

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

Financial Audit  
Years Ended June 30, 2015 and 2014  
Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois



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

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

**Treasurer's Office Officials**

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

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

Executive Office  
State Capitol  
219 State House  
Springfield, Illinois 62706

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

Unclaimed Property & Other Divisions  
Myers Building  
1 W. Old State Capitol Plaza  
Springfield, Illinois 62701

Chicago Office Legal / Programmatic  
James R. Thompson Center  
100 West Randolph Street  
Suite 15-600  
Chicago, Illinois 60601

## **FINANCIAL STATEMENT REPORT**

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

**Financial Statement Report**

**Summary**

The audits of the accompanying financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer, were performed by RSM US LLP as of and for the years ended June 30, 2015 and 2014.

Based on their audits, the auditors expressed unmodified opinions on The Illinois Funds' financial statements.

## **Independent Auditor's Report**



## Independent Auditor's Report

RSM US LLP

The Honorable William G. Holland  
Auditor General  
State of Illinois

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of The Illinois Funds, a fiduciary (investment trust) fund of the State of Illinois, Office of the Treasurer, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 financial position of The Illinois Funds, of the State of Illinois, Office of the Treasurer as of June 30, 2015 and 2014, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only The Illinois Funds, and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Office of the Treasurer, as of June 30, 2015 and 2014, and the changes in its financial position, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer. The Supplementary Information (pages 16 – 22), and the other Information (pages 23 – 29) are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 21, 2015 and December 19, 2014, on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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 State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and its compliance.

*RSM US LLP*

Schaumburg, Illinois  
December 21, 2015

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statements of Fiduciary Net Position  
June 30, 2015 and 2014**

	2015	2014
<b>Assets</b>		
Cash equivalents		
Repurchase agreements, including accrued interest of \$4,153 and \$3,222 in 2015 and 2014, respectively	\$ 2,050,004,153	\$ 2,000,003,222
Commercial paper, net of unamortized discount of \$239,012 and \$89,799 in 2015 and 2014, respectively	1,226,260,987	1,120,910,201
Money market mutual funds	667,278,692	414,527,692
U.S. agency obligations		
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$0 and \$514 in 2015 and 2014, respectively	-	40,229,486
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$0 and \$222 in 2015 and 2014, respectively	-	99,999,778
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$559 and \$13,375 in 2015 and 2014, respectively	<u>24,999,441</u>	<u>356,286,626</u>
Total cash equivalents	3,968,543,273	4,031,957,005
Deposits and investments		
Commercial paper, net of unamortized discount of \$73,806 and \$183,424 in 2015 and 2014, respectively	184,926,195	599,816,576
U.S. Treasury Bills net of unamortized discount of \$37,048 and \$0 in 2015 and 2014, respectively	49,962,952	-
U.S. Treasury Notes, net of unamortized premium of \$63,488 and \$494,902 in 2015 and 2014, respectively	100,063,488	325,494,902
U.S. agency obligations		
Federal Home Loan Bank Debentures, net of unamortized discount of \$2,546 and \$0 in 2015 and 2014, respectively	324,997,454	100,000,000
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$33,035 and \$12,944 in 2015 and 2014, respectively	182,458,965	49,987,055
		(Continued)

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statements of Fiduciary Net Position (Continued)  
June 30, 2015 and 2014**

	2015	2014
<b>Assets (Continued)</b>		
U.S. agency obligations (Continued)		
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$4,552 and \$0 in 2015 and 2014, respectively	\$ 24,995,448	\$ -
Farm Credit Discount Notes, net of unamortized discount of \$71,056 and \$0 in 2015 and 2014, respectively	49,928,944	-
Federal Farm Credit Bureau Debentures, net of unamortized discount of \$3,392 and \$0 in 2015 and 2014, respectively	49,996,608	-
Federal Agriculture Mortgage Corporation Discount Notes, net of unamortized discount of \$36,385 and \$30,733 in 2015 and 2014, respectively	49,963,615	49,969,267
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$72,835 and \$71,080 in 2015 and 2014, respectively	<u>214,927,165</u>	<u>151,928,920</u>
Total deposits and investments	1,232,220,834	1,277,196,720
Accrued interest receivable	<u>424,672</u>	<u>691,318</u>
Total assets	<u>\$ 5,201,188,779</u>	<u>\$ 5,309,845,043</u>
<b>Liabilities and Net Position</b>		
Accrued liabilities		
Bank custodial fees	\$ 143,198	\$ 142,985
State management fees	<u>217,253</u>	<u>216,791</u>
Total liabilities	<u>360,451</u>	<u>359,776</u>
Net position held in trust for pool participants	<u>\$ 5,200,828,328</u>	<u>\$ 5,309,485,267</u>
The pricing of shares		
Participant shares outstanding (\$1.00 par, unlimited shares authorized)	<u>\$ 5,200,828,328</u>	<u>\$ 5,309,485,267</u>
Participant net position value, offering and redemption price per share	<u>\$ 1.00</u>	<u>\$ 1.00</u>

The accompanying notes are an integral part of these statements.

