

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

Financial Audit  
Years Ended June 30, 2015 and 2014

and Compliance Examination  
Year Ended June 30, 2015

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



**State of Illinois**  
**Office of the Treasurer**  
**Fiscal Officer Responsibilities**  
**Financial Audit**  
**For the Years Ended June 30, 2015 and 2014**  
**Compliance Examination**  
**For the Year Ended June 30, 2015**

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**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
June 30, 2015**

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**Treasurer's Office Officials**

Treasurer	Honorable Michael W. Frerichs (January 12, 2015 to present) Honorable Dan Rutherford (through January 11, 2015)
Deputy Treasurer	Mr. Jay Rowell (January 12, 2015 to present)
Chief of Staff	Mr. Justin Cajindos (January 1, 2015 to present) Mr. Kyle Ham (through December 14, 2014)
Chief Investment Officer/Chief Fiscal Officer	Mr. Rodrigo Garcia (January 13, 2015 to present) Ms. Bridget Byron (through January 29, 2015)
General Counsel	Mr. Keith Horton (January 12, 2015 to present) Mr. Neil Olson (through January 31, 2015)
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Leighann Manning (October 16, 2015 to present) Ms. Angela Bartlett (Acting) (April 1, 2015 to September 15, 2015) Ms. Barb Ringler (through March 31, 2015)
Director of Banking	Ms. Elizabeth Turner

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



OFFICE OF THE ILLINOIS STATE TREASURER  
MICHAEL W. FRERICHS

December 21, 2015

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

Ladies and Gentlemen:

We are responsible for identification of, and compliance with, all aspects of laws, regulations, contracts, and grant agreements that could have a material effect on the operations of the State of Illinois, Office of the Treasurer (Treasurer) Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Treasurer's compliance with the following assertions during the year ended June 30, 2015. Based on this evaluation, we assert that during the year ended June 30, 2015, the Treasurer has materially complied with the assertions below.

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

Yours very truly,

State of Illinois, Office of the Treasurer



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The Honorable Michael W. Frerichs  
State Treasurer



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Mr. Rodrigo Garcia  
Chief Investment Officer



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Mr. Keith Horton  
General Counsel

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Year Ended June 30, 2015**

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**Compliance Report Summary**

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

**Accountant's Report**

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

**Summary of Findings**

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

**Schedule of Findings**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
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**Findings (Government Auditing Standards)**

No matters were reported.

**Findings (State Compliance)**

No matters were reported.

**Prior Findings Not Repeated**

A	9	Annual Report to the Governor Not Filed Timely
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**Exit Conference**

The Treasurer's Office waived an exit conference in correspondence dated November 17, 2015.

**Independent Accountant's Report on State Compliance and  
on Internal Control Over Compliance**

Honorable William G. Holland  
Auditor General  
State of Illinois

**Compliance**

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois (State), Office of the Treasurer, Fiscal Officer Responsibilities' (the Treasurer) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2015. The management of the Treasurer is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

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

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

In our opinion, the Treasurer complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2015.

### **Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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

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

*RSM US LLP*

Schaumburg, Illinois  
December 21, 2015

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

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Treasurer's basic financial statements, and have issued our report thereon dated December 21, 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 Illinois State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of the State of Illinois. Our opinion was not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

RSM US LLP

Schaumburg, Illinois  
December 21, 2015

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Financial Audit and Compliance Examination  
Year Ended June 30, 2015**

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**Prior Findings Not Repeated**

**A. Annual Report to the Governor Not Filed Timely**

The Illinois Office of the Treasurer (Treasurer) did not present the required annual report to the Governor on a timely basis as required by the State Treasurer Act (15 ILCS 505/15) (the "Act").

Our examination testing indicated the Treasurer submitted the annual report for calendar year 2014 to the Governor at least ten days prior to the regular session of the General Assembly, as required by the Act. (Finding Code No. 2014-001)

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
For the Years Ended June 30, 2015 and 2014**

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**Financial Statement Report**

**Summary**

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

Based on their audits, 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

RSM US LLP

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Treasurer's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Other Debits, Liabilities and Accountabilities of the Treasurer, as of June 30, 2015 and 2014, and the respective Investment Income for the years then ended in accordance with the financial reporting provisions determined by the Office of the State Comptroller described in Note B of the financial statements.

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

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

### ***Other Matters***

#### ***Other Information***

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

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

The Other Information (pages 51 – 59) has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 21, 2015, and December 12, 2014 on our consideration of the Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Treasurer's internal control over financial reporting and compliance.

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

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

*RSM US LLP*

Schaumburg, Illinois  
December 21 2015

## **Financial Statements**

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Statements of Assets and Other Debits, Liabilities and Accountabilities  
June 30, 2015 and 2014**

	2015	2014
<b>Assets and Other Debits</b>		
Cash and Cash Equivalents		
Demand Deposits	\$ 8,484,062	\$ 10,224,867
Clearing Account Deposits and Deposits in Transit	28,355,734	54,271,946
Total cash	36,839,796	64,496,813
Repurchase Agreements	389,106,502	1,074,115,536
Commercial Paper	1,144,824,606	1,574,635,347
Time Deposits	-	10,800,000
The Illinois Funds	1,047,919,052	1,236,185,148
Federal Home Loan Mortgage Corporation Discount Notes	74,997,812	-
Federal Home Loan Bank Discount Notes	674,946,965	-
Money Market Mutual Funds	1,251,029,115	910,076,062
Mortgage Reserve Fund	1	1
Total Cash and Cash Equivalents	4,619,663,849	4,870,308,907
Deposits and Investments		
Short-term Investments		
Time Deposits	89,310,476	75,243,599
Commercial Paper	1,918,571,612	2,073,643,744
U.S. Treasury Bills	2,546,652,516	4,147,372,960
U.S. Treasury Notes	250,152,335	600,316,415
Federal National Mortgage Association	25,147,500	-
Federal Home Loan Bank	288,165,360	-
Federal Farm Credit Banks	24,995,250	-
Federal Agriculture Mortgage Corporation	25,001,000	-
Foreign Investments	15,000,000	10,000,000
Long-term Investments		
Time Deposits	4,429,642	3,276,590
U.S. Treasury Notes	100,735,350	100,279,300
Federal Home Loan Mortgage Corporation	523,626,000	646,960,750
Federal Home Loan Bank	593,121,370	601,968,784
Federal National Mortgage Association	397,933,250	647,764,750
Federal Farm Credit Banks	172,509,930	221,875,108
Federal Agriculture Mortgage Corporation	66,147,450	24,814,250
Supranational Bonds	29,937,600	-
State of Illinois Secondary Pool Investment Program	134,067	206,786
Illinois Technology Development	42,841,408	43,373,293
Foreign Investments	10,000,000	15,000,000
Total Deposits and Investments	7,124,412,116	9,212,096,329
Securities Lending Collateral		
Invested in Repurchase Agreements	4,007,450,623	5,758,768,923
Other Assets		
Warrants Cashed, but not Canceled	65,000	3,336,233
Receivables from Universities and Agencies for Moneys Advanced	410,063	492,269
Receivable from City of Edwardsville	242,981	249,695
Investment Income Earned, but not Received	11,667,076	9,232,705
Total Other Assets	12,385,120	13,310,902
Other Debits		
Amount of Future General Revenue Obligated for Debt Service	39,772,804,089	42,962,514,885
Total Assets and Other Debits	\$ 55,536,715,797	\$ 62,816,999,946

