

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

Financial Audit
For the Years Ended June 30, 2020 and 2019

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

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Financial Audit
For the Years Ended June 30, 2020 and 2019**

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**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Financial Audit
For the Years Ended June 30, 2020 and 2019**

Office of the Treasurer's Officials

Treasurer	The Honorable Michael W. Frerichs
Chief of Staff	Mr. G. Allen Mayer
Deputy Treasurer & Chief Investment Officer	Mr. Rodrigo Garcia
General Counsel & Ethics Officer (December 1, 2019 to Present)	Ms. Laura Duque
General Counsel & Ethics Officer (<i>Acting</i>) (July 1, 2019 to November 30, 2019)	Mr. Chris Flynn
Executive Inspector General for the Illinois State Treasurer (<i>Acting</i>) (February 17, 2020 to Present)	Mr. Dennis Rendleman
Executive Inspector General for the Illinois State Treasurer (January 1, 2020 to February 16, 2020)	Vacant
Executive Inspector General for the Illinois State Treasurer (July 1, 2019 to December 31, 2019)	Mr. Raymond Watson
Chief Internal Auditor	Ms. Leighann Manning
Director of ePay & Illinois Funds (May 16, 2020 to Present)	Mr. Andy Schacht
Director of ePay & Illinois Funds (July 1, 2019 to May 15, 2020)	Ms. Johanna Perez
Director of IPTIP (Illinois Public Treasurers Investment Pool) Investments	Mr. Jack Weisenborn
Director of Investment Analysis and Due Diligence	Mr. Joe Aguilar
Director of Fiscal Operations	Ms. Deborah Miller

Office of the Treasurer's Offices

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

Executive Office
State Capitol
219 State House
Springfield, Illinois 62706

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

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

Unclaimed Property Division
Myers Building
1 W. Old State Capitol Plaza, 1st & 4th Floors
Springfield, Illinois 62701

FINANCIAL STATEMENT REPORT

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Financial Audit
For the Years Ended June 30, 2020 and 2019**

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 Crowe LLP, as of and for the years ended June 30, 2020 and 2019.

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

Summary of Findings

The auditors identified a matter involving the Office's internal controls over financial reporting that they considered to be a material weakness.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDING				
2020-001	49	New	Inadequate Internal Controls Related to Review of Financial Statements	Material Weakness
PRIOR FINDING NOT REPEATED				
A	51	2019/2017	Lack of Adequate Controls Over the Review of External Service Providers	Significant Deficiency

Exit Conference

The Office waived an exit conference in a correspondence from Leighann Manning, Chief Internal Auditor, on January 20, 2021. The responses to the recommendation were provided by Leighann Manning, Chief Internal Auditor, in a correspondence dated February 1, 2021.

INDEPENDENT AUDITOR'S REPORT



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 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, the changes in financial position, or, where applicable, cash flows 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 audits were 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 20 - 28) and Other Information (pages 29 - 46) as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The Supplementary Information, consisting of the portfolio of investments and the condensed statements by investor type, 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 Illinois Funds Investment Policy Statements, has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2021, on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Office of the Treasurer's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and its compliance.

Crowe LLP

Springfield, Illinois
February 2, 2021

BASIC FINANCIAL STATEMENTS

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statements of Fiduciary Net Position
June 30, 2020 and 2019**

	2020	2019
Assets		
Cash equivalents		
Repurchase agreements, including accrued interest of \$19,028 and \$314,125 in 2020 and 2019, respectively	\$ 600,019,028	\$ 1,550,314,125
Commercial paper, net of unaccreted discount of \$84,193 and \$1,187,599 in 2020 and 2019, respectively	374,915,807	569,782,401
Money market mutual funds, net of unamortized premium of \$470,032 and \$0, in 2020 and 2019, respectively	2,078,335,089	400,180,132
U.S. agency obligations		
Federal Home Loan Bank Debentures, net of unamortized premium of \$39,453 and \$1,501 in 2020 and 2019, respectively	50,039,453	165,001,501
Federal Home Loan Mortgage Corporation Notes, net of unaccreted discount of \$0 and \$53 in 2020 and 2019, respectively	-	54,999,947
Federal Farm Credit Bureau Debentures, net of unaccreted discount of \$0 and \$0 in 2020 and 2019, respectively	45,000,000	-
Corporate Bonds, net of unaccreted discount of \$9,925 in 2020 and net of unamortized premium of \$3,564 in 2019	176,506,075	3,158,564
Supranational Notes, net of unaccreted discount of \$6,000 and unamortized premium of \$2,462 in 2020 and 2019, respectively	24,994,000	31,002,462
Total cash equivalents	3,349,809,452	2,774,439,132
Deposits and investments		
Repurchase agreements, including accrued interest of \$0 and \$101,250 in 2020 and 2019, respectively	-	50,101,250
Commercial paper, net of unaccreted discount of \$1,393,569 and \$7,490,083 in 2020 and 2019, respectively	1,256,106,431	1,276,914,918
U.S. Treasury Bills, net of unaccreted discount of \$152,024 and \$0 in 2020 and 2019, respectively	274,847,976	-
U.S. Treasury Notes, net of unamortized premium of \$41,289 in 2020 and net of unaccreted discount of \$116,312 in 2019	75,041,289	74,883,688
U.S. agency obligations		
Federal Home Loan Bank Debentures, net of unaccreted discount of \$5,098 and \$1,560 in 2020 and 2019, respectively	334,994,902	284,998,440
Federal Home Loan Mortgage Corporation Notes, net of unaccreted discount of \$0 and \$34,934 in 2020 and 2019, respectively	90,000,000	146,965,066
Federal Home Loan Mortgage Corporation Discount Notes, net of unaccreted discount of \$27,084 and \$0 in 2020 and 2019, respectively	99,972,916	-

