

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

Financial Audit
Years Ended June 30, 2016 and 2015

and Compliance Examination
Year Ended June 30, 2016

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, 2016 and 2015
Compliance Examination
For the Year Ended June 30, 2016

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**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
June 30, 2016**

Treasurer's Office Officials

Treasurer	Honorable Michael W. Frerichs
Deputy Treasurer	Mr. Jay Rowell
Chief of Staff	Mr. Justin Cajindos
Chief Investment Officer/Chief Financial Officer	Mr. Rodrigo Garcia
General Counsel	Mr. Keith Horton
Director of Banking	Ms. Elizabeth Turner
Inspector General	Mr. Ray Watson (January 19, 2016 to present)
	Mr. David Wells (through December 31, 2015)
Chief Internal Auditor	Ms. Leighann Manning (October 16, 2015 to present)
	Ms. Angela Bartlett (Acting) (April 1, 2015 to September 15, 2015)

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

Executive Office
State Capitol
219 State House
Springfield, Illinois 62706

Operational Divisions
Illinois Business Center
400 West Monroe, Suite 401
Springfield, Illinois 62704

Unclaimed Property & Other Divisions
Myers Building
1 W. Old State Capitol Plaza, 1st and 4th Floors
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

February 15, 2017

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, 2016. Based on this evaluation, we assert that during the year ended June 30, 2016, 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

SIGNED ORIGINAL ON FILE

Honorable Michael W. Frerichs
State Treasurer

Rodrigo Garcia
Chief Investment Officer and Chief Financial
Officer

Keith Horton
General Counsel

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Year Ended June 30, 2016**

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	1	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	1

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)

2016-001	10	Financial Reporting Adjustments and Disclosures	Significant Deficiency
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In addition, the following finding, which is reported as a current finding related to *Government Auditing Standards*, also meets the reporting requirements for State Compliance.

Findings (State Compliance)

2016-001	10	Financial Reporting Adjustments and Disclosures	Noncompliance and Significant Deficiency
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Exit Conference

The findings and recommendations appearing in this report were discussed by Treasurer personnel at an exit conference on February 2, 2017. Attending were:

Treasurer:

Leighann Manning	Chief Internal Auditor
Jay Rowell	Deputy Treasurer
Rodrigo Garcia	Chief Investment Officer/Chief Financial Officer
Deborah Miller	Director Accounting/Budget/Warrant
Wes Howerton	Deputy Director Accounting/Budget/Warrant
Eric Williams	Internal Auditor
Nick Barnard	Internal Auditor

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Year Ended June 30, 2016**

Exit Conference (Continued)

Office of the Auditor General:

Jon Fox

Audit Manager

RSM US LLP:

Linda Abernethy

Partner

Ryan Caldwell

Manager

Crystal Bruns

Senior Associate

The responses to the recommendations were provided by Leighann Manning in an email dated February 14, 2017.

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

Honorable Frank J. Mautino
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, 2016. 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, 2016. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as item 2016-001.

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. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings as item 2016-001 that we consider to be a significant deficiency.

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

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

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.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
February 15, 2017

**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 Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Treasurer's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 15, 2017. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2016-001 that we consider to be a significant deficiency.

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*.

Treasurer's Response to Findings

The Treasurer's response to the finding identified in our audit is described in the accompanying schedule of findings. The Treasurer's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
February 15, 2017

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit and Compliance Examination
Year Ended June 30, 2016**

Current Finding (*Government Auditing Standards*)

Finding 2016 – 001 Financial Reporting Adjustments and Disclosures

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, *Fair Value Measurement and Application* related adjustments and additional disclosures.

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. Due to the significance of GASB 72 on the financial statements, the Comptroller granted a one month extension to the IST to complete its preparation of the draft financial statements.

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, 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. Illinois Technology Development investments totaling \$56 million for fiscal year 2016 and \$55 million for fiscal year 2015 were improperly classified as Level 3 investments in the draft financial statements. These investments were measured using the NAV equivalent which requires additional footnote disclosures pertaining to unfunded commitments, redemption restrictions and investment strategies. Leveling is not required for these investment types. In addition, \$119 million of time deposits were improperly classified as Level 2 investments. According to GASB 72 time deposits are stated at cost and should not have been included in the fair value level table.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, so that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Additionally, the provisions of GASB 72 have detailed requirements for the application and measurement of the fair value of investments and required footnote disclosures.

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. An internal plan for the implementation of GASB 72, a new industry accounting standard, was developed and discussed at length internally as well as with a GASB Project Manager. However, the process was not formally reduced to a written policy until after completion of the first year of implementation to ensure the appropriateness of the written policy, given the significant effect of GASB 72 on the IST's Fiscal Officer Responsibilities' financial statements.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit and Compliance Examination
Year Ended June 30, 2016**

Current Finding (*Government Auditing Standards*) (*Continued*)

Finding 2016 – 001 Financial Reporting Adjustments and Disclosures

As a result of delays in preparing for the implementation of GASB Statement No. 72, including the adoption of a comprehensive policy, the draft financial statements were not completed in a timely manner and the financial statements required adjustments and additional footnote disclosures, which were not identified and corrected prior to providing draft financial statements to the Comptroller and external auditors. (Finding No. 2016-001)

Recommendation

We recommend the IST formally adopt written policies and procedures to implement new GASB standards to ensure they are implemented timely. In addition 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.

Treasurer's Response

We accept the recommendation. While an internal plan for GASB 72 implementation was discussed at length with the external auditors, as well as a GASB 72 Project Manager, we elected to not finalize the policy until the first year of implementation occurred. This decision was made due to the complexities of the standard and the inability to receive confirmation on how to classify the TDA investments. Our policy was signed on January 20, 2017 and addressed deposits and investments measured at cost, alternative investments measured using NAV per share, and the required disclosures pertaining to each.

The financial statements were originally completed on October 31, 2016. On November 21, 2016 we received additional outside documentation requiring an immaterial adjustment to the financial statements. This immaterial adjustment was made and provided on December 5, 2016. On the same day, we were questioned regarding the leveling of the TDA investments, which are approximately 0.43% of our total investment portfolio. A conference call with the external auditors was held on December 8, 2016, discussing how GASB 72 should be applied to these investments. During this call the external auditors noted the TDA investments were correctly valued, however, additional disclosures were needed. The disclosures were added to the financial statements and provided to the external auditors one day later on December 9, 2016.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
For the Years Ended June 30, 2016 and 2015**

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).

Summary of Findings

The auditors identified matters involving the Treasurer's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 10 and 11 of this report as item 2016-001, (Financial Reporting Adjustments and Disclosures).

Exit Conference

The findings and recommendations appearing in this report were discussed by Treasurer personnel at an exit conference on February 2, 2017. Attending were:

Treasurer:

Leighann Manning
Jay Rowell
Rodrigo Garcia
Deborah Miller
Wes Howerton
Eric Williams
Nick Barnard

Chief Internal Auditor
Deputy Treasurer
Chief Investment Officer/Chief Financial Officer
Director Accounting/Budget/Warrant
Deputy Director Accounting/Budget/Warrant
Internal Auditor
Internal Auditor

Office of the Auditor General:

Jon Fox

Audit Manager

RSM US LLP:

Linda Abernethy
Ryan Caldwell
Crystal Bruns

Partner
Manager
Senior Associate

The responses to the recommendations were provided by Leighann Manning in an email dated February 14, 2017.

Independent Auditor's Report

The Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Treasurer's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Other Debits, Liabilities and Accountabilities of the Treasurer, as of June 30, 2016 and 2015, 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.

Emphasis of Matters

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.