(Continued)

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Statements of Assets and Other Debits, Liabilities and Accountabilities (Continued)  
June 30, 2015 and 2014**

	2015	2014
<b>Liabilities and Accountabilities</b>		
Liabilities for Balances on Deposit		
Comptroller		
Protested taxes	\$ 90,456,742	\$ 121,481,858
Available for Appropriation or Expenditure	8,712,990,342	10,615,897,336
Agencies' Deposits Outside the State Treasury	811,071,687	866,887,552
Comptroller's Warrants Outstanding	912,243,822	914,762,622
Total Liabilities for Balances on Deposit	<u>10,526,762,593</u>	<u>12,519,029,368</u>
Other Liabilities		
Obligations under Securities Lending	<u>4,007,450,623</u>	<u>5,758,768,923</u>
Total Other Liabilities	<u>4,007,450,623</u>	<u>5,758,768,923</u>
General Obligation Indebtedness		
Principal and Interest Due Within One Year	3,057,845,881	3,545,833,301
Principal and Interest Due Thereafter	<u>37,927,538,198</u>	<u>40,985,403,583</u>
Total General Obligation Indebtedness	<u>40,985,384,079</u>	<u>44,531,236,884</u>
Accountabilities		
Receivable from City of Edwardsville	242,981	249,695
Investment Income Earned, but not Received (Net of Cumulative Market Adjustments)	16,875,520	7,713,075
Federal Reserve Bank Settlement Account Reserve	-	2,000
Mortgage Reserve Fund	<u>1</u>	<u>1</u>
Total Accountabilities	<u>17,118,502</u>	<u>7,964,771</u>
Total Liabilities and Accountabilities	<u>\$ 55,536,715,797</u>	<u>\$ 62,816,999,946</u>

See Notes to the Financial Statements.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Statements of Investment Income  
Years Ended June 30, 2015 and 2014**

	2015	2014
Investment Income Earned	<u>\$ 52,284,957</u>	<u>\$ 39,812,457</u>

See Notes to the Financial Statements.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2015 and 2014**

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**NOTE A. AUTHORIZING LEGISLATION**

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

**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

The basis of accounting is essentially a full accrual basis in that 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 of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2015 and 2014**

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**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

General Obligation Indebtedness: The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The amount to be derived from future revenue for debt service (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.

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**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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 commercial paper and 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 as of March 31, 2015, including all capital calls and distributions issued through June 30, 2015.

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

Short-term investments have a maturity date of less than one year. Unrealized gains and losses are accounted for in the investment in which the change in fair value occurred.

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Treasurer's investment policy limits the investment portfolio to maturities not to exceed five years with 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 June 30, 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 Toronto Dominion HDG USA which were rated A-1+ by Standard & Poor's. 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, except for Federal Agriculture Mortgage Corporation securities which were not rated. 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 long-term investments in Supranational Bonds were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAM by Standard & Poor's Ratings. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service or AAAM by Standard & Poor's Ratings.

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

As of June 30, 2015, credit ratings of collateral for securities lending collateral invested in repurchase agreements are as follows:

<b>Standard &amp; Poor's Rating</b>	<b>Percentage % (Percent of Total)</b>	<b>Moody's Rating</b>	<b>Percentage % (Percent of Total)</b>
AAA	1.34%	Aaa	6.31%
AA+	0.56%	Aa1	0.34%
AA	1.25%	Aa2	0.88%
AA-	1.50%	Aa3	3.33%
A+	2.99%	A1	1.90%
A	4.41%	A2	1.69%
A-	1.74%	A3	3.41%
BBB+	2.04%	Baa1	2.45%
BBB	2.47%	Baa2	1.52%
BBB-	2.78%	Baa3	2.54%
BB+	1.29%	Ba1	0.77%
BB	0.56%	Ba2	1.27%
BB-	0.38%	Ba3	0.37%
B+	1.02%	B1	0.72%
B	3.98%	B2	0.93%
B-	0.53%	B3	1.31%
CCC+	0.59%	Caa1	2.66%
CCC	3.91%	Caa2	1.82%
CCC-	1.11%	Caa3	0.24%
CC	0.03%	Ca	0.01%
Not Rated	65.52%	C	0.03%
	<b>100.00%</b>	Not Rated	65.50%
			<b>100.00%</b>

As of June 30, 2014, 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. 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, except for Federal Agriculture Mortgage Corporation securities which were not rated. 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.

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

As of June 30, 2014, credit ratings of collateral for securities lending collateral invested in repurchase agreements are as follows:

<b>Standard &amp; Poor's Rating</b>	<b>Percentage % (Percent of Total)</b>	<b>Moody's Rating</b>	<b>Percentage % (Percent of Total)</b>
AAA	1.07%	Aaa	8.39%
AA+	1.62%	Aa1	1.41%
AA	1.35%	Aa2	0.38%
AA-	3.13%	Aa3	1.03%
A+	1.58%	A1	1.65%
A	2.25%	A2	1.88%
A-	3.13%	A3	3.77%
A-1	0.01%	Baa1	2.86%
A-2	3.55%	Baa2	3.57%
A-3	0.01%	Baa3	3.99%
BBB+	3.97%	Ba1	0.52%
BBB	4.10%	Ba2	0.55%
BBB-	1.77%	Ba3	0.35%
BB+	0.42%	B1	0.72%
BB	0.58%	B2	0.24%
BB-	0.19%	B3	0.33%
B+	0.58%	Caa1	0.53%
B	0.67%	Caa2	0.70%
B-	1.06%	Caa3	0.45%
CCC+	0.40%	Ca	0.03%
CCC	0.80%	P-1	0.95%
CCC-	0.67%	P-2	2.62%
CC	0.22%	P-3	0.00%
C	0.21%	Not Rated	63.08%
Not Rated	66.66%		
	<b>100.00%</b>		<b>100.00%</b>

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

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

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

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

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

The Treasurer purchased investments in four and six mutual funds in 2015 and 2014, respectively. These mutual funds provide a comparable yield to other investments, particularly during times of falling interest rates and are a source of liquidity when cash is needed. Investments to the mutual funds can be made daily and interest income is received monthly.

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

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

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

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

The Treasurer's investment in the State of Illinois Secondary Pool Investment Program was deposited in a trust to purchase a security interest in a pool of Small Business Administration (SBA), Federal Home Loan Mortgage Corporation Adjustable Rate Mortgage (FHLMC ARM), and Federal National Mortgage Association Adjustable Rate Mortgage (FNMA ARM) loans. The securities have a floating rate indexed to the prime rate as quoted in *The Wall Street Journal* and are adjusted quarterly. The pool is guaranteed by the U.S. Government and/or the respective agency.