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statements of Changes in Fiduciary Net Position  
For the Years Ended June 30, 2015 and 2014**

	2015	2014
Operations		
Investment income		
Investment earnings	\$ 5,288,742	\$ 5,381,639
Investment expenses		
Bank custodial fees	1,767,163	1,818,312
State management fees	2,647,655	2,612,954
Total investment expenses	<u>4,414,818</u>	<u>4,431,266</u>
Net investment income	<u>873,924</u>	<u>950,373</u>
Dividends to participants from net investment income	(873,924)	(950,373)
Share transactions (dollar amounts and number of shares are the same)		
Subscriptions	19,081,201,240	19,673,536,873
Reinvestments	843,518	950,074
Redemptions	<u>(19,190,701,697)</u>	<u>(20,211,343,359)</u>
Change in net position and shares resulting from share transactions	(108,656,939)	(536,856,412)
Net position, beginning of year	<u>5,309,485,267</u>	<u>5,846,341,679</u>
Net position, end of year	<u>\$ 5,200,828,328</u>	<u>\$ 5,309,485,267</u>

The accompanying notes are an integral part of these statements.

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

**Notes to the Financial Statements**

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Background

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

**Note 1. Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

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

**State of Illinois  
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**Notes to the Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

Net Position Available to Participants: The net position available to participants represents the total value of all participant deposits including late deposits held in an overnight investment account as of June 30, 2015 and 2014.

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

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

**Notes to the Financial Statements**

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**Note 2. Deposits and Investments**

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

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

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

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

The Illinois Funds determines the fair value of investments annually in connection with year-end financial reporting. A summary of investments held at June 30, 2015 and 2014 is as follows:

**Summary of Investments at June 30, 2015:**

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 2,050,004,153	\$ 2,050,004,153	\$ 2,050,000,000	0.070-0.130%	7/01/2015
Commercial Paper	1,411,187,182	1,411,208,880	1,411,500,000	0.100-0.304%	7/1/15-10/1/15
Money Market Mutual Funds	667,278,692	667,278,692	667,278,692	NA	NA
United States Treasury Bills	49,962,952	49,990,500	50,000,000	0.126-0.276%	7/9/15-1/7/16
United States Treasury Notes	100,063,488	100,064,500	100,000,000	0.146-0.233%	8/31/15-4/15/16
Federal Home Loan Mtg Corp Discount Notes	182,458,965	182,480,135	182,492,000	0.130-0.160%	7/10/15-9/14/15
Federal National Mtg Assoc Discount Notes	24,995,448	24,998,500	25,000,000	0.115%	08/27/2015
Federal Home Loan Bank Debentures	324,997,454	324,990,250	325,000,000	0.190-0.420%	10/8/15-7/15/16
Federal Home Loan Bank Discount Notes	239,926,606	239,964,300	240,000,000	0.035-0.185%	7/24/15-12/2/15
Federal Farm Credit Bureau Debentures	49,996,608	49,990,500	50,000,000	0.180-0.300%	8/21/15-3/4/16
Farm Credit Discount Notes	49,928,944	49,948,000	50,000,000	0.160-0.301%	8/17/15-5/12/16
Federal Agriculture Mortgage Corp Discount Notes	49,963,615	49,978,250	50,000,000	0.170-0.215%	10/6/15-12/15/15
	<u>\$ 5,200,764,107</u>	<u>\$ 5,200,896,660</u>	<u>\$ 5,201,270,692</u>		