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statements of Fiduciary Net Position (Continued)
June 30, 2020 and 2019**

	2020	2019
Assets (Continued)		
U.S. agency obligations (Continued)		
Farm Credit Discount Notes, net of unaccreted discount of \$0 and \$163,278 in 2020 and 2019, respectively	\$ -	\$ 39,836,722
Federal Farm Credit Bureau Debentures, net of unaccreted net discount of \$3,594 and \$1,402 in 2020 and 2019, respectively	632,096,406	435,498,598
Federal Home Loan Bank Discount Notes, net of unaccreted discount of \$18,108 and \$175,933 in 2020 and 2019, respectively	24,981,892	34,824,067
Federal National Mortgage Association Debentures net of unaccreted discount of \$3,120 and \$0 in 2020 and 2019, respectively	29,941,880	13,000,000
Certificates of Deposit, including accrued interest of \$65,400 and \$0 in 2020 and 2019, respectively	120,065,400	-
Supranational Notes, net of unamortized premium of \$98,876 in 2020 and net of unaccreted discount of \$532,523 in 2019	129,600,876	203,544,477
Corporate Bonds, net of unamortized premium of \$4,157,668 in 2020 and net of unaccreted discount of \$601,188 in 2019	582,937,668	272,939,812
Total deposits and investments	3,650,587,636	2,833,507,038
Accrued interest receivable	5,398,671	7,379,542
Total assets	\$ 7,005,795,759	\$ 5,615,325,712
Liabilities and Net Position		
Accrued liabilities		
Bank custodial fees	\$ 650,787	\$ 343,068
State management fees	479,838	225,363
Total liabilities	1,130,625	568,431
Net position held in trust for pool participants	\$ 7,004,665,134	\$ 5,614,757,281
The pricing of shares		
Participant shares outstanding (\$1.00 par, unlimited shares authorized)	7,004,665,134	5,614,757,281
Participant net position value, offering and redemption price per share	\$ 1.00	\$ 1.00

The accompanying notes are an integral part of these statements.

**State of Illinois
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**The Illinois Funds
Statements of Changes in Fiduciary Net Position
For the Years Ended June 30, 2020 and 2019**

	2020	2019
Additions		
Investment income		
Investment earnings	\$ 109,565,223	\$ 136,610,905
Investment expenses		
Bank custodial fees	2,063,073	2,213,898
State management fees	3,170,602	3,034,595
Total investment expenses	5,233,675	5,248,493
Net investment income	104,331,548	131,362,412
Dividends to participants from net investment income	(104,331,548)	(131,362,412)
Share transactions (dollar amounts and number of shares are the same)		
Subscriptions	25,892,976,915	26,033,159,879
Reinvestments	96,914,893	123,664,130
Redemptions	(24,599,983,955)	(26,112,574,445)
Change in net position and shares resulting from share transactions	1,389,907,853	44,249,564
Net position, beginning of year	5,614,757,281	5,570,507,717
Net position, end of year	\$ 7,004,665,134	\$ 5,614,757,281

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
For the Years Ended June 30, 2020 and 2019**

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. While the Illinois Funds operates in accordance with SEC Rule 2a-7, for valuation purposes it complies with GASB Statement No. 79. See Note 2 below for additional information.

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.

**State of Illinois
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**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 1. Summary of Significant Accounting Policies (Continued)

Certificates of deposit with financial institutions are stated at cost plus accrued interest, which represents current value. Certificates of deposit may be subject to certain withdrawal restrictions. It is the intent of management to hold the time deposits to maturity.

Commercial paper is stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Commercial paper utilizes the straight-line method of amortization or accretion. It is the intent of management to hold commercial paper to maturity. Money market mutual funds, excluding prime money market 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. Prime money market funds are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums.

U.S. agency obligations and Supranational notes are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. U.S. agency coupon and Supranational 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 and Supranational notes 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 Held in Trust for Pool Participants: The net position held in trust for pool participants represents the total value of all participant deposits including late deposits held in an overnight investment account as of June 30, 2020 and 2019.

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

**State of Illinois
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**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 1. Summary of Significant Accounting Policies (Continued)

earnings, which were remitted directly to participants versus invested (or reinvested) in The Illinois Funds' shares.