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

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

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

<u>2015</u>	Maturing in:				Total
	Less than 1 year	1 - 5 years	6 - 10 years	NA***	
Commercial Paper *	\$ 3,063,396	\$ -	\$ -	\$ -	\$ 3,063,396
Repurchase Agreements*	389,107	-	-	-	389,107
U.S. Treasury Bills *	2,546,653	-	-	-	2,546,653
U.S. Treasury Notes	250,152	100,736	-	-	350,888
Federal Home Loan Bank	288,165	593,121	-	-	881,286
Federal Farm Credit Banks	24,995	172,510	-	-	197,505
Federal Home Loan Mortgage Corporation	-	523,626	-	-	523,626
Federal National Mortgage Association	25,148	397,933	-	-	423,081
Federal Agriculture Mortgage Corporation	25,001	66,147	-	-	91,148
Federal Home Loan Mortgage Corporation Discount Notes*	74,998	-	-	-	74,998
Federal Home Loan Bank Discount Notes*	674,947	-	-	-	674,947
State of Illinois Secondary Pool Investment Program	-	64	70	-	134
Supranational Bonds	-	29,938	-	-	29,938
Foreign Investments**	15,000	10,000	-	-	25,000
Securities Lending Collateral Invested in Repurchase Agreements*	4,007,451	-	-	-	4,007,451
Illinois Technology Development *	-	-	-	42,841	42,841
The Illinois Funds*	-	-	-	1,047,919	1,047,919
Money Market Mutual Funds*	-	-	-	1,251,029	1,251,029
Total Investments and Securities Lending Collateral, excluding Time Deposits	<u>\$ 11,385,013</u>	<u>\$ 1,894,075</u>	<u>\$ 70</u>	<u>\$ 2,341,789</u>	<u>\$ 15,620,947</u>

\*Reported at amortized cost.

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

\*\*\* Categorization not applicable.

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

<u>2014</u>	Maturing in:				
	Less than 1 year	1 - 5 years	6 - 10 years	NA***	Total
Commercial Paper *	\$ 3,648,279	\$ -	\$ -	\$ -	\$ 3,648,279
Repurchase Agreements*	1,074,116	-	-	-	1,074,116
U.S. Treasury Bills *	4,147,373	-	-	-	4,147,373
U.S. Treasury Notes	600,316	100,279	-	-	700,595
Federal Home Loan Bank	-	601,969	-	-	601,969
Federal Farm Credit Banks	-	221,875	-	-	221,875
Federal Home Loan Mortgage Corporation	-	646,961	-	-	646,961
Federal National Mortgage Association	-	647,765	-	-	647,765
Federal Agriculture Mortgage Corporation	-	24,814	-	-	24,814
State of Illinois Secondary Pool Investment Program	-	29	178	-	207
Foreign Investments**	10,000	15,000	-	-	25,000
Securities Lending Collateral Invested in Repurchase Agreements*	5,758,769	-	-	-	5,758,769
Illinois Technology Development *	-	-	-	43,373	43,373
The Illinois Funds*	-	-	-	1,236,185	1,236,185
Money Market Mutual Funds*	-	-	-	910,076	910,076
Total Investments and Securities Lending Collateral, excluding Time Deposits	<u>\$ 15,238,853</u>	<u>\$ 2,258,692</u>	<u>\$ 178</u>	<u>\$ 2,189,634</u>	<u>\$ 19,687,357</u>

\*Reported at amortized cost.

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

\*\*\* Categorization not applicable.

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

The Treasurer's net increase (decrease) in the fair value of investments during 2015 and 2014 was \$4,337,096 and (\$1,354,931), respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year and is reported as investment income earned on the Statements 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 \$389,106,502 and \$1,074,115,536, and the fair value of the collateral securities under the repurchase agreements was \$397,097,350 and \$1,095,526,305, as of June 30, 2015 and 2014, respectively.

Investment Commitment: The Illinois Technology Development Program which the Treasurer administers, in accordance with 30 ILCS 265, has made commitments totaling approximately \$73 million and \$75 million to provide venture capital to technology businesses as of June 30, 2015 and 2014, respectively. The remaining unfunded commitment was approximately \$6 million and \$13 million, as of June 30, 2015 and 2014, respectively.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Treasurer's investment in a single issuer. The following investments exceeded 5 percent of the total investments at June 30, 2015 and 2014. (Amounts are in thousands.)

	2015		2014	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
U.S Agency:				
Federal Home Loan Bank	\$ 1,556,234	9.96	\$ -	-
Commercial Paper:				
BNP Paribas Finance*	-	-	549,965	2.79
Securities Lending Collateral Invested in Repurchase Agreements:				
BNP Paribas Prime Brokerage *	-	-	460,000	2.34
BNP Paribas Securities Corp*	-	-	275,500	1.40
Merrill Pierce Fenner Smith	-	-	1,000,000	5.08

\* Issuer total exceeds 5%

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

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

During fiscal year 2015 and 2014, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2015 and 2014 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during fiscal years 2015 and 2014 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2015 and 2014, 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 invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2015 were \$4,007,450,623 and \$3,980,606,070, respectively. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2014 were \$5,758,768,923 and \$5,727,657,697, respectively.

**NOTE E. ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST**

The Illinois Insured Mortgage Pilot Program Trust (the Trust) was created in October 1982 in order to stimulate construction activity in the State. The State purchased \$120,000,000 of investment certificates for which the underlying collateral was a pool of mortgage loans issued for the purpose of providing financing to approved construction projects. 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, US Bank. Pursuant to Public Act 96-1181, the Trust transferred \$16 million to the State Treasury on September 30, 2010. On October 31, 2011, approximately \$5 million was transferred to the State Treasury. 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. The Treasurer's office is currently working with outside counsel and the Trustee to terminate the Trust, resolve the remaining litigation in Madison County, and liquidate the remaining Trust assets.

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**NOTE F. DEFEASED DEBT**

During fiscal years 2015 and 2014, the State of Illinois issued no General Obligation Refunding Bonds.

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2015 and 2014, \$11,600,000 and \$47,470,000, respectively, of bonds outstanding was considered defeased.

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

At June 30, 2015 and 2014, the Treasurer was responsible for \$115,466,471 and \$122,019,983, respectively, of securities held in safekeeping for various State departments, agencies and institutions. These amounts are not reflected in the Statements of Assets and Other Debits, Liabilities and Accountabilities.