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

**Notes to the Financial Statements**

**Note 2. Deposits and Investments (Continued)**

**Summary of Investments at June 30, 2014:**

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 2,000,003,222	\$ 2,000,003,222	\$ 2,000,000,000	0.030-0.070%	7/01/2014
Commercial Paper	1,720,726,777	1,720,762,610	1,721,000,000	0.091-0.284%	7/2/14-10/20/14
Money Market Mutual Funds	414,527,692	414,527,692	414,527,692	NA	NA
United States Treasury Notes	325,494,902	325,546,250	325,000,000	0.122-0.190%	7/15/14-1/15/15
Federal Home Loan Mtg Corp Discount Notes	90,216,541	90,224,598	90,230,000	0.040-0.155%	7/11/14-10/21/14
Federal National Mtg Assoc Discount Notes	99,999,778	100,000,000	100,000,000	0.040%	7/03/2014
Federal Home Loan Bank Debentures	100,000,000	99,985,500	100,000,000	0.160-0.240%	1/21/15-6/19/15
Federal Home Loan Bank Discount Notes	508,215,546	508,238,964	508,300,000	0.040-0.150%	7/11/14-5/5/15
Federal Agriculture Mortgage Corp Discount Notes	49,969,267	49,974,250	50,000,000	0.110-0.155%	8/27/14-5/19/15
	<u>\$ 5,309,153,725</u>	<u>\$ 5,309,263,086</u>	<u>\$ 5,309,057,692</u>		

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

Repurchase agreements are purchased from various brokerage firms and financial institutions. Securities pledged as collateral to secure these agreements are required to have a fair value of at least 102% of the agreement. The agreements require both parties to maintain an acceptable margin (yield) on underlying securities to ensure that the agreements are adequately collateralized. The Treasurer accepts only U.S. agency obligations and U.S. Treasury obligations as collateral for repurchase agreements. All securities pledged to secure repurchase agreements are required to be delivered to an appointed custodian of The Illinois Funds. In a delivery-vs.-pledge transaction, the custodian will be the primary custodian of the Illinois Funds. In a tri-party repurchase agreement, an appointed clearing bank will act as custodian and valuation agent for the securities.

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

**State of Illinois  
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**Notes to the Financial Statements**

**Note 2. Deposits and Investments (Continued)**

Investments: The Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2015 and 2014. (Amounts are in thousands.)

	2015					2014				
	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	One to Two Years	Total	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	One to Two Years	Total
Repurchase agreements	\$ 2,050,004	\$ -	\$ -	\$ -	\$ 2,050,004	\$ 2,000,003	\$ -	\$ -	\$ -	\$ 2,000,003
Commercial paper	621,469	739,747	49,971	-	1,411,187	1,070,948	499,895	149,884	-	1,720,727
U.S. Treasury obligations	24,999	25,046	99,981	-	150,026	50,009	125,034	150,452	-	325,495
U.S. agency obligations	118,484	328,922	449,862	25,000	922,268	421,523	149,978	276,900	-	848,401
Subtotal	<u>\$ 2,814,956</u>	<u>\$ 1,093,715</u>	<u>\$ 599,814</u>	<u>\$ 25,000</u>	<u>4,533,485</u>	<u>\$ 3,542,483</u>	<u>\$ 774,907</u>	<u>\$ 577,236</u>	<u>\$ -</u>	<u>4,894,626</u>
Treasury-only money market mutual funds					<u>667,279</u>					<u>414,528</u>
Investments					<u>\$ 5,200,764</u>					<u>\$ 5,309,154</u>

The master repurchase agreements utilized by The Illinois Funds require the broker or financial institution to maintain the fair value of collateral securities at 102% of the agreement. The carrying amount of the repurchase agreements (excluding accrued interest) was \$2,050,000,000 and \$2,000,000,000 as of June 30, 2015 and 2014, respectively. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was \$2,091,004,845 and \$2,104,538,223 as of June 30, 2015 and 2014, respectively.

Interest Rate Risk: Interest Rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the investment policies limit the investment portfolio maturities. The Illinois Funds investment policy limits its investment portfolio to maturities not to exceed two years with a minimum of 75% required to be in authorized investments with less than one-year maturity. The investment policy specifically requires that no more than 50% of total assets can be invested in securities with maturities greater than 30 days issued by any single permissible United States government agency or instrumentality. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk.

**State of Illinois  
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**Notes to the Financial Statements**

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**Note 2. 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. As of June 30, 2015, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings or Aaa by Moody's Investors Service with the exception of Federal Agricultural Mortgage Corporation obligations which were not rated by Standard & Pooers. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Toronto Dominion HDG USA which were rated A-1+ by Standard & Poor's. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's Ratings.

As of June 30, 2014, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings or Aaa by Moody's Investors Service with the exception of Federal Agricultural Mortgage Corporation obligations which were not rated. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Toronto Dominion HDG USA which were rated A-1+ by Standard & Poor's. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's Ratings.