Implementation of New Accounting Standard

As discussed in Note B, during the year ended June 30, 2016, the Treasurer adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. The implementation of GASB Statement No. 72 resulted in a restatement of investment balances, accountabilities for investment income earned but not received, and investment income for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits for the years ended June 30, 2016 and 2015 were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Treasurer's basic financial statements. The accompanying 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 accompanying Supplementary Information (pages 40 – 58) for the years ended June 30, 2016 and 2015 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 accompanying Supplementary Information for the years ended June 30, 2016 and 2015 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Information (pages 59 – 67) 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 February 15, 2017, and December 21, 2015 on our consideration of the Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
February 15, 2017

Financial Statements

State of Illinois
Office of the Treasurer
Fiscal Officer Responsibilities
Statements of Assets and Other Debits, Liabilities and Accountabilities
June 30, 2016 and 2015

	2016	2015
Assets and Other Debits		
Cash and Cash Equivalents		
Demand Deposits	\$ 1,867,039	\$ 8,484,062
Clearing Account Deposits and Deposits in Transit	41,478,623	28,355,734
Total cash	43,345,662	36,839,796
Repurchase Agreements	1,949,702,256	389,106,502
Commercial Paper	2,428,100,952	1,144,824,606
Time Deposits	15,000,000	-
The Illinois Funds	1,323,452,120	1,047,919,052
Federal Home Loan Mortgage Corporation Discount Notes	-	74,997,812
Federal Home Loan Bank Discount Notes	169,949,100	674,946,965
Money Market Mutual Funds	1,993,961,139	1,251,029,115
Mortgage Reserve Fund	-	1
U.S. Treasury Bills	149,923,465	-
Total Cash and Cash Equivalents	8,073,434,694	4,619,663,849
Deposits and Investments		
Short-term Investments		
Time Deposits	101,624,300	89,310,476
Commercial Paper	1,717,734,612	1,918,571,612
Federal National Mortgage Association Discount Notes	249,654,722	-
Federal Home Loan Mortgage Corporation Discount Notes	398,879,312	-
U.S. Treasury Bills	1,598,263,715	2,546,652,516
U.S. Treasury Notes	250,142,580	250,152,335
Federal Home Loan Mortgage Corporation	69,992,400	-
Federal National Mortgage Association	-	25,147,500
Federal Home Loan Bank	94,836,095	288,165,360
Federal Farm Credit Banks	122,628,803	24,995,250
Federal Agriculture Mortgage Corporation	99,938,750	25,001,000
Foreign Investments	-	15,000,000
Long-term Investments		
Municipal Bonds	303,108	-
Time Deposits	2,713,478	4,429,642
U.S. Treasury Notes	51,011,720	100,735,350
Federal Home Loan Mortgage Corporation	375,123,000	523,626,000
Federal Home Loan Bank	143,925,750	593,121,370
Federal National Mortgage Association	124,880,250	397,933,250
Federal Farm Credit Banks	25,043,000	172,509,930
Federal Agriculture Mortgage Corporation	141,612,610	66,147,450
Supranational Bonds	50,133,900	29,937,600
State of Illinois Secondary Pool Investment Program	61,463	134,067
Illinois Technology Development	54,191,137	55,045,394
Illinois Technology Development II	2,436,095	-
Foreign Investments	20,000,000	10,000,000
Total Deposits and Investments	5,695,130,800	7,136,616,102
Securities Lending Collateral		
Invested in Repurchase Agreements	2,603,015,000	4,007,450,623
Other Assets		
Warrants Cashed, but not Canceled	5,000	65,000
Receivables from Universities and Agencies for Moneys Advanced	4,864,268	410,063
Receivable from City of Edwardsville	236,983	242,981
Investment Income Earned, but not Received	10,995,791	11,667,076
Total Other Assets	16,102,042	12,385,120
Other Debits		
Amount of Future General Revenue Obligated for Debt Service	38,220,779,191	39,772,804,089
Total Assets and Other Debits	\$ 54,608,461,727	\$ 55,548,919,783

(Continued)

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Statements of Assets and Other Debits, Liabilities and Accountabilities (Continued)
June 30, 2016 and 2015**

	2016	2015
Liabilities and Accountabilities		
Liabilities for Balances on Deposit		
Comptroller		
Protested taxes	\$ 136,048,539	\$ 90,456,742
Available for Appropriation or Expenditure	10,817,813,138	8,712,990,342
Agencies' Deposits Outside the State Treasury	873,270,247	811,071,687
Comptroller's Warrants Outstanding	602,008,740	912,243,822
	<u>12,429,140,664</u>	<u>10,526,762,593</u>
Total Liabilities for Balances on Deposit		
Other Liabilities		
Obligations under Securities Lending	2,603,015,000	4,007,450,623
	<u>2,603,015,000</u>	<u>4,007,450,623</u>
Total Other Liabilities		
General Obligation Indebtedness		
Principal and Interest Due Within One Year	3,357,721,444	3,057,845,881
Principal and Interest Due Thereafter	36,184,127,309	37,927,538,198
	<u>39,541,848,753</u>	<u>40,985,384,079</u>
Total General Obligation Indebtedness		
Accountabilities		
Receivable from City of Edwardsville	236,983	242,981
Investment Income Earned, but not Received (Net of Cumulative Market Adjustments)	34,220,327	29,079,506
Mortgage Reserve Fund	-	1
	<u>34,457,310</u>	<u>29,322,488</u>
Total Accountabilities		
Total Liabilities and Accountabilities		
	<u>\$ 54,608,461,727</u>	<u>\$ 55,548,919,783</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, 2016 and 2015**

	2016	2015
Investment Income Earned	<u>\$ 58,858,608</u>	<u>\$ 55,553,463</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, 2016 and 2015**

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, 2016 and 2015**

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.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

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.

Restatement of Prior Year Amounts: Certain balances as of and for the year ended June 30, 2015 have been restated to reflect the implementation of GASB Statement No. 72 "Fair Value Measurement and Application". As a result of the restatement, balances reported for Illinois Technology Development investments were increased by \$12,203,986 to \$55,045,393. Additionally, Accountabilities for Investment Income Earned, but not Received were increased by \$12,203,986 to \$29,079,506. Lastly, investment income was increased by \$3,268,506 to \$55,553,463.

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.

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, generally requires state and local governments to measure assets that meet the definition of an investment at fair value. GASB defines an investment asset as a security or other asset that a government holds primarily for the purpose of income or profit and its present service capacity is based solely on its ability to generate cash or to be sold to generate cash. In addition, GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments exempt from fair value measurement include the following:

- Money market investments and participating interest-earning investment contracts (non-negotiable CD's) that have remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools should be measured using amortized cost.
- Investments held by 2a-7 external investment pools should be measured at amortized cost.
- Investments in 2a7-like pools should be measured at Net Asset Value per share.

GASB Statement No. 72 requires disclosure regarding the fair value of investments. Investment pricing information, including market quotes, are the basis for investment fair values.

Investments are recorded at fair market value, with the exception of Commercial Paper, Money Market Mutual Funds, Repurchase Agreements, Illinois Funds, U.S. Agency Discount Notes, and U.S. Treasury Bills which are valued at amortized cost. Certain short-term investments have a maturity date of less than one year from the date of acquisition and are valued at amortized cost as permitted by GASB 72. The Treasurer's investments in U.S. Treasury Bills and U.S. Agency Discount Notes are short-term investments with no coupon payments. The investments in repurchase agreements have maturities less than one year from date of acquisition. The Illinois Funds meets the criteria established in GASB Statement No. 79 and, thus, reports all investments at amortized cost.

The Technology Development Investments were restated to fair market value for FY15.