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**NOTE H. GENERAL OBLIGATION INDEBTEDNESS**

A summary of the changes from June 30, 2014 to June 30, 2015, in General Obligation Bonded Indebtedness by issue type follows:

	Multi-Purpose - Interest Rates varying from 1.28% to 7.35% Series 1993 through 2014, due serially to 2039	Pension Funding - Interest Rates varying from 4.35% to 5.877% Series 2003 and 2011, due serially to 2033	General Obligation Refunding Series 2001 through 2012 - Interest Rates varying from 2.0% to 7.3% due serially to 2025	Total General Obligation Indebtedness
<b>Balance at June 30, 2014</b>				
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	<u>19,320,505,694</u>	<u>21,038,621,372</u>	<u>4,172,109,818</u>	<u>44,531,236,884</u>
<b>Redemptions charge to Appropriations</b>				
Principal	510,856,279	1,093,200,000	431,559,441	2,035,615,720
Interest	645,056,817	704,683,372	160,496,896	1,510,237,085
Total	<u>1,155,913,096</u>	<u>1,797,883,372</u>	<u>592,056,337</u>	<u>3,545,852,805</u>
<b>Certificates/Bonds issued</b>				
Principal	-	-	-	-
Interest	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance at June 30, 2015</b>				
Principal	11,241,686,395	12,700,000,000	2,903,217,055	26,844,903,450
Interest	6,922,906,203	6,540,738,000	676,836,426	14,140,480,629
Total	<u>\$ 18,164,592,598</u>	<u>\$ 19,240,738,000</u>	<u>\$ 3,580,053,481</u>	<u>\$ 40,985,384,079</u>
<b>Amounts due within one year</b>				
				\$ 1,664,750,000
				1,393,095,881
				<u>\$ 3,057,845,881</u>

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

A summary of the changes from June 30, 2013 to June 30, 2014, 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, 2010 and 2011, due serially to 2033	General Obligation Refunding Series 2001 through 2012 - Interest Rates varying from 1.6% to 7.3% due serially to 2025	Total General Obligation Indebtedness
<b>Balance at June 30, 2013</b>				
Principal	\$ 8,404,414,874	\$ 14,686,400,000	\$ 3,783,118,902	\$ 26,873,933,776
Interest	5,663,508,641	7,986,300,916	1,017,971,523	14,667,781,080
Total	14,067,923,515	22,672,700,916	4,801,090,425	41,541,714,856
<b>Redemptions charge to Appropriations</b>				
Principal	326,872,200	893,200,000	448,342,406	1,668,414,606
Interest	542,078,717	740,879,544	180,638,201	1,463,596,462
Total	868,950,917	1,634,079,544	628,980,607	3,132,011,068
<b>Certificates/Bonds issued</b>				
Principal	3,675,000,000	-	-	3,675,000,000
Interest	2,446,533,096	-	-	2,446,533,096
Total	6,121,533,096	-	-	6,121,533,096
<b>Balance at June 30, 2014</b>				
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
<b>Amounts due within one year</b>				
				\$ 2,068,625,000
				1,477,208,301
				<u>\$ 3,545,833,301</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2015 and 2014**

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

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

Future general obligation debt service requirements at June 30, 2015, are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,664,750,000	\$ 1,393,095,881	\$ 3,057,845,881
2017	1,955,945,000	1,316,895,889	3,272,840,889
2018	1,946,640,000	1,221,289,314	3,167,929,314
2019	1,935,305,000	1,121,970,798	3,057,275,798
2020	1,062,230,000	1,019,813,308	2,082,043,308
2021-2025	5,719,629,985	4,257,087,026	9,976,717,011
2026-2030	6,525,455,104	2,686,313,079	9,211,768,183
2031-2035	5,334,169,911	893,338,384	6,227,508,295
2036-2039	842,000,000	89,455,400	931,455,400
<b>Total</b>	<b>\$ 26,986,125,000</b>	<b>\$ 13,999,259,079</b>	<b>\$ 40,985,384,079</b>

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

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

**NOTE I. SUBSEQUENT EVENT**

The State of Illinois has not adopted a fiscal year 2016 operating budget as of the date of this memorandum, November 15, 2015. The Illinois State Treasurer's Office (Treasurer's Office) is a constitutional office of the State of Illinois and operates under an approved budget. Consequently, the Treasurer's Office is presently unable to make payments from appropriated accounts to vendors. The salaries of Treasurer's Office employees are being made pursuant to a July 2015 court order.

## **SUPPLEMENTARY INFORMATION**

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits, Liabilities and Accountabilities  
June 30, 2015 and 2014**

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

	June 30,	
	2015	2014
<b>Assets and Other Debits</b>		
Cash and Cash Equivalents	\$ 4,619,663,849	\$ 4,870,308,907
Deposits and Investments	7,124,412,116	9,212,096,329
Securities Lending Collateral	4,007,450,623	5,758,768,923
Other Assets	12,385,120	13,310,902
Other Debits	39,772,804,089	42,962,514,885
<b>Total Assets and Other Debits</b>	<b>\$ 55,536,715,797</b>	<b>\$ 62,816,999,946</b>
<b>Liabilities for Balances on Deposit</b>		
Comptroller		
Protested Taxes	\$ 90,456,742	\$ 121,481,858
Available for Appropriation or Expenditure	8,712,990,342	10,615,897,336
Agencies' Deposits Outside the State Treasury	811,071,687	866,887,552
Comptroller's Warrants Outstanding	912,243,822	914,762,622
<b>Total Liabilities for Balances on Deposit</b>	<b>10,526,762,593</b>	<b>12,519,029,368</b>
Other Liabilities	4,007,450,623	5,758,768,923
<b>General Obligation Indebtedness</b>	<b>40,985,384,079</b>	<b>44,531,236,884</b>
<b>Total Liabilities</b>	<b>55,519,597,295</b>	<b>62,809,035,175</b>
<b>Accountabilities</b>		
Receivable from City of Edwardsville	242,981	249,695
Investment Income Earned, but not Received	16,875,520	7,713,075
Federal Reserve Bank Settlement Account Reserve	-	2,000
Mortgage Reserve Fund	1	1
<b>Total Accountabilities</b>	<b>17,118,502</b>	<b>7,964,771</b>
<b>Total Liabilities and Accountabilities</b>	<b>\$ 55,536,715,797</b>	<b>\$ 62,816,999,946</b>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail  
June 30, 2015 and 2014**

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

	June 30,	
	2015	2014
Cash and Cash Equivalents		
Demand Deposits	\$ 8,484,062	\$ 10,224,867
Clearing Account Deposits and Deposits in Transit	28,355,734	54,271,946
Repurchase Agreements	389,106,502	1,074,115,536
Commercial Paper	1,144,824,606	1,574,635,347
Time Deposits	-	10,800,000
The Illinois Funds	1,047,919,052	1,236,185,148
Federal Home Loan Mortgage Corporation Discount Notes	74,997,812	-
Federal Home Loan Bank Discount Notes	674,946,965	-
Money Market Mutual Funds	1,251,029,115	910,076,062
Mortgage Reserve Fund	1	1
	<hr/>	<hr/>
Total Cash and Cash Equivalents	\$ 4,619,663,849	\$ 4,870,308,907

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

State of Illinois  
Office of the Treasurer

Fiscal Officer Responsibilities  
Assets and Other Debits - Detail (Continued)  
June 30, 2015 and 2014

	June 30, 2015			June 30, 2014		
	Collected	Float	Total	Collected	Float	Total
Demand deposits						
Bank of America	\$ 1,348,773	\$ -	\$ 1,348,773	\$ 548,469	\$ -	\$ 548,469
JP Morgan Chase	210,038	-	210,038	787,050	730,596	1,517,646
Northern Trust Company, Chicago	-	-	-	401,212	-	401,212
Wells Fargo Bank	14,971	2,022,786	2,037,757	13,371	-	13,371
	<u>\$ 1,573,782</u>	<u>\$ 2,022,786</u>	3,596,568	<u>\$ 1,750,102</u>	<u>\$ 730,596</u>	2,480,698
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			<u>4,887,494</u>			<u>7,744,169</u>
Total demand deposits			<u>\$ 8,484,062</u>			<u>\$ 10,224,867</u>