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

	2015		2014	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
Repurchase agreements				
HSBC*	\$ 1,700,003	32.69%	\$ 1,600,003	30.14%
U.S. Agency				
Federal Home Loan Bank	564,924	10.86	508,216	9.57
Commercial Paper				
HSBC*	199,928	3.84	99,991	1.88

\*Issuer total exceeds 5%

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

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

**Notes to the Financial Statements**

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**Note 3. Investment Income**

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

**Note 4. Administrative Fees**

To administer The Illinois Funds, the Treasurer has established a division entitled "The Illinois Funds' Administrative Office." This division had 17 average full time equivalent employees for the years ended June 30, 2015 and 2014. The revenues and expenditures of the division are recorded in an enterprise fund maintained by the Treasurer entitled The Illinois Funds' Administrative Trust Fund No. 195.

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

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

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

The Treasurer's Office has the ability to rebate to The Illinois Funds' participants any excess administrative fees collected during the fiscal year. There were no excess administrative fees rebated to The Illinois Funds' participants during fiscal years 2015 and 2014.

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

**Notes to the Financial Statements**

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**Note 4. Administrative Fees (Continued)**

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

	2015	2014
Fees received	\$ 2,648,000	\$ 2,614,000
Expenditures	2,453,000	2,743,000

**Note 5. Related Parties**

The Illinois Funds' Administrative Office, a division of the State Treasurer's Office, is responsible for the administration of The Illinois Funds, including management of investments and marketing services. The Illinois Funds' Administrative Office received fees as stated in Note 4 during fiscal years 2015 and 2014, respectively. The Illinois Funds' Administrative Trust Fund No. 195 was maintained by the Treasurer in a separate investment account of The Illinois Funds. The cash balance at June 30, 2015 and 2014, was approximately \$2,763,000 and \$2,571,000, respectively.

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

	2015	2014
Total number of participants	2,205	2,250
Number of State of Illinois participants	31	31
Balance of State of Illinois investments	\$ 1,542,063,924	\$ 1,704,602,148

## **SUPPLEMENTARY INFORMATION**

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments  
June 30, 2015**

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Repurchase Agreements					
HSBC SECURITIES	06/30/2015	0.070%	07/01/2015	\$ 1,700,000,000	\$ 1,700,003,306
BANK OF MONTREAL	06/30/2015	0.070%	07/01/2015	250,000,000	250,000,486
WELLS FARGO	06/30/2015	0.130%	07/01/2015	100,000,000	100,000,361
Total Repurchase Agreements				<u>\$ 2,050,000,000</u>	<u>\$ 2,050,004,153</u>

State of Illinois  
Office of the Treasurer

The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2015

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
Commercial Paper					
HSBC USA INC	03/31/15	0.183%	07/01/15	\$ 50,000,000	\$ 50,000,000
TORONTO DOMINION BANK	04/09/15	0.142%	07/07/15	49,999,000	49,998,833
ABBHEY NATIONAL N AMERICA LLC	05/06/15	0.142%	07/08/15	34,998,950	34,999,047
ABBHEY NATIONAL N AMERICA LLC	05/14/15	0.203%	07/13/15	9,999,500	9,999,333
MUFG UNION BANK	05/06/15	0.183%	07/13/15	24,998,750	24,998,500
MUFG UNION BANK	06/05/15	0.162%	07/14/15	49,997,500	49,997,111
ING US FUNDING	04/20/15	0.254%	07/15/15	49,995,500	49,995,139
ING US FUNDING	04/21/15	0.254%	07/15/15	27,499,850	27,497,326
ABN AMRO FUNDING USA LLC	05/15/15	0.203%	07/16/15	29,998,200	29,997,500
TORONTO DOMINION BANK	05/14/15	0.162%	07/20/15	49,996,000	49,995,778
TORONTO DOMINION BANK	06/23/15	0.132%	07/23/15	49,995,500	49,996,028
ABBHEY NATIONAL N AMERICA LLC	05/27/15	0.132%	07/27/15	24,997,250	24,997,653
ABN AMRO FUNDING USA LLC	05/28/15	0.213%	07/28/15	18,997,910	18,997,007
ABN AMRO FUNDING USA LLC	05/05/15	0.274%	08/03/15	14,997,450	14,996,288
TORONTO DOMINION BANK	06/23/15	0.142%	08/04/15	49,991,000	49,993,389
MUFG UNION BANK	06/05/15	0.193%	08/05/15	49,991,000	49,990,764
ABN AMRO FUNDING USA LLC	06/04/15	0.203%	08/06/15	25,995,060	25,994,800
ABBHEY NATIONAL N AMERICA LLC	06/05/15	0.122%	08/06/15	49,990,500	49,994,000
ING US FUNDING	05/12/15	0.264%	08/10/15	49,989,500	49,985,556
ABN AMRO FUNDING USA LLC	06/12/15	0.223%	08/11/15	49,989,000	49,987,472
ING US FUNDING	05/15/15	0.269%	08/12/15	49,989,000	49,984,542
HSBC USA INC	06/29/15	0.208%	08/14/15	49,988,500	49,987,472
ABN AMRO FUNDING USA LLC	05/19/15	0.284%	08/17/15	49,987,500	49,981,722
ABN AMRO FUNDING USA LLC	05/20/15	0.274%	08/18/15	44,988,750	44,983,800
ING US FUNDING	05/22/15	0.274%	08/19/15	18,995,060	18,993,017
ING US FUNDING	05/07/15	0.304%	09/01/15	34,985,650	34,981,917
UBS FINANCE DELAWARE LLC	06/24/15	0.254%	09/15/15	49,974,500	49,973,611
ABBHEY NATIONAL N AMERICA LLC	06/18/15	0.233%	09/16/15	49,974,500	49,975,403
ABBHEY NATIONAL N AMERICA LLC	06/19/15	0.243%	09/18/15	49,973,500	49,973,667
HSBC USA INC	06/26/15	0.259%	09/24/15	49,971,500	49,969,896
HSBC USA INC	06/18/15	0.233%	10/01/15	49,963,000	49,970,611
US BANCORP	06/24/15	0.100%	07/01/15	150,000,000	150,000,000
Total Commercial Paper				\$ 1,411,208,880	\$ 1,411,187,182