GASB statement 72 also established a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instrument measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following tables summarize investments within the fair value hierarchy at June 30, 2016 and 2015 (expressed in thousands):

FY16 Investments by Fair Value Level:	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Notes	\$ 301,154	\$ 301,154	\$ -	\$ -
Foreign Investments	20,000	-	20,000	-
Federal Home Loan Mortgage Corporation	445,115	445,115	-	-
Federal Home Loan Bank	238,762	238,762	-	-
Federal National Mortgage Association	124,880	124,880	-	-
Federal Farm Credit Banks	147,672	147,672	-	-
Federal Agriculture Mortgage Corporation	241,552	241,552	-	-
Municipal Bonds	303	303	-	-
Supranational Bonds	50,134	50,134	-	-
State of Illinois Secondary Pool Investment Program	62	-	62	-
Total Investments by Fair Value Level	\$ 1,569,634	\$ 1,549,572	\$ 20,062	\$ -

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments. Investments classified in Level 2 of the fair value hierarchy are valued using the market approach by using either quoted prices for identical assets in markets that are not active or matrix pricing.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

FY16 Investments measured at net asset value (NAV)

IL Tech Develop	Apex Venture Partners	\$	3,569
IL Tech Develop	Baird Venture Partners III. LP		6,063
IL Tech Develop	Beecken, Petty, O'Keefe & Company, LLP		874
IL Tech Develop	Ceres Venture LP		231
IL Tech Develop	Illinois Emerging Technologies		537
IL Tech Develop	Illinois Emerging Technologies Fund II		1,247
IL Tech Develop	Illinois Innovation Accelerator Fund LLC - I2A		1,776
IL Tech Develop	JK & B Capital V, LP		3,418
IL Tech Develop	MK Capital LP		1,298
IL Tech Develop	MK Capital II, LP		6,005
IL Tech Develop	MVC Private Equity Fund, LP		5,844
IL Tech Develop	OCA Venture Partners II, LP		5,977
IL Tech Develop	Open Prairie Ventures II, LP		2,418
IL Tech Develop	Patriot Capital II LP		3,790
IL Tech Develop	Prairie Capital V LP		6,000
IL Tech Develop	Sterling Partners - Small Market Growth 2009, LP		2,019
IL Tech Develop	Sterling Venture Partners II, LP		1,939
IL Tech Develop	Svboda, Collins Fund II, LP		1,186
IL Growth & Innov	GreatPoint Ventures Innovation Fund, LP		2,436
Total Investments measured at net asset value (NAV)		\$	56,627
Total FY16 Investments at Fair Value		\$	1,626,261

FY15 Investments by Fair Value Level:

	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Notes	\$ 350,888	\$ 350,888	\$ -	\$ -
Foreign Investments	25,000	-	25,000	-
Federal Home Loan Mortgage Corporation	523,626	523,626	-	-
Federal Home Loan Bank	881,287	881,287	-	-
Federal National Mortgage Association	423,081	423,081	-	-
Federal Farm Credit Banks	197,505	197,505	-	-
Federal Agriculture Mortgage Corporation	91,148	91,148	-	-
Supranational Bonds	29,938	29,938	-	-
State of Illinois Secondary Pool Investment Program	134	-	134	-
Total Investments by Fair Value Level	\$ 2,522,607	\$ 2,497,473	\$ 25,134	\$ -

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments. Investments classified in Level 2 of the fair value hierarchy are valued using the market approach by using either quoted prices for identical assets in markets that are not active or matrix pricing.

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Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

FY15 Investments measured at net asset value (NAV)

IL Tech Develop	Apex Venture Partners	\$	4,417
IL Tech Develop	Baird Venture Partners III. LP		6,756
IL Tech Develop	Beecken, Petty, O'Keefe & Company, LLP		1,142
IL Tech Develop	Ceres Venture LP		339
IL Tech Develop	Illinois Emerging Technologies		697
IL Tech Develop	Illinois Emerging Technologies Fund II		1,296
IL Tech Develop	Illinois Innovation Accelerator Fund LLC - I2A		1,548
IL Tech Develop	JK & B Capital V, LP		3,044
IL Tech Develop	MK Capital LP		2,198
IL Tech Develop	MK Capital II, LP		5,203
IL Tech Develop	MVC Private Equity Fund, LP		5,000
IL Tech Develop	OCA Venture Partners II, LP		5,503
IL Tech Develop	Open Prairie Ventures II, LP		2,369
IL Tech Develop	Patriot Capital II LP		3,646
IL Tech Develop	Prarie Capital V LP		4,783
IL Tech Develop	Sterling Partners - Small Market Growth 2009, LP		2,437
IL Tech Develop	Sterling Venture Partners II, LP		2,873
IL Tech Develop	Svboda, Collins Fund II, LP		1,794
Total Investments measured at net asset value (NAV)		\$	55,045

Total FY15 Investments at Fair Value **\$ 2,577,652**

Additional disclosures for investments measured using the net asset value per share are listed on the page that follows (expressed in thousands):

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

FY16 Investments measured at net asset value (NAV)	Fair Value	Unfunded Commitments
Apex Venture Partners	\$ 3,569	\$ -
Baird Venture Partners III. LP	6,063	-
Beecken, Petty, O'Keefe & Company, LLP	874	-
Ceres Venture LP	231	61
Illinois Emerging Technologies	537	-
Illinois Emerging Technologies Fund II	1,247	367
Illinois Innovation Accelerator Fund LLC - I2A	1,776	-
JK & B Capital V, LP	3,418	733
MK Capital LP	1,298	-
MK Capital II, LP	6,005	600
MVC Private Equity Fund, LP	5,844	1,373
OCA Venture Partners II, LP	5,977	113
Open Prairie Ventures II, LP	2,418	-
Patriot Capital II LP	3,790	750
Prarie Capital V LP	6,000	960
Sterling Partners - Small Market Growth 2009, LP	2,019	-
Sterling Venture Partners II, LP	1,939	-
Svboda, Collins Fund II, LP	1,186	149
GreatPoint Ventures Innovation Fund, LP	2,436	7,516
Total Investments measured at net asset value (NAV)	\$ 56,627	\$ 12,622

FY15 Investments measured at net asset value (NAV)	Fair Value	Unfunded Commitments
Apex Venture Partners	\$ 4,417	\$ 120
Baird Venture Partners III. LP	6,756	-
Beecken, Petty, O'Keefe & Company, LLP	1,142	-
Ceres Venture LP	339	107
Illinois Emerging Technologies	697	-
Illinois Emerging Technologies Fund II	1,296	489
Illinois Innovation Accelerator Fund LLC - I2A	1,548	-
JK & B Capital V, LP	3,044	1,206
MK Capital LP	2,198	-
MK Capital II, LP	5,203	900
MVC Private Equity Fund, LP	5,000	1,373
OCA Venture Partners II, LP	5,503	457
Open Prairie Ventures II, LP	2,369	-
Patriot Capital II LP	3,646	750
Prarie Capital V LP	4,783	1,260
Sterling Partners - Small Market Growth 2009, LP	2,437	256
Sterling Venture Partners II, LP	2,873	-
Svboda, Collins Fund II, LP	1,794	195
Total Investments measured at net asset value (NAV)	\$ 55,045	\$ 7,113

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

Illinois Technology Development I and II (ITD I and ITD II) investments are privately-held limited partnership equity investment funds that invest in privately-held companies in accordance with the Technology Development Act (30 ILCS 265). The TDA Accounts invest in venture capital firms. A “venture capital” firm makes equity financings that are provided for starting up, expanding, or relocating a company, or for related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital. This includes, but is not limited to, financing classified as venture capital, mezzanine, buyout and/or growth. The firms will have a strong Illinois presence with an overall goal to attract, assist and retain quality technology businesses in Illinois.

These investments cannot be redeemed with the funds. Instead, the nature of these investments is that distributions are received through the liquidation of the underlying assets of the fund over the contractual term lives of the investments. The contractual terms of these investments generally range between 10-15 years from the original investment date depending upon whether optional extensions are exercised by the managers of the partnerships. Based on the terms of the limited partnership investments, it is anticipated that the last of the proceeds of these investments will be returned no later than February 10, 2024 for ITD I and May 11, 2027 for ITD II, with the bulk of the proceeds being received sooner. The fair values of the ownership interests in the various limited partnership investments have been determined based on the most recent capital account balances provided by the respective general partners of each limited partnership. Due to the uniqueness and illiquid nature of the underlying privately-held investments, general partners use valuation techniques that rely on unobservable inputs such as estimates and appraisals derived from comparable market transactions to determine the net asset value per share for limited partner investors.