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

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits - Detail (Continued)  
June 30, 2015 and 2014**

	June 30, 2015 Bank Balances			June 30, 2014 Bank Balances		
	Collected	Float	Total	Collected	Float	Total
Clearing Account Deposits and Deposits in Transit						
Bank of America	\$ 94,739	\$ 257,740	\$ 352,479	\$ 243,002	\$ 200,148	\$ 443,150
DuQuoin State Bank	50,348	-	50,348	36,152	-	36,152
JP Morgan	223,530	1,609,845	1,833,375	200	2,764,958	2,765,158
Fifth Third	28,250	25,908,020	25,936,270	31,542	50,721,509	50,753,051
Illinois National Bank	37,130	29,230	66,360	1	18,454	18,455
US Bank-Springfield	106,830	-	106,830	109,169	-	109,169
Northern Trust Company, Chicago	-	-	-	30,195	62,941	93,136
Pan American Bank	-	-	-	48,610	-	48,610
Wells Fargo Bank	10,072	-	10,072	5,065	-	5,065
	<u>\$ 550,899</u>	<u>\$ 27,804,835</u>	<u>28,355,734</u>	<u>\$ 503,936</u>	<u>\$ 53,768,010</u>	<u>54,271,946</u>
Net reconciling items (e.g., deposits-in- transit and outstanding drafts)			<u>-</u>			<u>-</u>
Total clearing account deposits			<u>\$ 28,355,734</u>			<u>\$ 54,271,946</u>

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

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2015 and 2014**

**Deposits and Investments**

Most of the Treasurer's investments at June 30, 2015 and 2014 are short-term due to the responsibility to keep funds "liquid" to reimburse banks for warrants paid.

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

	June 30,	
	2015	2014
Short-Term Deposits and Investments		
Time Deposits	\$ 89,310,476	\$ 75,243,599
Commercial Paper	1,918,571,612	2,073,643,744
U.S. Treasury Bills	2,546,652,516	4,147,372,960
U.S. Treasury Notes	250,152,335	600,316,415
Federal National Mortgage Association	25,147,500	-
Federal Home Loan Bank	288,165,360	-
Federal Farm Credit Banks	24,995,250	-
Federal Agriculture Mortgage Corporation	25,001,000	-
Foreign Investments	15,000,000	10,000,000
	<u>5,182,996,049</u>	<u>6,906,576,718</u>
Long-Term Deposits and Investments		
Time Deposits	4,429,642	3,276,590
U.S. Treasury Notes	100,735,350	100,279,300
Federal Home Loan Mortgage Corporation	523,626,000	646,960,750
Federal Home Loan Bank	593,121,370	601,968,784
Federal National Mortgage Association	397,933,250	647,764,750
Federal Farm Credit Banks	172,509,930	221,875,108
Federal Agriculture Mortgage Coporation	66,147,450	24,814,250
Supranational Bonds	29,937,600	-
State of Illinois Secondary Pool Investment Program	134,067	206,786
Illinois Technology Development	42,841,408	43,373,293
Foreign Investments	10,000,000	15,000,000
	<u>1,941,416,067</u>	<u>2,305,519,611</u>
Total Deposits and Investments	<u>\$ 7,124,412,116</u>	<u>\$ 9,212,096,329</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2015 and 2014**

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**Deposits and Investments (Continued)**

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

The average yield for investments including amounts listed as cash equivalents on the 2015 and 2014 financial statements was .39% and .36%, respectively.

**Securities Lending Collateral**

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

	June 30	
	2015	2014
Securities Lending Collateral		
Invested in Repurchase Agreements	<u>\$ 4,007,450,623</u>	<u>\$ 5,758,768,923</u>

**Other Assets**

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

	June 30	
	2015	2014
Warrants cashed, but not canceled	\$ 65,000	\$ 3,336,233
Receivables from Universities and Agencies for monies advanced	410,063	492,269
Receivable from City of Edwardsville	242,981	249,695
Investment income earned, but not received	<u>11,667,076</u>	<u>9,232,705</u>
Total Other Assets	<u>\$ 12,385,120</u>	<u>\$ 13,310,902</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2015 and 2014**

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**Other Assets (Continued)**

The account balances of warrants cashed but not canceled and the receivable from universities and agencies represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2015 and 2014. The balances in these accounts will vary significantly from day to day, depending on the availability of investable funds and the timing of warrant presentation for payment.

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

Repayments received for the years ended June 30, 2015 and 2014, were \$6,614 and \$7,480, respectively.

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

**Amount of Future General Revenue Obligated for Debt Service**

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

	June 30	
	2015	2014
Certificates, Bonds and Coupons Maturing in Next Fiscal Year	\$ 3,057,845,881	\$ 3,545,833,301
Less - Balance on Deposit in State Treasury at Year End, for Certificate and Bond Redemption and Interest	(1,212,579,990)	(1,568,721,999)
Amount Obligated from Future General Revenue		
General Revenue - Next Fiscal Year	1,845,265,891	1,977,111,302
General Revenue - Thereafter	37,927,538,198	40,985,403,583
Amount of Future General Revenue Obligated for Debt Service at Fiscal Year End	<u>\$ 39,772,804,089</u>	<u>\$ 42,962,514,885</u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2015 and 2014**

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

A summary of the changes during fiscal years 2015 and 2014, in the amount of future general revenue obligated for debt service is as follows:

	2015	2014
Balance at Beginning of Fiscal Year	\$ 42,962,514,885	\$ 40,121,803,906
Issuance of Certificates and Bonds	-	6,121,533,096
Bonds and Coupons Redeemed	(3,545,852,805)	(3,132,011,068)
Net Change in Balances on Deposit in State Treasury	356,142,009	(148,811,049)
Balance at End of Fiscal Year	<u>\$ 39,772,804,089</u>	<u>\$ 42,962,514,885</u>

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

	June 30	
	2015	2014
<u>General Obligation Bonds</u>		
Amount of future general revenue obligated for debt service	\$ 39,772,804,089	\$ 42,962,514,885
Balance on deposit in the State Treasury at June 30 for bond redemption and interest	1,212,579,990	1,568,721,999
Total indebtedness at June 30	<u>\$ 40,985,384,079</u>	<u>\$ 44,531,236,884</u>

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

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

There were no General Obligation Certificates issued under the Short Term Borrowing Act during fiscal years 2015 or 2014.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2015 and 2014**

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

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

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Liabilities and Accountabilities - Detail  
For the Years Ended June 30, 2015 and 2014**

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**Liabilities for Balances on Deposit**

Protested Taxes: Substantially all of the \$90,456,742 and \$121,481,858 at June 30, 2015 and 2014, respectively, in the Protest Trust Fund has been enjoined by the courts pending the outcome of cases in process. By statute, a taxpayer making a tax payment "under protest" has 30 days to initiate a court suit and obtain an injunction. If not enjoined, the tax payments are transferred to the fund in the State Treasury that would have received the original deposit.

