Treasurer's records as of that same date.

Exceptions: Two (2) out of 25 samples (8%) resulted in exceptions. One of the exceptions is related to the discrepancy between the Office of the State Treasurer's records and the confirmation. Per the Office of the State Treasurer's records, the amount reported is 9,208.800 shares. Per the confirmation, the amount is 9,202.796. A difference of 6.004 shares was noted.

The other exception is related to a Morgan Stanley mutual fund that was not confirmed by the custodian. Per inquiry with Brian Durr, Manager of Securities, Morgan Stanley sent the unclaimed shares to the Office of the State Treasurer with no name associated with the unclaimed shares. Hence, the Office of the State Treasurer indicated "Unknown Owner" for the owner of the funds. Once Morgan Stanley identified the owner of the shares, they were placed in a separate account with the owner's name. As a result, the Office of the State Treasurer incorrectly indicated the mutual fund account as "closed" in September 2009 and had not updated its records to include the Morgan Stanley shares and their current owner on its unclaimed property records.

Management comment:

While UPD does agree with the findings, the discrepancy related to the STO records and the confirmation has been resolved. When the information for the Audit was prepared, over one thousand (1,000) mutual fund positions needed to be confirmed and detail information provided to the audit

team. Staff had one week to make contact for all positions held. At this point the mistake occurred. Whether UPD was provided incorrect information or incorrectly reported the information is not possible to determine nor did the time frame allow for secondary verification. What UPD has determined is the number of shares tracked on the database plus the additional remitted shares after the verification process began agrees to the confirmation received by the Audit team for this account.

UPD agrees with the exception related to the Morgan Stanley mutual fund. This error had its origins in the Holder not reporting owner detail when remitting the funds. When the owner information was eventually reported, the original funds were moved into a second account. The necessary corrections to the database have already occurred.

7. We agreed the total number of shares reported in the *Turnover Book* as held by other mutual fund brokers to the total number of shares recorded in the *Mutual Fund Shares* spreadsheet as of December 31, 2014.

This procedure was completed without exception.

Locally Held Funds

1. We obtained a list of all Locally Held Funds maintained by the Office of the State Treasurer from management.

This procedure was completed without exception.

2. We confirmed the cash balance in each Locally Held Fund with the appropriate financial institution as of the opening of business on January 12, 2015.

This procedure was completed without exception.

3. We agreed the confirmed cash balances as of the opening of business on January 12, 2015 for each Locally Held Fund to the amount reported in the "Summary of Locally Held Funds" in the *Turnover Book*.

This procedure was completed without exception.

Unexpended Appropriations

1. We obtained the *Unexpended Appropriations Schedule* as of January 9, 2015, from the Office of the State Treasurer, as listed in the "Unexpended Appropriations for Fiscal Year 2015" in the *Turnover Book*, and re-computed the mathematical accuracy of the Unexpended Appropriations Schedule.

This procedure was completed without exception.

2. We obtained the Office of the State Treasurer's *Voucher Report – Appropriation and Detail Object Expenditures by Quarter Report* (VO 300) from management for the period from July 1, 2014 through January 9, 2015, and agreed the fund name, appropriation amount, year to date expenditures and unexpended appropriations from the "Unexpended Appropriations for Fiscal Year 2015" in the *Turnover Book*, to the VO 300.

This procedure was completed without exception.

3. We obtained the Office of the State Treasurer's *Voucher Report – Expenditure Summary by Appropriation Code Report* (VO 710) for the period July 1, 2014 through January 9, 2015 and agreed the expenditures on the VO 710 to the *Unexpended Appropriations Schedule*.

This procedure was completed without exception.

4. We agreed expenditure detail on the VO 300 to the summary amounts on the VO 710.

This procedure was completed without exception.

5. We obtained the Office of the Comptroller – *Expenditure Object Report by fund* and compared the appropriation amounts to the VO 300 for the period July 1, 2014 through January 9, 2015.

This procedure was completed without exception.

6. We compared expended and unexpended amounts from the Office of the State Treasurer VO 300 to the Comptroller's Records and related reconciliations, as of and for the period from July 1, 2014 through January 9, 2015.

This procedure was completed without exception.

7. We agreed the unexpended appropriations at January 9, 2015 per the Office of the State Treasurer VO 300 to the amounts reported in the "Unexpended Appropriations for Fiscal Year 2015" in the *Turnover Book*.

This procedure was completed without exception.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the *Turnover Book*. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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



Schaumburg, Illinois
April 22, 2015