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.

Investments: Excluding Time Deposits, the Treasurer had the following investments, stated at fair value except as noted, and maturities as of June 30. Unrealized gains and losses are accounted for in the investment in which the change in fair value occurred. (Amounts are in thousands.)

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

2016	Maturing in:				
	Less than 1 year	1 - 5 years	6 - 10 years	NA***	Total
Commercial Paper *	\$ 4,145,836	\$ -	\$ -	\$ -	\$ 4,145,836
Repurchase Agreements*	1,949,702	-	-	-	1,949,702
U.S. Treasury Bills *	1,748,187	-	-	-	1,748,187
U.S. Treasury Notes	250,142	51,012	-	-	301,154
Federal Home Loan Bank	94,836	143,926	-	-	238,762
Federal Farm Credit Banks	122,629	25,043	-	-	147,672
Federal Home Loan Mortgage Corporation	69,992	375,123	-	-	445,115
Federal National Mortgage Association	-	124,880	-	-	124,880
Federal Agriculture Mortgage Corporation	99,939	141,613	-	-	241,552
Federal National Mortgage Association Discount Notes	249,655	-	-	-	249,655
Federal Home Loan Mortgage Corporation Discount Notes	398,879	-	-	-	398,879
Federal Home Loan Bank Discount Notes	169,949	-	-	-	169,949
State of Illinois Secondary Pool Investment Program	-	21	41	-	62
Supranational Bonds	-	50,134	-	-	50,134
Municipal Bonds	-	303	-	-	303
Foreign Investments**	-	20,000	-	-	20,000
Securities Lending Collateral Invested in Repurchase Agreements*	2,603,015	-	-	-	2,603,015
Illinois Technology Development	-	-	-	54,191	54,191
Illinois Technology Development II	-	-	-	2,436	2,436
The Illinois Funds*	-	-	-	1,323,452	1,323,452
Money Market Mutual Funds*	-	-	-	1,993,961	1,993,961
Total Investments and Securities Lending Collateral, excluding Time Deposits	\$ 11,902,761	\$ 932,055	\$ 41	\$ 3,374,040	\$ 16,208,897

*Reported at Amortized Cost.

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

*** Categorization not applicable.

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Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

<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	-	-	-	55,045	-	55,045
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	\$ 11,385,013	\$ 1,894,075	\$ 70	\$ 2,353,993	-	\$ 15,633,151

*Reported at Amortized Cost.

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

*** Categorization not applicable.

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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2016, 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 Apple Incorporated, Coca-Cola Company, Exxon Mobil Corporation, Intel Corporation, Microsoft Corporation, Nestle Capital Corporation, Novartis Finance Corporation, Pfizer Incorporated and 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 short-term investment in Municipal Bonds was rated Aa1 by Moody's but was not rated 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.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2016, credit ratings of collateral for securities lending collateral invested in repurchase agreements are as follows:

Standard & Poor's Rating	Percentage % (Percent of Total)	Moody's Rating	Percentage % (Percent of Total)
AAA	1.42%	Aaa	1.83%
AA+	0.64%	Aa1	0.66%
AA	1.03%	Aa2	0.95%
AA-	1.37%	Aa3	1.03%
A-1	0.02%	A1	2.51%
A+	0.50%	A2	0.38%
A	2.00%	A3	1.89%
A-	1.53%	Baa1	2.16%
BBB+	3.40%	Baa2	1.81%
BBB	2.62%	Baa3	4.67%
BBB-	3.89%	Ba1	2.67%
BB+	3.33%	Ba2	2.30%
BB	4.29%	Ba3	6.01%
BB-	7.06%	B1	3.79%
B+	3.18%	B2	3.08%
B	5.54%	B3	5.06%
B-	2.38%	Caa1	6.30%
CCC+	4.43%	Caa2	4.15%
CCC	3.70%	Caa3	1.98%
CCC-	3.53%	Ca	0.26%
CC	0.44%	C	0.08%
Not Rated	43.70%	P-1	0.02%
	100.00%	Not Rated	46.41%
			100.00%

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 and 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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Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

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:

Standard & Poor's Rating	Percentage % (Percent of Total)	Moody's Rating	Percentage % (Percent of Total)
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%
	100.00%	Not Rated	65.50%
			100.00%

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

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

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

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 six and four mutual funds in 2016 and 2015, 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.

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.

The Treasurer's net increase (decrease) in the fair value of investments during 2016 and 2015 was \$10,103,381 and \$7,605,602, 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.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount of repurchase agreements, including accrued interest, was \$1,949,702,256 and \$389,106,502, and the fair value of the collateral securities under the repurchase agreements was \$1,983,662,924 and \$397,097,350, as of June 30, 2016 and 2015, respectively.

Investment Commitment: The Illinois Technology Development Account I and II (TDA I and II) are administered by the Treasurer in accordance with 30 ILCS 265 and has made commitments totaling approximately \$73 million as of June 30, 2015 and \$83 million as of June 30, 2016. The remaining unfunded commitment amount was approximately \$7.1 million as of June 30, 2015 and \$12.6 million as of June 30, 2016.

The Illinois Technology Development Account I has made commitments totaling approximately \$73 million as of June 30, 2015 and \$73 million as of June 30, 2016. The remaining unfunded commitment amount was approximately \$7.1 million as of June 30, 2015 and \$5.1 million as of June 30, 2016.

The Illinois Technology Development Account II (also known as the Illinois Growth and Innovation Fund) has made commitments totaling \$10 million as of June 30, 2016. The remaining unfunded commitment amount was approximately \$7.5 million as of June 30, 2016. TDA II did not make an investment in FY2015 since it formally launched in February 2016 and made its first investment for a total of \$10 million on May 11, 2016. Approximately \$2.5 million of the total commitment made by the Illinois Growth and Innovation Fund was funded as of June 30, 2016.

It is anticipated that additional commitments will be made in the coming years for TDA II up to or near to the limits established in the act. No additional future commitments are anticipated for TDA I.

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, 2016 and 2015. (Amounts are in thousands.)

	2016		2015	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
U.S. Agency:				
Federal Home Loan Bank	\$ -	-	\$ 1,556,234	9.96
Federal Home Loan Mortgage Corp	843,995	5.21		
Repurchase Agreements:				
HSBC	1,200,000	7.41	-	-

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.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

During fiscal year 2016 and 2015, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions on loan amounts of available and eligible securities during fiscal years 2016 and 2015, respectively. 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 2016 and 2015 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2016 and 2015, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2016 were \$2,603,015,000 and \$2,587,869,617, 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, 2015 were \$4,007,450,623 and \$3,980,606,070, 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, working with outside counsel and the Trustee, terminated the Trust in 2015. The Treasurer is working through outside counsel to resolve the remaining litigation in Madison County, and liquidate the remaining assets.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE F. DEFEASED DEBT

During fiscal years 2016 and 2015, the State of Illinois issued no General Obligation Refunding Bonds.

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2016 and 2015, \$0 and \$11,600,000, respectively, of bonds outstanding was considered defeased.