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

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

	2015	2014
Treasurer's Clearing Account Balances	\$ 189,342,373	\$ 243,060,691
Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury	213,672,030	126,002,353
Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts	300,934,193	315,855,335
Deposits in Demand Accounts in Process of Being Ordered into the State Treasury	107,123,091	181,969,173
Total Agency Deposits Outside the State Treasury	<u>\$ 811,071,687</u>	<u>\$ 866,887,552</u>

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

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

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Liabilities and Accountabilities – Detail (Continued)  
June 30, 2015 and 2014**

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**Other Liabilities**

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

**General Obligation Indebtedness**

Refer to the “Amount of Future General Revenue Obligated for Debt Service” 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 Years Ended June 30, 2015 and 2014**

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

	2015	2014
General Revenue Fund	\$ 27,206,102	\$ 21,206,091
Other State funds	24,502,687	18,208,276
Segregated State trust funds	576,168	398,090
	<u>\$ 52,284,957</u>	<u>\$ 39,812,457</u>

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

Fund participating in pooled investments	2015	2014
General Revenue Fund	\$ 27,206,102	\$ 21,206,091
Aggregated Operations Regulatory Fund	2,261	1,532
Airport Land Loan Revolving Fund	443	346
Alternative Compliance Market Account Fund	268	506
Ambulance Revolving Loan Fund	43	12,979
AML Reclamation Set Aside Fund	163,593	110,536
Appraisal Administration Fund	10,019	1,898
Assisted Living and Shared Housing Regulatory Fund	1,857	1,873
Autism Research Checkoff Fund	78	198
Autoimmune Disease Research Fund	216	168
Bank & Trust Company Fund	121,618	101,633
Brownfields Redevelopment Fund	11,495	6,222
Budget Stabilization Fund	77,018	(1,661)
Build Illinois Bond Retirement and Interest Fund	60,490	49,637
Build Illinois Capital Revolving Loan Fund	39,370	37,707
Build Illinois Fund	96,934	74,880
Capital Project Fund	163,826	99,634
Care Provide Per W Dev. Dis.	21,388	18,801
Cemetery Consumer Protection Fund	1,459	1,354
Cemetery Relief	366	124
Charitable Trust Stabilization Fund	13,610	8,922
Chicago State University Education Improvement Fund	5,719	5,378
Child Abuse Prevention Fund	839	597
Clean Air Act (CAA) Permit Fund	26,521	26,151
Coal Mining Regulatory Fund	2,374	3,981
Common School Fund	618,737	728,432
Community College Health Insurance Security Fund	8,786	15,062
Community DD Services Medicaid Trust Fund	157,581	34,377
Community Mental Health Medical Trust Fund	61,388	82,209
Community Water Supply Laboratory Fund	5,236	3,280
Compassionate Use of Medical Cannabis Fund	17,273	-
Conservation Police Operations Assistance Fund	5,469	2,628

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2015 and 2014**

	2015	2014
Fund participating in pooled investments		
County Automobile Renting Tax Fund	\$ 204	\$ 180
County Hospital Services Fund	22,518	19,395
County Option Motor Fuel Tax Fund	20,089	16,483
County Water Commission Tax Fund	22,496	17,503
Credit Union Fund	10,925	7,731
Criminal Justice Trust Fund	109,926	104,434
Debt Settlement Consumer Protection Fund	1,586	524
Design Professionals Administration and Investigation Fund	3,036	2,299
DHS Community Services Fund	26,756	40,538
DHS Technology Initiative Fund	14,616	4,269
Diabetes Research Checkoff Fund	607	258
Digital Divide Elimination Infrastructure Fund	261	64
Drug Rebate Fund	396,466	208,638
Drycleaner Environmental Response Trust Fund	7,648	9,447
Early Intervention Services Fund	25,457	18,153
Electronics Recycling Fund	3,646	2,151
Environmental Laboratory Certification Fund	573	777
EPA Court Ordered Trust Fund	28	21
Explosive Regulatory Fund	1,488	768
Facilities Management Fund	61,264	31,395
Fair Share Trust	594	461
Family Care Fund	78,232	55,618
Federal Asset Forfeiture Fund	4,045	6,672
Federal Home Investment Trust Fund	4,812	9,282
Federal Moderate Rehab Housing Fund	-	99
Federal Student Loan Fund	165,265	120,593
Federal Workforce Training Fund	528	433
Fire Truck Revolving Loan Fund	4,759	13,115
Fish and Wildlife Endowment Fund	10,293	7,820
Food and Drug Safety Fund	5,697	3,758
Gaining Early Awareness Fund	25,560	25,949
General Assembly Retirement Excess Benefits Fund	120	100
General Assembly Retirement Fund	22,586	15,982
General Obligation Bond Retirement and Interest Fund	5,952,839	4,776,285
General Professions Dedicated Fund	23,707	22,678
Group Home Loan Revolving Fund	187	211
Group Insurance Premium	51,872	33,631
Group Workers Compensation Pool	9,211	7,262
Hansen-Therkelsen Memorial Deaf Student College Fund	4,809	3,753
Health and Human Services Medicaid Trust Fund	52,306	27,265
Health Information Exchange Fund	14,240	5,386
Health Insurance Reserve Fund	587,804	581,965
Healthcare Providers Relief Fund	498,377	197,161
Hearing Instrument Dispenser Examining and Disciplinary Fund	66	46

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2015 and 2014**

	2015	2014
Fund participating in pooled investments		
Help Illinois Vote Fund	\$ 24,179	\$ 35,001
Home Inspector Administration Fund	5,000	3,969
Home Rule City Retailers' Occupation Tax Fund	220,620	163,954
Home Rule Municipal Retailers' Occupation Tax Fund	339,129	237,005
Home Services Medicaid Trust Fund	133,320	226,320
Hospital Licensure Fund	3,017	-
Hospital Provider Fund	490,142	609,408
Human Service Priority Cap Program Fund	6,143	6,270
Hunger Relief Fund	-	194
Illinois Affordable Housing Trust Fund	70,953	153,889
Illinois Beach Marina Fund	2,684	1,364
Illinois Clean Water Act	62,006	47,257
Illinois Equity Fund	3,975	4,071
Illinois Farmer and Agri-Business Loan Guarantee Fund	37,515	29,198
Illinois Habitat Fund	24,876	19,316
Illinois Power Agency Trust Fund	462	(2)
Illinois State Dental Disciplinary Fund	12,942	16,140
Illinois State Medical Disciplinary Fund	138,887	24,870
Illinois State Pharmacy Disciplinary Fund	15,402	8,299
Illinois State Podiatric Disciplinary Fund	2,332	1,641
Illinois State Police Federal Projects Fund	2,418	388
Illinois State Police Operations Assistance Fund	83,134	82,494
Illinois Veteran's Assistance Fund	2,401	1,358
Injured Workers Benefit Fund	9,949	6,464
Innovations in Long-Term Care Quality Demonstration Grants	25,298	16,204
Intercity Passenger Rail Fund	997	616
Interpreters for the Deaf Fund	1,149	907
Judges Retirement Excess Benefits Fund	2,110	1,640
Judges Retirement Fund	121,675	93,548
Juvenile Accountability Incentive Block Grant Fund	11,650	7,417
Kaskaskia Commons Permanent School Fund	1,105	863
Large Business Attraction Fund	7,828	5,773
Law Enforcement Camera Grant Fund	5,936	2,970
Local Government Health Insurance Reserve Fund	22,454	13,723
Long-Term Care Ombudsman Fund	10,084	8,116
Long-Term Care Provider Fund	111,638	72,059
Medicaid Buy-In Program Revolving Fund	8,107	6,853
Mental Health Reporting Fund	6,645	983
Metro East Mass Transit District Tax Fund	21,168	23,251
Metropolitan Pier and Exposition Authority Trust Fund	122,271	114,301
Money Follows the Person Budget Fund	7,093	2,452
Motor Vehicle Theft Prevention Fund	21,424	15,051
Multiple Sclerosis Research Fund	13,948	13,075
Municipal Automobile Renting Tax Fund	4,571	3,714
Municipal Economic Development Fund	-	13
Non-Home Rule Municipal Retailer's Occupation Tax Fund	89,531	66,468