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2015**

	Cost
Money Market Mutual Funds	
First American Government Sweep	\$ 5,248,769
Western Asset Instl Gov't	294,454,468
Morgan Stanley Gov't Inst	312,866,223
Aim Gov't & Agency Portfolio	<u>54,709,232</u>
Total Money Market Mutual Funds	<u><u>\$ 667,278,692</u></u>

State of Illinois  
Office of the Treasurer

The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2015

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
United States Treasury Obligations					
U.S. Treasury Bills					
Treasury Bills	01/08/15	0.126%	07/09/15	\$ 25,000,000	\$ 24,999,303
Treasury Bills	01/08/15	0.276%	01/07/16	24,990,500	24,963,649
Total U.S. Treasury Bills				<u>\$ 49,990,500</u>	<u>\$ 49,962,952</u>
U.S. Treasury Notes					
Treasury Notes	08/13/14	0.146%	08/31/15	\$ 25,048,750	\$ 25,045,710
Treasury Notes	09/19/14	0.147%	10/15/15	25,011,750	25,007,417
Treasury Notes	09/22/14	0.154%	10/15/15	25,011,750	25,006,941
Treasury Notes	05/14/15	0.233%	04/15/16	24,992,250	25,003,420
Total U.S. Treasury Notes				<u>\$ 100,064,500</u>	<u>\$ 100,063,488</u>