NOTE G. SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER

At June 30, 2016 and 2015, the Treasurer was responsible for \$109,552,590 and \$115,466,471, respectively, of securities held in safekeeping for various State departments, agencies and institutions. These amounts are not reflected in the Statements of Assets and Other Debits, Liabilities and Accountabilities.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS

A summary of the changes from June 30, 2015 to June 30, 2016, in General Obligation Bonded Indebtedness by issue type follows:

	Multi-Purpose - Interest Rates varying from 1.84% to 7.35% Series 1994 through 2016, due serially to 2041	Pension Funding - Interest Rates varying from 4.95% to 5.88% Series 2003 and 2011, due serially to 2033	General Obligation Refunding Series 2003 through 2012 - Interest Rates varying from 2.0% to 7.3% due serially to 2033	Total General Obligation Indebtedness
Balance at June 30, 2015				
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>
Redemptions charge to Appropriations				
Principal	616,116,084	600,000,000	413,990,256	1,630,106,340
Interest	630,397,203	656,454,000	140,888,338	1,427,739,541
Total	<u>1,246,513,287</u>	<u>1,256,454,000</u>	<u>554,878,594</u>	<u>3,057,845,881</u>
Certificates/Bonds issued				
Principal	1,030,000,000	-	-	1,030,000,000
Interest	584,310,555	-	-	584,310,555
Total	<u>1,614,310,555</u>	<u>-</u>	<u>-</u>	<u>1,614,310,555</u>
Balance at June 30, 2016				
Principal	11,655,570,311	12,100,000,000	2,489,226,799	26,244,797,110
Interest	6,876,819,555	5,884,284,000	535,948,088	13,297,051,643
Total	<u>\$ 18,532,389,866</u>	<u>\$ 17,984,284,000</u>	<u>\$ 3,025,174,887</u>	<u>\$ 39,541,848,753</u>
Amounts due within one year				
				\$ 1,997,145,000
				1,360,576,444
				<u>\$ 3,357,721,444</u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

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
Balance at June 30, 2014				
Principal	\$ 11,752,542,674	\$ 13,793,200,000	\$ 3,334,776,496	\$ 28,880,519,170
Interest	7,567,963,020	7,245,421,372	837,333,322	15,650,717,714
Total	<u>19,320,505,694</u>	<u>21,038,621,372</u>	<u>4,172,109,818</u>	<u>44,531,236,884</u>
Redemptions charge to Appropriations				
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>
Certificates/Bonds issued				
Principal	-	-	-	-
Interest	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at June 30, 2015				
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>
Amounts due within one year				
				\$ 1,664,750,000
				1,393,095,881
				<u>\$ 3,057,845,881</u>

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015**

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, 2016, are as follows:

Year ending June 30	Principal	Interest	Total
2017	\$ 1,997,145,000	\$ 1,360,576,444	\$ 3,357,721,444
2018	1,987,840,000	1,266,387,314	3,254,227,314
2019	1,976,505,000	1,165,008,798	3,141,513,798
2020	1,103,430,000	1,060,791,308	2,164,221,308
2021	1,130,890,000	1,006,038,497	2,136,928,497
2022-2026	6,084,340,067	4,123,139,509	10,207,479,576
2027-2031	6,951,510,071	2,454,912,356	9,406,422,427
2032-2036	4,353,714,862	678,822,427	5,032,537,289
2037-2041	766,000,000	74,797,100	840,797,100
Total	\$ 26,351,375,000	\$ 13,190,473,753	\$ 39,541,848,753

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

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

NOTE I. CONTINGENCIES

The State of Illinois, Office of the Treasurer (Treasurer) is involved in certain lawsuits and other legal proceedings. The range of potential losses as a result of these lawsuits and other proceedings against the Treasurer are unknown at this time.

NOTE J. SUBSEQUENT EVENT

On July 1, 2016 the State of Illinois adopted an operating budget effective through December 31, 2016. The Illinois State Treasurer's Office (Treasurer's Office) is a constitutional office of the State of Illinois and operates under an approved budget. The Treasurer's Office is only authorized to make payments to vendors for expenses incurred through December 31, 2016. 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, 2016 and 2015**

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

	June 30,	
	2016	2015
Assets and Other Debits		
Cash and Cash Equivalents	\$ 8,073,434,694	\$ 4,619,663,849
Deposits and Investments	5,695,130,800	7,136,616,102
Securities Lending Collateral	2,603,015,000	4,007,450,623
Other Assets	16,102,042	12,385,120
Other Debits	38,220,779,191	39,772,804,089
Total Assets and Other Debits	\$ 54,608,461,727	\$ 55,548,919,783
Liabilities for Balances on Deposit		
Comptroller		
Protested Taxes	\$ 136,048,539	\$ 90,456,742
Available for Appropriation or Expenditure	10,817,813,138	8,712,990,342
Agencies' Deposits Outside the State Treasury	873,270,247	811,071,687
Comptroller's Warrants Outstanding	602,008,740	912,243,822
Total Liabilities for Balances on Deposit	12,429,140,664	10,526,762,593
Other Liabilities	2,603,015,000	4,007,450,623
General Obligation Indebtedness	39,541,848,753	40,985,384,079
Total Liabilities	54,574,004,417	55,519,597,295
Accountabilities		
Receivable from City of Edwardsville	236,983	242,981
Investment Income Earned, but not Received	34,220,327	29,079,506
Federal Reserve Bank Settlement Account Reserve	-	-
Mortgage Reserve Fund	-	1
Total Accountabilities	34,457,310	29,322,488
Total Liabilities and Accountabilities	\$ 54,608,461,727	\$ 55,548,919,783

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits – Detail
June 30, 2016 and 2015**

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

	June 30,	
	2016	2015
Cash and Cash Equivalents		
Demand Deposits	\$ 1,867,039	\$ 8,484,062
Clearing Account Deposits and Deposits in Transit	41,478,623	28,355,734
Repurchase Agreements	1,949,702,256	389,106,502
Commercial Paper	2,428,100,952	1,144,824,606
Time Deposits	15,000,000	-
The Illinois Funds	1,323,452,120	1,047,919,052
Federal Home Loan Mortgage Corporation Discount Notes	-	74,997,812
Federal Home Loan Bank Discount Notes	169,949,100	674,946,965
Money Market Mutual Funds	1,993,961,139	1,251,029,115
Mortgage Reserve Fund	-	1
U.S. Treasury Bills	149,923,465	-
	<hr/>	<hr/>
Total Cash and Cash Equivalents	<u>\$ 8,073,434,694</u>	<u>\$ 4,619,663,849</u>

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

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits - Detail (Continued)
June 30, 2016 and 2015**

	June 30, 2016			June 30, 2015		
	Collected	Float	Total	Collected	Float	Total
Demand deposits						
Bank of America	\$ 1,027,318	\$ -	\$ 1,027,318	\$ 1,348,773	\$ -	\$ 1,348,773
JP Morgan Chase	46,400	-	46,400	210,038	-	210,038
Wells Fargo Bank	17,402	21,032	38,434	14,971	2,022,786	2,037,757
	<u>\$ 1,091,120</u>	<u>\$ 21,032</u>	1,112,152	<u>\$ 1,573,782</u>	<u>\$ 2,022,786</u>	3,596,568
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			<u>754,887</u>			<u>4,887,494</u>
Total demand deposits			<u>\$ 1,867,039</u>			<u>\$ 8,484,062</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, 2016 and 2015**

	June 30, 2016			June 30, 2015		
	Collected	Float	Total	Collected	Float	Total
Clearing Account Deposits and Deposits in Transit						
Bank of America	\$ 163,064	\$ 1,266,196	\$ 1,429,260	\$ 94,739	\$ 257,740	\$ 352,479
DuQuoin State Bank	40,001	-	40,001	50,348	-	50,348
JP Morgan	206,919	8,551	215,470	223,530	1,609,845	1,833,375
Fifth Third	9,887	30,477,111	30,486,998	28,250	25,908,020	25,936,270
Illinois National Bank	175,001	1,047,218	1,222,219	37,130	29,230	66,360
US Bank-Springfield	4,956,427	3,123,118	8,079,545	106,830	-	106,830
Wells Fargo Bank	5,130	-	5,130	10,072	-	10,072
	<u>\$ 5,556,429</u>	<u>\$ 35,922,194</u>	<u>41,478,623</u>	<u>\$ 550,899</u>	<u>\$ 27,804,835</u>	<u>28,355,734</u>
Net reconciling items (e.g., deposits-in- transit and outstanding drafts)			<u>-</u>			<u>-</u>
Total clearing account deposits			<u>\$ 41,478,623</u>			<u>\$ 28,355,734</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, 2016 and 2015**

Deposits and Investments

Most of the Treasurer's investments at June 30, 2016 and 2015 are short-term due to the responsibility to keep funds "liquid" to reimburse banks for warrants paid.