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2015 and 2014**

	2015	2014
Fund participating in pooled investments		
Nuclear Safety Emergency Preparedness Fund	\$ 35,596	\$ 19,561
Nursing Dedicated and Professional Fund	37,286	11,842
Off-highway Vehicle Trails Fund	10,365	7,276
Oil Spill Response Fund	364	283
Optometric Licensing and Disciplinary Committee Fund	2,791	1,153
Personal Property Tax Replacement Fund	420,839	305,650
Plugging and Restoration Fund	8,146	4,535
Prescription Pill and Drug Disposal Fund	432	156
Private Sewage Disposal Program	588	422
Professional Services Fund	54,069	41,140
Professions Indirect Cost Fund	59,060	25,214
Public Agriculture Loan Guarantee	48,574	37,806
Public Health Services Revolving Fund	20,447	12,137
Public Infrastructure Construction Loan Revolving Fund	47,897	46,482
Public Pension Regulation Fund	11,461	8,425
Quality of Life Endowment Fund	5,665	8,721
Radiation Protection Fund	13,392	8,578
Radioactive Waste Facility Development and Operation Fund	7,488	6,016
Rail Freight Loan Repayment Fund	16,303	11,772
Rate Adjustment Fund	42,565	31,799
Real Estate Audit Fund	708	723
Real Estate License Administration Fund	141,447	131,176
Real Estate Recovery Fund	5,031	3,567
Real Estate Research and Education Fund	3,359	951
Regional Transit Authority Sales Tax Trust Fund	266,631	204,804
Registered CPA Administration and Disciplinary Fund	25,455	26,639
Road Fund	4,741,921	3,273,027
Road Transportation A Fund	420,485	335,088
Salmon Fund	322	258
Savings and Residential Finance Regulatory Fund	17,683	16,568
Savings Institution Regulatory Fund	2,513	2,398
School Technology Revolving Loan Fund	4,869	8,858
Second Injury Fund	4,235	2,678
Securities Audit and Enforcement Fund	69,328	51,428
Self-Insurers Administration Fund	2,979	2,644
Self-Insurers Security Fund	99,199	81,073
Sexual Assault Service & Prevention Fund	1,674	536
Sheffield February 1982 Agreed Order Fund	15,577	12,695
Special Olympics Illinois and Special Children's Charities Fund	578	-
Special Tax Inc.	-	6,542
St. Jude Children Research Fund	13	11
State Assets Forfeiture Fund	7,973	9,214
State Construction Account Fund	1,582,716	676,648
State Employees Retirement Excess Benefits Fund	883	220
State Employees Retirement System Fund	666,358	633,650

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2015 and 2014**

	2015	2014
Fund participating in pooled investments		
State Employees' Deferred Compensation Plan Fund	\$ 14,108	\$ 13,064
State Furbearer Fund	661	498
State Migratory Waterfowl Stamp Fund	17,228	12,325
State Pheasant Fund	8,869	6,844
State Police Firearm Service Fund	47,734	5,141
State Police Merit Board Public Safety Fund	7,018	5,035
State Police Motor Vehicle Theft Prevention Fund	191	67
State Rail Freight Loan Repayment Fund	57,086	46,182
State Small Business Credit Initiative Fund	131,899	67,390
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	2,702	2,104
Student Loan Operating Fund	157,483	78,802
Supreme Court Historic Preservation Fund	6,755	7,411
Teachers' Health Insurance Security Fund	169,897	144,230
Teachers' Retirement Excess Benefits Fund	103,027	93,307
Teachers' Retirement System Fund	587,568	426,588
Ticket for the Cure Fund	10,996	8,764
TOMA Consumer Protection	4,948	2,502
Underground Resource Conservation Enforcement Trust Fund	9,549	6,004
Underground Storage Tank Fund	152,243	85,413
University of Illinois Hospital Services Fund	72,839	1,442
Violent Crime Victims Assistance Fund	30,448	15,750
Water Pollution Control Revolving Fund	1,607,581	968,541
Wildlife and Fish Fund	30,519	64,938
Wildlife and Prairie Park Fund	152	54
Worker's Compensation Revolving Fund	92,342	96,353
Working Capital Revolving Loan Fund	1,637	361
	<hr/>	<hr/>
Total pooled investment income	51,708,789	39,414,367

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2015 and 2014**

	2015	2014
<b>Segregated Investments</b>		
College Savings Pool Administration Fund	\$ 541	\$ 430
Corn Commodity Trust Fund	-	1
Deferred Lottery Prize Winners Trust Fund	1,180	945
Homeland Security Emergency Preparedness Trust Fund	2,356	932
Illinois Habitat Endowment Trust Fund	1,991	1,988
Illinois Municipal Retirement Fund	3,816	6,822
Illinois Prepaid Tuition Trust Fund	1,331	1,590
Illinois State Toll Highway Revenue Fund	548,233	378,530
Kanerva vs State Trust Fund	4,955	1,575
Municipal Wireless Service Emergency Trust Fund	10	7
National Heritage Endowment Trust Fund	70	70
Radioactive Waste Facility Closure and Compensation Fund	12	19
Regulatory Trust Fund	51	11
Title III Social Security and Employment Service	3,798	2,255
Tobacco IPTIP	6,440	2,256
Unemployment Compensation Special Administration Fund	1,384	659
	<hr/>	<hr/>
Total segregated investment income	576,168	398,090
	<hr/>	<hr/>
Total investment income	\$ 52,284,957	\$ 39,812,457