State of Illinois  
Office of the Treasurer

The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2015

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
United States Agency Obligations***					
Federal Home Loan Mtg Corp Discount Notes					
Federal Home Loan Mtg Corp Discount Notes	08/26/14	0.150%	07/10/15	\$ 7,079,929	\$ 7,079,734
Federal Home Loan Mtg Corp Discount Notes	08/26/14	0.155%	07/21/15	4,711,750	4,711,594
Federal Home Loan Mtg Corp Discount Notes	08/26/14	0.155%	07/21/15	9,399,500	9,399,191
Federal Home Loan Mtg Corp Discount Notes	08/26/14	0.160%	07/21/15	9,900,510	9,899,120
Federal Home Loan Mtg Corp Discount Notes	09/19/14	0.145%	07/22/15	14,799,000	14,798,748
Federal Home Loan Mtg Corp Discount Notes	09/29/14	0.130%	07/22/15	24,300,609	24,298,157
Federal Home Loan Mtg Corp Discount Notes	08/26/14	0.155%	07/23/15	23,299,767	23,297,793
Federal Home Loan Mtg Corp Discount Notes	03/24/15	0.130%	09/02/15	24,997,250	24,994,313
Federal Home Loan Mtg Corp Discount Notes	10/14/14	0.145%	09/11/15	13,998,320	13,995,940
Federal Home Loan Mtg Corp Discount Notes	09/18/14	0.150%	09/14/15	49,993,500	49,984,375
Total Federal Home Loan Mtg Corp Discount Notes				<u>\$ 182,480,135</u>	<u>\$ 182,458,965</u>
Federal Home Loan Bank Discount Notes					
Federal Home Loan Bank Discount Notes	06/23/15	0.035%	07/24/15	\$ 24,999,750	\$ 24,999,441
Federal Home Loan Bank Discount Notes	10/08/14	0.130%	08/03/15	24,999,000	24,997,021
Federal Home Loan Bank Discount Notes	09/19/14	0.160%	08/20/15	24,998,500	24,994,444
Federal Home Loan Bank Discount Notes	09/25/14	0.150%	08/24/15	24,998,500	24,994,375
Federal Home Loan Bank Discount Notes	09/18/14	0.160%	09/03/15	17,998,020	17,994,880
Federal Home Loan Bank Discount Notes	09/24/14	0.160%	09/04/15	21,997,580	21,993,645
Federal Home Loan Bank Discount Notes	09/24/14	0.160%	09/09/15	24,997,000	24,992,222
Federal Home Loan Bank Discount Notes	09/22/14	0.170%	09/18/15	24,996,750	24,990,674
Federal Home Loan Bank Discount Notes	10/14/14	0.145%	10/01/15	4,998,750	4,998,147
Federal Home Loan Bank Discount Notes	10/14/14	0.145%	10/14/15	19,994,200	19,991,542
Federal Home Loan Bank Discount Notes	12/04/14	0.185%	12/02/15	24,986,250	24,980,215
Total Federal Home Loan Bank Discount Notes				<u>\$ 239,964,300</u>	<u>\$ 239,926,606</u>
Federal Agriculture Mortgage Corporation Discount Notes					
Federal Agriculture Mortgage Corporation Discount Notes	10/08/14	0.170%	10/06/15	\$ 24,993,250	\$ 24,988,549
Federal Agriculture Mortgage Corporation Discount Notes	03/23/15	0.215%	12/15/15	24,985,000	24,975,066
Total Federal Agriculture Mortgage Corporation Discount Notes				<u>\$ 49,978,250</u>	<u>\$ 49,963,615</u>

(Continued)

State of Illinois  
Office of the Treasurer

The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2015

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
Federal National Mortgage Association Discount Notes					
Federal National Mortgage Association Discount Notes	04/07/15	0.115%	08/27/15	\$ 24,998,500	\$ 24,995,448
Total Federal National Mortgage Association Discount Notes				<u>\$ 24,998,500</u>	<u>\$ 24,995,448</u>
Federal Farm Credit Bureau Debentures					
Federal Farm Credit Bureau Bullet Notes	08/21/14	0.180%	08/21/15	\$ 25,002,250	\$ 25,000,000
Federal Farm Credit Bureau Bullet Notes	03/05/15	0.300%	03/04/16	24,988,250	24,996,608
Total Federal Farm Credit Bureau Debentures				<u>\$ 49,990,500</u>	<u>\$ 49,996,608</u>
Farm Credit Discount Notes					
Farm Credit Discount Notes	12/10/14	0.160%	08/17/15	\$ 24,998,750	\$ 24,994,778
Farm Credit Discount Notes	06/30/15	0.301%	05/12/16	24,949,250	24,934,166
Total Farm Credit Discount Notes				<u>\$ 49,948,000</u>	<u>\$ 49,928,944</u>
Federal Home Loan Bank Debentures					
Federal Home Loan Bank Notes	10/08/14	0.190%	10/08/15	\$ 25,003,500	\$ 25,000,000
Federal Home Loan Bank Bullet Notes	01/28/15	0.202%	10/28/15	25,000,500	24,998,200
Federal Home Loan Bank Bullet Notes	06/30/15	0.205%	02/01/16	24,991,000	24,999,254
Federal Home Loan Bank Callable Notes	02/13/15	0.335%	03/01/16	25,006,750	25,000,000
Federal Home Loan Bank Callable Notes	02/18/15	0.350%	03/07/16	25,008,000	25,000,000
Federal Home Loan Bank Callable Notes	02/24/15	0.400%	03/11/16	25,006,000	25,000,000
Federal Home Loan Bank Callable Notes	03/03/15	0.400%	03/18/16	25,009,000	25,000,000
Federal Home Loan Bank Callable Notes	04/16/15	0.400%	05/16/16	24,999,500	25,000,000
Federal Home Loan Bank Callable Notes	05/06/15	0.350%	05/24/16	24,998,000	25,000,000
Federal Home Loan Bank Bullet Notes	06/17/15	0.350%	06/17/16	24,987,250	25,000,000
Federal Home Loan Bank Callable Notes	06/02/15	0.400%	06/17/16	24,991,000	25,000,000
Federal Home Loan Bank Bullet Notes	06/22/15	0.375%	06/22/16	24,983,250	25,000,000
Federal Home Loan Bank Bullet Notes	06/15/15	0.420%	07/15/16	25,006,500	25,000,000
Total Federal Home Loan Bank Debentures				<u>\$ 324,990,250</u>	<u>\$ 324,997,454</u>

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

\*\* Fair value represents the closing bid price on June 30, 2015.

