



STATE OF ILLINOIS  
**OFFICE OF THE  
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**OFFICE OF THE TREASURER**  
**FISCAL OFFICER RESPONSIBILITIES**

Financial Audit and Compliance Examination  
 For the Year Ended June 30, 2016

Release Date: March 9, 2017

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	No Repeat Findings			
Category 2:	1	0	1				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>1</b>	<b>0</b>	<b>1</b>				
<b>FINDINGS LAST AUDIT: 0</b>							

**SYNOPSIS**

- (16-1) The draft financial statements prepared by the Office of the Illinois Treasurer were delayed and required Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* related adjustments and additional disclosures.

**Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).  
**Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.  
**Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

**OFFICE OF THE TREASURER - STATE OF ILLINOIS**  
**FISCAL OFFICER RESPONSIBILITIES**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**For the Year Ended June 30, 2016**

<b>ASSETS, LIABILITIES AND ACCOUNTABILITIES</b>	<b>JUNE 30, 2016</b>	<b>JUNE 30, 2015</b>
<b>Assets and Other Debits</b>		
Cash and Cash Equivalents.....	\$ 8,073,434,694	\$ 4,619,663,849
Deposits and Investments, short-term.....	4,703,695,289	5,182,996,049
Deposits and Investments, long -term.....	991,435,511	1,953,620,053
Securities Lending Collateral.....	2,603,015,000	4,007,450,623
Other Assets.....	16,102,042	12,385,120
Amount of Future General Revenue Obligated for Debt Service.....	38,220,779,191	39,772,804,089
<b>TOTAL ASSETS AND OTHER DEBITS.....</b>	<b>\$ 54,608,461,727</b>	<b>\$ 55,548,919,783</b>
<b>Liabilities and Accountabilities</b>		
Liabilities for Balances on Deposit.....	\$ 12,429,140,664	\$ 10,526,762,593
Obligations Under Securities Lending.....	2,603,015,000	4,007,450,623
General Obligation Indebtedness.....	39,541,848,753	40,985,384,079
Accountabilities.....	34,457,310	29,322,488
<b>TOTAL LIABILITIES AND ACCOUNTABILITIES.....</b>	<b>\$ 54,608,461,727</b>	<b>\$ 55,548,919,783</b>

<b>FINANCIAL HIGHLIGHTS</b>	<b>2016</b>	<b>2015</b>
Investment income earned.....	\$ 58,858,608	\$ 55,553,463
Average yield on investments (unaudited).....	0.45%	0.39%
Increase (decrease) in investment base from prior year (unaudited).....	\$ (1,288,829,913)	\$ 253,373,916
Total amount of estate tax collections (unaudited).....	\$ 323,719,717	\$ 371,231,158
Total amount of estate tax refunds (unaudited).....	\$ 14,367,733	\$ 20,998,261
Cost basis of Technology Development accounts (unaudited).....	\$ 44,122,810	\$ 42,841,408
Estimated fair value of Technology Development account (unaudited)...	\$ 56,627,232	\$ 55,045,394
Number of warrants issued, countersigned and recorded (unaudited).....	2,879,015	3,390,276
Number of warrants canceled, paid and recorded (unaudited).....	2,765,756	3,278,167
Amount of warrants issued, countersigned and recorded (unaudited).....	\$ 76,796,227,363	\$ 83,835,211,093

**STATE TREASURER**  
During Engagement Period: Honorable Michael W. Frerichs  
Currently: Honorable Michael W. Frerichs

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**FINANCIAL REPORTING ADJUSTMENTS AND  
DISCLOSURES**

<b>Draft financial statements delayed</b>	<p>The draft financial statements prepared by the Office of the Illinois State Treasurer (IST) were delayed and required Governmental Accounting Standards Board (GASB) Statement No. 72, <i>Fair Value Measurement and Application</i> related adjustments and additional disclosures.</p>
<b>Policy to implement new accounting standard not adopted timely</b>	<p>The IST was not fully prepared for the implementation of GASB. 72 when it prepared the Fiscal Officer Responsibilities' financial statements. The IST did not adopt a comprehensive policy to implement GASB 72 until after the end of the fiscal year. A draft of the policy was provided to the auditors on November 9, 2016 more than three weeks after the draft financial statements were due to the Illinois Office of the Comptroller (Comptroller) and the external auditors for review on October 15, 2016.</p>
<b>Financial statements revised five weeks after the original draft</b>	<p>Draft financial statements were provided to the auditors on October 31, 2016. On November 21st and December 5th adjustments to the Technology Development Investment (TDA) accounts I and II, respectively were made by the IST and updated trial balances and financial statements were provided to the auditors. When these revised draft financial statements were provided on December 5, 2016, five weeks after the original draft financial statements were provided,</p>
<b>Missing required disclosures</b>	<p>they were missing required disclosures for investments measured using the net asset value (NAV) per share (or its equivalent) as a practical expedient, required by GASB 72. In addition, \$119 million of time deposits were improperly classified as Level 2 investments.</p>
<b>Time deposits improperly classified</b>	
<b>Draft financial statements delayed due to the complexity of the new accounting standard</b>	<p>IST officials stated that the Fiscal Officer Responsibilities' draft financial statements were delayed, a GASB policy was not formally approved and footnote disclosures were inadvertently omitted due to the complexity of the new industry standard for the application of fair value measurements. (Finding 1, pages 10-11)</p>
<b>Treasurer officials agree with auditors</b>	<p>We recommended the IST formally adopt written policies and procedures to implement new GASB standards to ensure they are implemented timely. In addition, we recommended the IST should update its GASB 72 policy to address deposits and investments measured at cost, alternative investments measured using NAV per share, and the required disclosures pertaining to each.</p> <p>IST officials accepted the auditor's recommendation.</p>

### **AUDITOR'S OPINION**

Our auditors stated the Office of the Treasurer, Fiscal Officer Responsibilities financial statements as of June 30, 2016 and for the year then ended were presented fairly in all material respects. The auditors noted the financial statements have been 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 general accepted in the United States of America, to meet the requirements of the State of Illinois. The auditor's opinion was not modified with respect to this matter.

### **ACCOUNTANT'S OPINION**

We conducted a compliance examination of the Office of the Treasurer, Fiscal Officer Responsibilities for the year ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the Treasurer complied, in all material respects, with the requirements described in the report.

This financial audit and State compliance examination was conducted by the firm of RSM US LLP.

**SIGNED ORIGINAL ON FILE**

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BRUCE L. BULLARD  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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