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2015 and 2014**

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

	2015	2014
The Illinois Funds	\$ 112,126	\$ 111,388
Time Deposits	249,122	256,737
Money Market Mutual Fund	270,897	219,075
Repurchase Agreements	306,778	130,487
Commercial Paper	5,007,626	5,084,549
Federal Farm Credit Bank Notes	3,227,331	2,283,739
State of Illinois Secondary Pool Investment Program	3,554	(6,828)
Federal National Mortgage Association	6,495,714	7,359,447
Foreign Investments	325,457	286,480
Federal Home Loan Mortgage Corporation	9,076,837	3,981,718
Federal Home Loan Bank Notes	9,011,178	1,822,030
Supranational Bonds	22,546	-
U.S. Treasury Bills	13,039,104	15,697,093
U.S. Treasury Notes	3,042,022	2,207,555
Illinois Technology Development	118,367	58,036
Federal Agriculture Mortgage Corporation	1,400,130	(77,139)
	<u>\$ 51,708,789</u>	<u>\$ 39,414,367</u>
Total pooled investment income		

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Administrative Responsibilities  
June 30, 2015 and 2014**

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**Protest Trust Fund**

	<u>2015</u>	<u>2014</u>
Liability at beginning of year	\$ 121,481,858	\$ 172,875,227
Add		
Trust receipts collected by other State agencies	<u>33,215,216</u>	<u>16,456,170</u>
	<u>154,697,074</u>	<u>189,331,397</u>
Deduct		
Trust disbursements for refunds of successfully protested tax payments	36,452,277	45,408,653
Transfers to other funds	<u>27,788,055</u>	<u>22,440,886</u>
	<u>64,240,332</u>	<u>67,849,539</u>
Liability at end of year	<u><u>\$ 90,456,742</u></u>	<u><u>\$ 121,481,858</u></u>

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Key Performance Measures and Other Information  
June 30, 2015  
(Unaudited)**

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**Key Performance Measures:**

- The Illinois Funds' net asset base (net position) at 6/30/15 was \$5,200,828,328.
- The Illinois Fund earned net investment income of \$874 thousand during FY15.
  
- Funded 558 Cultivate IL Annual AG deposits totaling \$79,870,700.
- Funded 83 Cultivate IL Long Term AG deposits totaling \$4,357,796.
- Funded 2 Disaster Recovery deposits totaling \$186,000.
- Funded 1 Cultivate IL Alternative AG deposits totaling \$100,000.
  
- Total number of warrants successfully issued, countersigned and recorded: 3,390,276
- Total number of warrants successfully canceled, paid and recorded: 3,278,167
- Total amount of warrants successfully issued, countersigned and recorded: \$83,835,211,093
  
- Total amount of estate tax collections: \$371,231,158
- Total amount of estate tax refunds: \$20,998,261
  
- The investment portfolio earned \$52,284,957 during fiscal year 2015.
- Investments yielded approximately .39% throughout the current year.
- The average investment base increased approximately \$253,373,916 from the prior year.
  
- The value of the Illinois Technology Development account at cost as of 3/31/15, including capital calls and distributions issued through 6/30/15, was \$42,841,408.
- The value of the Illinois Technology Development account at estimated fair value as of March 31, 2015, including capital calls and distributions issued through June 30, 2015, was \$55,045,394. Fair values were estimated by the individual technology development accounts' management not the State Treasurer's Office or an independent third party.

**Other Information:**

**Inheritance and Estate Taxes**

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

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

Gross inheritance and estate tax receipts for the fiscal years ended June 30, 2015 and 2014, were \$371,231,158 and \$294,313,486, respectively. These amounts do not reflect refunds and fees distributed to county treasurers.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Key Performance Measures and Other Information  
June 30, 2015  
(Unaudited)**

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**Other Information (Continued):**

**Inheritance and Estate Taxes (Continued)**

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

**Tobacco Settlement Recovery Fund**

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

	<u>2015</u>	<u>2014</u>
Tobacco Settlement proceeds	\$ 115,778,166	\$ 160,067,022
Interest and other investment income	5,490	1,270
Total Receipts and Deposits	<u>\$ 115,783,656</u>	<u>\$ 160,068,292</u>

**Investment Policy  
June 30, 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 and supports community development efforts 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 risks.

#### **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 safety of principal and the availability of sufficient liquidity are the foremost objectives of the investment program. The investment portfolio shall be designed to obtain the highest available return given the foremost objectives. The Director of the State Portfolio and Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee (see Section 2.4 of this Policy), to determine the effectiveness of investment decisions in meeting investment goals. Benchmarks shall be reviewed at a minimum of every two years to ensure accuracy and relevance.

#### **2.4 INVESTMENT POLICY COMMITTEE:**

The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Deputy Treasurer, Chief Investment Officer, General Counsel, Director of Accounting/Budget/Warrant, Director of State Portfolio and Banking, Portfolio Manager & Director of

Portfolio Operations, Director of Illinois Funds & E-Pay, the Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer.

The Chief Investment Officer, who bears responsibility for the administration, planning, development and implementation of all financial and investment strategies per the direction of the Treasurer, shall assist the Treasurer in executing the duties and activities of the Investment Policy Committee.

### **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 a current satisfactory or outstanding rating 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 of this Policy. Furthermore, the financial institution's record and current level of financial commitment to its local community will be considered when deciding whether to deposit state funds in that financial institution. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/et seq.).

In addition, a list shall be maintained of approved security brokers/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 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

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

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned broker/dealer status;
- c) A signed copy of the Treasurer's trading authorization;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer Questionnaire;
- g) Certification of notice and knowledge of this Policy; and
- h) Any other documentation determined necessary by the Treasurer.

The Treasurer's Office shall seek to accord preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned status. The Treasurer's Office shall establish a process by which said specially designated statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer's authorized investment officer(s). 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 of America ("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; For purposes of this Section, the term "agencies and instrumentalities of the United States" includes: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971, and Acts amendatory thereto; the federal home loan banks and the federal home loan mortgage corporation; and any other agency created by Act of Congress and issues dollar-denominated debt;
- 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) Interest-bearing accounts for the deposit of funds in support of local community development efforts;
- f) 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;
- g) 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 at the time of purchase at one of the two highest classifications established by at least two standard rating services;
- h) 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;
- i) The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- j) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5);
- k) Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated, at the time of purchase, within four intermediate credit ratings of the United States' sovereign credit rating by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions, but not less than an A-

rating, or equivalent rating. The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the State of Illinois has a put option to tender the bonds within 10 years from the date of purchase;

- l) 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;
- m) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.); and
- n) The Treasurer may lend any securities acquired under this policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent.

#### **6.0 INVESTMENTS RESTRICTIONS:**

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

#### **7.0 COLLATERALIZATION:**

- a) All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer 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 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 mitigate 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;

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; and

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

**a)** The total amount of funds held by the State Treasurer;

**b)** The asset allocation for the investments made by the State Treasurer;

**c)** The benchmarks established by the State Treasurer;

**d)** A report detailing and summarizing deposits of funds in support of local community development efforts including the intended benefits of the deposit(s), the rate of interest on the deposit(s), the rate of interest on the loan or extension of credit to borrower(s), and the overall rate of return including a quantifiable measure related to the benefits;

**e)** Current and historic return information;

**f)** Any circumstances resulting in a deviation from the standards established in Section 8.0 of this Policy;

**g)** 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.

### **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.**