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

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Condensed Statement of Fiduciary Net Position by Investor Type and  
Condensed Statement of Changes in Fiduciary Net Position by Investor Type  
June 30, 2015  
(Dollars in thousands)**

CONDENSED STATEMENT OF FIDUCIARY NET POSITION BY INVESTOR TYPE  
June 30, 2015

	Total	Internal	External
<b>Assets</b>			
Cash equivalents	\$ 3,968,543	\$ 1,176,688	\$ 2,791,855
Deposits and investments	1,232,220	\$ 365,357	866,863
Interest receivable	425	125	300
	5,201,188	1,542,170	3,659,018
<b>Liabilities</b>			
Bank fees	143	42	101
Management fees	217	64	153
Net position	<u>\$ 5,200,828</u>	<u>\$ 1,542,064</u>	<u>\$ 3,658,764</u>

CONDENSED STATEMENT OF CHANGES IN FIDUCIARY  
NET POSITION BY INVESTOR TYPE  
Year Ended June 30, 2015

	Total	Internal	External
Participant deposits	\$ 19,082,045	\$ 11,134,936	\$ 7,947,109
Interest and other investment income	5,289	1,473	3,816
Investment expense	(4,415)	(1,309)	(3,106)
Redemptions	(19,190,702)	(11,297,387)	(7,893,315)
Dividends to shareholders	(874)	(251)	(623)
Change in net position and shares	(108,657)	(162,538)	53,881
Beginning net position	5,309,485	1,704,602	3,604,883
Ending net position	<u>\$ 5,200,828</u>	<u>\$ 1,542,064</u>	<u>\$ 3,658,764</u>

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Money Market Fund Investment Policy  
For the Year Ended June 30, 2015  
(Unaudited)**

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**1.0 POLICY:**

The Illinois State Treasurer's Office ("Treasurer") has authority under Section 17 of the State Treasurer's Act (15 ILCS 505/17) to establish and administer an investment pool to supplement and enhance investment opportunities otherwise available to managers of public funds or public agencies in the state. It is the policy of the Treasurer to invest funds pooled by local governments in the Money Market Fund within The Illinois Funds (previously referred to as the Illinois Public Treasurers' Investment Pool or IPTIP) in a manner that will provide the highest investment return using authorized instruments, while meeting the daily cash flow demands of participants and conforming to all state statutes governing the investment of public funds. It is the policy of The Illinois Funds to operate in a manner consistent with Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7).

**2.0 OBJECTIVE:**

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

**2.1 SAFETY:**

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

**2.2 LIQUIDITY:**

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

**2.3 RETURN ON INVESTMENT:**

While 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. The Portfolio Manager 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.

The Treasurer will select accepted industry benchmarks that best reflect the Money Market Fund's portfolio and measure performance against certain benchmarks over time. Benchmarks shall be reviewed at a minimum of every two years to ensure accuracy and relevance.

**3.0 ETHICS AND CONFLICTS OF INTEREST:**

Authorized investment staff and employees in policy-making positions for the Money Market Fund shall refrain from engaging in personal business activity that (a) conflicts, or give the appearance of a conflict, with proper execution of the investment program, or (b) impairs their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any

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**The Illinois Funds  
Money Market Fund Investment Policy  
For the Year Ended June 30, 2015  
(Unaudited)**

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personal investments that are related to the performance of the Money Market Fund's portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the Money Market Fund, particularly with regard to the time of purchase and sales.

**4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS:**

Authorized investment staff shall utilize the Treasurer's approved list of broker/dealers and financial institutions when selecting institutions to provide investment services.

No monies may be deposited in any financial institution until the credit review team has conducted a safety and soundness review of the financial institution by consulting various bank rating services. If the financial institution has not yet been rated by the bank rating services the institution may be eligible for a deposit that at maturity will not exceed \$100,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 9.0 of this Policy. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*).