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

	June 30,	
	2016	2015
Short-Term Deposits and Investments		
Time Deposits	\$ 101,624,300	\$ 89,310,476
Commercial Paper	1,717,734,612	1,918,571,612
Federal National Mortgage Association Discount Notes	249,654,722	-
Federal Home Loan Mortgage Corporation Discount Notes	398,879,312	-
U.S. Treasury Bills	1,598,263,715	2,546,652,516
U.S. Treasury Notes	250,142,580	250,152,335
Federal Home Loan Mortgage Corporation	69,992,400	-
Federal National Mortgage Association	-	25,147,500
Federal Home Loan Bank	94,836,095	288,165,360
Federal Farm Credit Banks	122,628,803	24,995,250
Federal Agriculture Mortgage Corporation	99,938,750	25,001,000
Foreign Investments	-	15,000,000
Total Short-Term Deposits and Investments	4,703,695,289	5,182,996,049
Long-Term Deposits and Investments		
Municipal Bonds	303,108	-
Time Deposits	2,713,478	4,429,642
U.S. Treasury Notes	51,011,720	100,735,350
Federal Home Loan Mortgage Corporation	375,123,000	523,626,000
Federal Home Loan Bank	143,925,750	593,121,370
Federal National Mortgage Association	124,880,250	397,933,250
Federal Farm Credit Banks	25,043,000	172,509,930
Federal Agriculture Mortgage Corporation	141,612,610	66,147,450
Supranational Bonds	50,133,900	29,937,600
State of Illinois Secondary Pool Investment Program	61,463	134,067
Illinois Technology Development	54,191,137	55,045,394
Illinois Technology Development II	2,436,095	-
Foreign Investments	20,000,000	10,000,000
Total Long-Term Deposits and Investments	991,435,511	1,953,620,053
Total Deposits and Investments	\$ 5,695,130,800	\$ 7,136,616,102

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2016 and 2015**

Deposits and Investments (Continued)

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

The average yield for investments including amounts listed as cash equivalents on the 2016 and 2015 financial statements was .45% and .39%, 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	
	2016	2015
Securities Lending Collateral		
Invested in Repurchase Agreements	<u>\$ 2,603,015,000</u>	<u>\$ 4,007,450,623</u>

Other Assets

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

	June 30	
	2016	2015
Warrants cashed, but not canceled	\$ 5,000	\$ 65,000
Receivables from Universities and Agencies for monies advanced	4,864,268	410,063
Receivable from City of Edwardsville	236,983	242,981
Investment income earned, but not received	10,995,791	11,667,076
Total Other Assets	<u>\$ 16,102,042</u>	<u>\$ 12,385,120</u>

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2016 and 2015**

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, 2016 and 2015. The balances in these accounts will vary significantly from day to day, depending on the availability of investable funds and the timing of warrant presentation for payment.

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

Repayments received for the years ended June 30, 2016 and 2015, were \$5,998 and \$6,614, 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	
	2016	2015
Certificates, Bonds and Coupons Maturing in Next Fiscal Year	\$ 3,357,721,444	\$ 3,057,845,881
Less - Balance on Deposit in State Treasury at Year End, for Certificate and Bond Redemption and Interest	(1,321,069,562)	(1,212,579,990)
Amount Obligated from Future General Revenue		
General Revenue - Next Fiscal Year	2,036,651,882	1,845,265,891
General Revenue - Thereafter	36,184,127,309	37,927,538,198
Amount of Future General Revenue Obligated for Debt Service at Fiscal Year End	<u>\$ 38,220,779,191</u>	<u>\$ 39,772,804,089</u>

**State of Illinois
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**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2016 and 2015**

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

A summary of the changes during fiscal years 2016 and 2015, in the amount of future general revenue obligated for debt service is as follows:

	2016	2015
Balance at Beginning of Fiscal Year	\$ 39,772,804,089	\$ 42,962,514,885
Issuance of Certificates and Bonds	1,614,310,555	-
Bonds and Coupons Redeemed	(3,057,845,881)	(3,545,852,805)
Net Change in Balances on Deposit in State Treasury	(108,489,572)	356,142,009
Balance at End of Fiscal Year	<u>\$ 38,220,779,191</u>	<u>\$ 39,772,804,089</u>

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

	June 30	
	2016	2015
<u>General Obligation Bonds</u>		
Amount of future general revenue obligated for debt service	\$ 38,220,779,191	\$ 39,772,804,089
Balance on deposit in the State Treasury at June 30 for bond redemption and interest	1,321,069,562	1,212,579,990
Total indebtedness at June 30	<u>\$ 39,541,848,753</u>	<u>\$ 40,985,384,079</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 2016 or 2015.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets and Other Debits – Detail (Continued)
June 30, 2016 and 2015**

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

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

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Liabilities and Accountabilities - Detail
For the Years Ended June 30, 2016 and 2015**

Liabilities for Balances on Deposit

Protested Taxes: Substantially all of the \$136,048,539 and \$90,456,742 at June 30, 2016 and 2015, 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:

	2016	2015
Treasurer's Clearing Account Balances	\$ 245,180,203	\$ 189,342,373
Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury	8,617,130	213,672,030
Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts	422,217,898	300,934,193
Deposits in Demand Accounts in Process of Being Ordered into the State Treasury	197,255,016	107,123,091
Total Agency Deposits Outside the State Treasury	<u>\$ 873,270,247</u>	<u>\$ 811,071,687</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, 2016 and 2015**

Other Liabilities

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

General Obligation Indebtedness

Refer to the “Amount of Future General Revenue Obligated for Debt Service” section of the “Supplementary Information – Assets and Other Debits – Detail” part of the report for information relating to outstanding general obligation indebtedness.

Accountabilities

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

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income
For the Years Ended June 30, 2016 and 2015**

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

	2016	2015
General Revenue Fund	\$ 29,552,833	\$ 30,474,608
Other State funds	26,680,489	24,502,687
Segregated State trust funds	2,625,286	576,168
	<u>\$ 58,858,608</u>	<u>\$ 55,553,463</u>

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

Fund participating in pooled investments		
General Revenue Fund	\$ 29,552,833	\$ 30,474,608
Aggregated Operations Regulatory Fund	2,685	2,261
Airport Land Loan Revolving Fund	494	443
Alternative Compliance Market Account Fund	315	268
Ambulance Revolving Loan Fund	37	43
AML Reclamation Set Aside Fund	209,716	163,593
Appraisal Administration Fund	10,177	10,019
Assisted Living and Shared Housing Regulatory Fund	2,280	1,857
Autism Research Checkoff Fund	32	78
Autoimmune Disease Research Fund	238	216
Bank & Trust Company Fund	43,924	121,618
Brownfields Redevelopment Fund	12,705	11,495
Budget Stabilization Fund	918,646	77,018
Build Illinois Bond Retirement and Interest Fund	47,691	60,490
Build Illinois Capital Revolving Loan Fund	21,210	39,370
Build Illinois Fund	111,985	96,934
Capital Project Fund	209,818	163,826
Care Provide Per W Dev. Dis.	13,139	21,388
Cemetery Consumer Protection Fund	983	1,459
Cemetery Relief	680	366
Charitable Trust Stabilization Fund	17,534	13,610
Chicago State University Education Improvement Fund	8,505	5,719
Child Abuse Prevention Fund	916	839
Clean Air Act (CAA) Permit Fund	33,696	26,521
Coal Mining Regulatory Fund	1,864	2,374
Common School Fund	853,070	618,737
Community College Health Insurance Security Fund	8,867	8,786
Community DD Services Medicaid Trust Fund	135,087	157,581
Community Mental Health Medical Trust Fund	128,730	61,388
Community Water Supply Laboratory Fund	5,723	5,236
Compassionate Use of Medical Cannabis Fund	37,451	17,273
Conservation Police Operations Assistance Fund	7,677	5,469