In addition, a list shall also be maintained of approved security brokers/dealers selected according to their credit worthiness, and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office and the extent to which the broker/dealer has a large labor or economic impact on the State. They may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following or equivalent acceptable to the Treasurer, where applicable:

- 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 National and State of Illinois registration;
- e) Completed Broker/Dealer Questionnaire;
- f) Certification of notice and knowledge of this Policy; and
- g) 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

**State of Illinois  
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**The Illinois Funds  
Money Market Fund Investment Policy  
For the Year Ended June 30, 2015  
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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 parties and investments will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted.

**5.0 AUTHORIZED AND SUITABLE INVESTMENTS:**

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

a) Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);

b) Bonds, notes, debentures, or similar obligations of the United States or its agencies; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);

c) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986, subject to the provisions of such Act and the regulations issued thereunder; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);

d) Short-term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the two highest classifications established by at least two standard rating services and that mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations, and (iii) no more than one-third of the public agency's funds may be invested in short-term obligations of corporations and (iv) the corporation is not a forbidden entity as defined in Section 22.6 of the Deposit of State Moneys Act (15 ILCS 520/22.6); Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);

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

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

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

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Money Market Fund Investment Policy  
For the Year Ended June 30, 2015  
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h) Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5); and

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

**6.0 INVESTMENT RESTRICTIONS:**

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

a) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;

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

c) There will be no investments in mortgage-backed securities of any kind;

d) There will be no investments in asset-backed securities of any kind;

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

f) Investments in Bankers' Acceptances of any kind are prohibited; and

g) There will be no investments prohibited by Section 22.6 of the Deposit of State Moneys Act (15 ILCS 520/22.6) shall be prohibited.

**7.0 COLLATERALIZATION:**

All Money Market Fund deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520/1 et seq.) and the Treasurer's Acceptable Collateral Listing, which may change from time to time.

**8.0 SAFEKEEPING AND CUSTODY:**

All direct treasury, agency and instrumentality security transactions entered into by the Money Market Fund shall be conducted on a delivery-versus-payment (DVP) or receipt-versus-payment (RVP) basis. Securities shall be held by a safekeeping agent designated by the Treasurer, and evidenced by safekeeping receipts. Commercial Paper will settle daily with the Depository Trust Company.

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**9.0 DIVERSIFICATION:**

The primary purpose of diversification in general is to control credit and market risk. The Money Market Fund portfolio will be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The majority of Money Market Fund investments will be in direct obligations of the United States Treasury and United States Government Agencies and Instrumentalities and cash equivalents as listed in Section 5.0 of this Policy. In order to properly manage any risk that may be attendant to the investment of Money Market Fund assets, The Money Market Fund portfolio will observe the following diversification limits, at the time of purchase:

The Money Market Fund will invest no more than 50% of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality;

The Money Market Fund will invest no more than 5% of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase);

- a) A maximum of 1/3 of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity at time of purchase;
- b) A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
- c) The Money Market Fund will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers;
- d) The Money Market Fund shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits; and
- e) The Money Market Fund shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two years maturity.

**10.0 INTERNAL CONTROLS:**

The Treasurer shall establish a system of internal controls, which shall be documented in writing and filed with the Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, and/or imprudent actions by authorized investment staff of the Money Market Fund.

The Treasurer shall publish the current investment policy on The Illinois Funds website and in accordance with the Statutes.

**11.0 ASSET ALLOCATION:**

The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this policy.

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**12.0 COMPETITIVE BIDDING:**

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

**13.0 LIABILITY:**

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

**14.0 REPORTING:**

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

- a) Performance as compared to the established benchmark;
- b) Asset allocation;
- c) Any deviation from the standards established in Section 9.0 of this Policy;
- d) Any change in investment policy adopted during the quarter; and
- e) The average days to maturity.

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

**15.0 EMERGENCY POWERS:**

In the event of an emergency, the Treasurer may, at his or her discretion, invoke emergency powers and suspend any or all of the provisions of this Policy provided that:

- a) The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of monies;
- b) The Treasurer reasonably believes that deviating from the Policy is in the best interest of the participants;

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**c)** Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a notice of which shall be posted on the Treasurer's website that includes:

- i)** The date and time that the emergency powers were invoked;
- ii)** The date and time that emergency powers were repealed, if applicable;
- iii)** The section or sections of this Policy that were affected by the emergency or use of emergency powers;
- iv)** The reason for deviating from this Policy.

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



RSM US LLP

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

Honorable William G. Holland  
Auditor General  
State of Illinois

Board of Trustees  
Illinois State Board of Investment

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Illinois Funds, a fiduciary (investment trust) fund of the State of Illinois, Office of the Treasurer, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2015.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*RSM US LLP*

Schaumburg, Illinois  
December 21, 2015