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2016 and 2015**

	2016	2015
Fund participating in pooled investments		
County Automobile Renting Tax Fund	\$ 188	\$ 204
County Hospital Services Fund	57,899	22,518
County Option Motor Fuel Tax Fund	23,817	20,089
County Water Commission Tax Fund	26,536	22,496
Credit Union Fund	11,701	10,925
Criminal Justice Trust Fund	114,286	109,926
Debt Settlement Consumer Protection Fund	1,947	1,586
Design Professionals Administration and Investigation Fund	3,813	3,036
DHS Community Services Fund	68,395	26,756
DHS Technology Initiative Fund	27,778	14,616
Diabetes Research Checkoff Fund	270	607
Digital Divide Elimination Infrastructure Fund	31	261
Drug Rebate Fund	267,269	396,466
Drycleaner Environmental Response Trust Fund	11,608	7,648
Early Intervention Services Fund	26,825	25,457
Electronics Recycling Fund	4,409	3,646
Environmental Laboratory Certification Fund	942	573
EPA Court Ordered Trust Fund	34	28
Explosive Regulatory Fund	1,652	1,488
Facilities Management Fund	120,807	61,264
Fair Share Trust	659	594
Family Care Fund	36,323	78,232
Federal Asset Forfeiture Fund	4,751	4,045
Federal Home Investment Trust Fund	14,486	4,812
Federal Student Loan Fund	195,196	165,265
Federal Workforce Training Fund	502	528
Fire Truck Revolving Loan Fund	1,043	4,759
Fish and Wildlife Endowment Fund	11,757	10,293
Food and Drug Safety Fund	2,235	5,697
Gaining Early Awareness Fund	21,242	25,560
General Assembly Retirement Excess Benefits Fund	207	120
General Assembly Retirement Fund	23,681	22,586
General Obligation Bond Retirement and Interest Fund	5,925,405	5,952,839
General Professions Dedicated Fund	39,801	23,707
Group Home Loan Revolving Fund	259	187
Group Insurance Premium	77,494	51,872
Group Workers Compensation Pool	10,832	9,211
Hansen-Therkelsen Memorial Deaf Student College Fund	5,412	4,809
Health and Human Services Medicaid Trust Fund	94,708	52,306
Health Information Exchange Fund	4,505	14,240
Health Insurance Reserve Fund	1,153,362	587,804
Healthcare Providers Relief Fund	268,215	498,377
Hearing Instrument Dispenser Examining and Disciplinary Fund	167	66
Help Illinois Vote Fund	15,447	24,179

**State of Illinois
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**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2016 and 2015**

	2016	2015
Fund participating in pooled investments		
Home Inspector Administration Fund	\$ 2,694	\$ 5,000
Home Rule City Retailers' Occupation Tax Fund	382,310	220,620
Home Rule Municipal Retailers' Occupation Tax Fund	390,376	339,129
Home Services Medicaid Trust Fund	157,696	133,320
Hospital Licensure Fund	10,402	3,017
Hospital Provider Fund	725,399	490,142
Human Service Priority Cap Program Fund	14	6,143
Illinois Affordable Housing Trust Fund	166,229	70,953
Illinois Beach Marina Fund	1,499	2,684
Illinois Clean Water Act	66,187	62,006
Illinois Equity Fund	2,715	3,975
Illinois Farmer and Agri-Business Loan Guarantee Fund	41,737	37,515
Illinois Habitat Fund	29,738	24,876
Illinois Power Agency Trust Fund	90	462
Illinois State Dental Disciplinary Fund	22,129	12,942
Illinois State Medical Disciplinary Fund	68,928	138,887
Illinois State Pharmacy Disciplinary Fund	12,292	15,402
Illinois State Podiatric Disciplinary Fund	2,388	2,332
Illinois State Police Federal Projects Fund	1,643	2,418
Illinois State Police Operations Assistance Fund	63,791	83,134
Illinois Veteran's Assistance Fund	5,041	2,401
Injured Workers Benefit Fund	12,013	9,949
Innovations in Long-Term Care Quality Demonstration Grants	4,495	25,298
Intercity Passenger Rail Fund	1,170	997
Interpreters for the Deaf Fund	1,591	1,149
Judges Retirement Excess Benefits Fund	3,717	2,110
Judges Retirement Fund	162,851	121,675
Juvenile Accountability Incentive Block Grant Fund	4,996	11,650
Kaskaskia Commons Permanent School Fund	1,219	1,105
Large Business Attraction Fund	9,196	7,828
Law Enforcement Camera Grant Fund	9,406	5,936
Local Government Health Insurance Reserve Fund	22,498	22,454
Long-Term Care Ombudsman Fund	7,474	10,084
Long-Term Care Provider Fund	135,730	111,638
Medicaid Buy-In Program Revolving Fund	3,751	8,107
Mental Health Reporting Fund	13,308	6,645
Metro East Mass Transit District Tax Fund	22,231	21,168
Metropolitan Pier and Exposition Authority Trust Fund	115,002	122,271
Money Follows the Person Budget Fund	18,809	7,093
Motor Vehicle Theft Prevention Fund	20,764	21,424
Multiple Sclerosis Research Fund	8,368	13,948
Municipal Automobile Renting Tax Fund	4,885	4,571
Non-Home Rule Municipal Retailer's Occupation Tax Fund	104,938	89,531
Nuclear Safety Emergency Preparedness Fund	46,515	35,596
Nursing Dedicated and Professional Fund	30,263	37,286
Off-highway Vehicle Trails Fund	5,038	10,365

**State of Illinois
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**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2016 and 2015**

	2016	2015
Fund participating in pooled investments		
Oil Spill Response Fund	\$ 403	\$ 364
Optometric Licensing and Disciplinary Committee Fund	2,529	2,791
Personal Property Tax Replacement Fund	561,886	420,839
Plugging and Restoration Fund	9,581	8,146
Prescription Pill and Drug Disposal Fund	776	432
Private Sewage Disposal Program	931	588
Professional Services Fund	47,841	54,069
Professions Indirect Cost Fund	99,905	59,060
Public Agriculture Loan Guarantee	53,925	48,574
Public Health Services Revolving Fund	28,080	20,447
Public Infrastructure Construction Loan Revolving Fund	12,378	47,897
Public Pension Regulation Fund	14,844	11,461
Quality of Life Endowment Fund	3,911	5,665
Radiation Protection Fund	24,318	13,392
Radioactive Waste Facility Development and Operation Fund	7,216	7,488
Rail Freight Loan Repayment Fund	19,568	16,303
Rate Adjustment Fund	22,207	42,565
Real Estate Audit Fund	552	708
Real Estate License Administration Fund	31,223	141,447
Real Estate Recovery Fund	6,527	5,031
Real Estate Research and Education Fund	2,868	3,359
Regional Transit Authority Sales Tax Trust Fund	304,397	266,631
Registered CPA Administration and Disciplinary Fund	18,910	25,455
Road Fund	4,755,325	4,741,921
Road Transportation A Fund	153,353	420,485
Salmon Fund	493	322
Savings and Residential Finance Regulatory Fund	18,785	17,683
Savings Institution Regulatory Fund	2,759	2,513
School Technology Revolving Loan Fund	8,763	4,869
Second Injury Fund	3,324	4,235
Securities Audit and Enforcement Fund	42,009	69,328
Self-Insurers Administration Fund	2,546	2,979
Self-Insurers Security Fund	105,465	99,199
Sexual Assault Service & Prevention Fund	3,491	1,674
Sheffield February 1982 Agreed Order Fund	16,423	15,577
Special Olympics Illinois and Special Children's Charities Fund	4,004	578
St. Jude Children Research Fund	15	13
State Assets Forfeiture Fund	11,581	7,973
State Construction Account Fund	1,933,815	1,582,716
State Employees Retirement Excess Benefits Fund	1,593	883
State Employees Retirement System Fund	844,787	666,358
State Employees' Deferred Compensation Plan Fund	16,592	14,108
State Furbearer Fund	772	661
State Migratory Waterfowl Stamp Fund	21,340	17,228
State Pheasant Fund	10,743	8,869

**State of Illinois
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**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2016 and 2015**

	2016	2015
Fund participating in pooled investments		
State Police Firearm Service Fund	\$ 38,540	\$ 47,734
State Police Merit Board Public Safety Fund	15,483	7,018
State Police Motor Vehicle Theft Prevention Fund	-	191
State Rail Freight Loan Repayment Fund	28,316	57,086
State Small Business Credit Initiative Fund	175,423	131,899
State Treasurer Admin Fund	30	-
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	3,007	2,702
Student Loan Operating Fund	263,459	157,483
Supreme Court Historic Preservation Fund	4,161	6,755
Tax Compliance and Admin Fund	18,416	-
Teachers' Health Insurance Security Fund	172,015	169,897
Teachers' Retirement Excess Benefits Fund	165,664	103,027
Teachers' Retirement System Fund	640,916	587,568
Ticket for the Cure Fund	9,233	10,996
TOMA Consumer Protection	1,408	4,948
Underground Resource Conservation Enforcement Trust Fund	7,093	9,549
Underground Storage Tank Fund	234,627	152,243
University of Illinois Hospital Services Fund	74,689	72,839
Violent Crime Victims Assistance Fund	42,843	30,448
Water Pollution Control Revolving Fund	960,988	1,607,581
Wildlife and Fish Fund	75,013	30,519
Wildlife and Prairie Park Fund	265	152
Worker's Compensation Revolving Fund	67,321	92,342
Working Capital Revolving Loan Fund	1,528	1,637
	<hr/>	<hr/>
Total pooled investment income	\$ 56,233,322	\$ 54,977,295

**State of Illinois
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**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2016 and 2015**

	2016	2015
<hr/>		
Segregated Investments		
Agrichemical Incident Response Trust Fund	\$ 5	\$ -
College Savings Pool Administration Fund	5,941	541
Corn Commodity Trust Fund	-	-
Deferred Lottery Prize Winners Trust Fund	5,463	1,180
Homeland Security Emergency Preparedness Trust Fund	4,636	2,356
Illinois Habitat Endowment Trust Fund	19,621	1,991
Illinois Municipal Retirement Fund	-	3,816
Illinois Prepaid Tuition Trust Fund	11,932	1,331
Illinois State Toll Highway Revenue Fund	2,457,348	548,233
Kanerva vs State Trust Fund	(22)	4,955
Municipal Wireless Service Emergency Trust Fund	643	10
National Heritage Endowment Trust Fund	690	70
Radioactive Waste Facility Closure and Compensation Fund	3	12
Regulatory Trust Fund	622	51
Title III Social Security and Employment Service	65,998	3,798
Tobacco IPTIP	49,368	6,440
Unemployment Compensation Special Administration Fund	3,038	1,384
	<hr/>	<hr/>
Total segregated investment income	2,625,286	576,168
	<hr/>	<hr/>
Total investment income	\$ 58,858,608	\$ 55,553,463
	<hr/>	<hr/>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2016 and 2015**

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

	2016	2015
The Illinois Funds	\$ 1,165,957	\$ 112,126
Time Deposits	338,023	249,122
Money Market Mutual Fund	2,421,258	270,897
Repurchase Agreements	2,629,269	306,778
Commercial Paper	9,639,750	5,007,626
Federal Farm Credit Bank Notes	2,117,042	3,227,331
State of Illinois Secondary Pool Investment Program	(29)	3,554
Federal National Mortgage Association	4,871,114	6,495,714
Foreign Investments	388,765	325,457
Federal Home Loan Mortgage Corporation	6,042,952	9,076,837
Federal Home Loan Bank Notes	5,904,245	9,011,178
Supranational Bonds	693,597	22,546
U.S. Treasury Bills	9,074,091	13,039,104
U.S. Treasury Notes	3,568,054	3,042,022
Illinois Technology Development	5,361,972	3,386,873
Federal Agriculture Mortgage Corporation	1,989,048	1,400,130
Municipal Bonds	3,562	-
IIMPP	24,652	-
	<hr/>	<hr/>
Total pooled investment income	\$ 56,233,322	\$ 54,977,295

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Administrative Responsibilities
June 30, 2016 and 2015**

Protest Trust Fund

	<u>2016</u>	<u>2015</u>
Liability at beginning of year	\$ 90,456,742	\$ 121,481,858
Add		
Trust receipts collected by other State agencies	<u>86,565,185</u>	<u>33,215,216</u>
	<u>177,021,927</u>	<u>154,697,074</u>
Deduct		
Trust disbursements for refunds of successfully protested tax payments	21,859,228	36,452,277
Transfers to other funds	<u>19,114,160</u>	<u>27,788,055</u>
	<u>40,973,388</u>	<u>64,240,332</u>
Liability at end of year	<u>\$ 136,048,539</u>	<u>\$ 90,456,742</u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Key Performance Measures and Other Information
June 30, 2016
(Unaudited)**

Key Performance Measures:

- The Illinois Funds' net asset base (net position) at 6/30/16 was \$4,441,205,454.
- The Illinois Funds' earned net investment income of \$7.3 million during FY16.

- Funded 574 Cultivate IL Annual AG deposits totaling \$91,998,300.
- Funded 78 Cultivate IL Long Term AG deposits totaling \$4,277,856.
- Funded 2 Disaster Recovery deposits totaling \$186,000.
- Funded 35 Cultivate IL Alternative AG deposits totaling \$100,000.

- Total number of warrants successfully issued, countersigned and recorded: 2,879,015
- Total number of warrants successfully canceled, paid and recorded: 2,765,756
- Total amount of warrants successfully issued, countersigned and recorded: \$76,796,227,363

- Total amount of estate tax collections: \$323,719,717
- Total amount of estate tax refunds: \$14,367,733

- The investment portfolio earned \$58,858,608 during fiscal year 2016.
- Investments yielded approximately .45% throughout the current year.
- The average investment base decreased approximately \$1,288,829,913 from the prior year.

- The value of the Illinois Technology Development account at cost as of 6/30/16 was \$41,704,057.
- The value of the Illinois Technology Development account at estimated fair value as of June 30, 2016 was \$54,191,137. Fair values were estimated by the individual technology development accounts' fund managers, not the State Treasurer's Office or an independent third party.
- The value of the Illinois Technology Development II account at cost as of 6/30/16 was \$2,418,753.
- The value of the Illinois Technology Development II account at estimated fair value as of June 30, 2016 was \$2,436,095. Fair values were estimated by the individual technology development accounts' fund managers, 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, 2016 and 2015, were \$323,719,717 and \$371,231,158, respectively.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Key Performance Measures and Other Information
June 30, 2016
(Unaudited)**

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>2016</u>	<u>2015</u>
Tobacco Settlement proceeds	\$ 81,028,410	\$ 115,778,166
Interest and other investment income	26,268	5,490
Total Receipts and Deposits	<u>\$ 81,054,678</u>	<u>\$ 115,783,656</u>

**Investment Policy
June 30, 2016 (Unaudited)**

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

The Illinois State Treasurer Office'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 BROKERS/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; and

- 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 direction 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.