Note 2. Deposits and Investments

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, generally requires investments to be measured at fair value. GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, established criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost rather than fair value for financial reporting purposes. The Illinois Funds meets the criteria established in GASB Statement No. 79 and, thus, reports all investments at amortized cost.

Fair Value Measurements:

As stated in the aforementioned paragraph, The Illinois Funds reports its investments at amortized cost for financial reporting purposes. GASB Statements No. 72 and 79 require disclosure regarding the fair value of investments. 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. This statement 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.

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 instruments 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. |

**State of Illinois
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**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 2. Deposits and Investments (Continued)

The following table summarizes The Illinois Funds' investments within the fair value hierarchy at June 30, 2020.

Type	Fair Value	Level 1	Level 2	Level 3
Repurchase Agreements	\$ 600,019,028	\$ -	\$ 600,019,028	\$ -
Commercial Paper	1,631,195,475	-	1,631,195,475	-
Money Market Mutual Funds	2,078,500,645	2,078,500,645	-	-
United States Treasury Bills	274,837,000	-	274,837,000	-
United States Treasury Notes	75,098,250	-	75,098,250	-
Federal Home Loan Mtg Corp Discount Notes	99,970,000	-	99,970,000	-
Federal Home Loan Bank Debentures	384,924,450	-	384,924,450	-
Federal Home Loan Bank Discount Notes	24,982,500	-	24,982,500	-
Federal National Mortgage Association Debentures	29,960,989	-	29,960,989	-
Federal Farm Credit Bureau Debentures	677,157,398	-	677,157,398	-
Supranational Notes	154,754,786	-	154,754,786	-
Certificates of Deposit	120,065,400	-	120,065,400	-
Corporate Bonds	760,162,528	-	760,162,528	-
Federal Home Loan Mtg Corp Notes	89,982,450	-	89,982,450	-
	<u>\$ 7,001,610,899</u>	<u>\$ 2,078,500,645</u>	<u>\$ 4,923,110,254</u>	<u>\$ -</u>

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**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 2. Deposits and Investments (Continued)

The following table summarizes The Illinois Funds' investments within the fair value hierarchy at June 30, 2019.

Type	Fair Value	Level 1	Level 2	Level 3
Repurchase Agreements	\$ 1,600,415,375	\$ -	\$ 1,600,415,375	\$ -
Commercial Paper	1,847,877,454	-	1,847,877,454	-
Money Market Mutual Funds	400,180,132	400,180,132	-	-
United States Treasury Notes	74,894,800	-	74,894,800	-
Federal Home Loan Bank Debentures	449,956,600	-	449,956,600	-
Federal Home Loan Bank Discount Notes	34,836,800	-	34,836,800	-
Federal National Mortgage Association Debentures	12,995,060	-	12,995,060	-
Federal Farm Credit Bureau Debentures	435,476,865	-	435,476,865	-
Farm Credit Discount Note	39,862,200	-	39,862,200	-
Supranational Notes	234,700,374	-	234,700,374	-
Corporate Bonds	276,530,518	-	276,530,518	-
Federal Home Loan Mtg Corp Notes	201,933,860	-	201,933,860	-
	<u>\$ 5,609,660,038</u>	<u>\$ 400,180,132</u>	<u>\$ 5,209,479,906</u>	<u>\$ -</u>

Repurchase Agreements classified in Level 2 of the fair value hierarchy are valued using the cost approach which reflects the amount that would be required to replace the investment. The remaining investments classified in Level 2 of the fair value hierarchy are valued using a market approach that involves using prices and other relevant information generated by market transactions involving comparable assets.

The Illinois Funds does not have any limitations or restrictions on participant withdrawals.

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.

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**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 2. Deposits and Investments (Continued)

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, 2020 and 2019 is as follows:

Summary of Investments at June 30, 2020:

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 600,019,028	\$ 600,019,028	\$ 600,000,000	0.051-0.112%	07/01/20-07/07/20
Commercial Paper	1,631,022,238	1,631,195,475	1,632,500,000	0.152-2.084%	07/01/20-03/26/21
Money Market Mutual Funds	2,078,335,089	2,078,500,645	2,077,865,057	NA	NA
United States Treasury Bills	274,847,976	274,837,000	275,000,000	0.145-0.185%	09/24/20-12/10/20
United States Treasury Notes	75,041,289	75,098,250	75,000,000	0.273%	07/1/20
Certificates of Deposit	120,065,400	120,065,400	120,000,000	0.548-0.798%	04/30/21-05/14/21
Federal Home Loan Mtg Corp Notes	90,000,000	89,982,450	90,000,000	0.091-0.203%	07/01/20
Federal Home Loan Mtg Corp Discount Notes	99,972,916	99,970,000	100,000,000	0.127%	09/17/20
Corporate Bonds	759,443,743	760,162,528	755,296,000	0.069-2.423%	07/15/20-06/15/21
Federal Home Loan Bank Debentures	385,034,355	384,924,450	385,000,000	0.064-2.007%	07/01/20-10/15/20
Federal Home Loan Bank Discount Notes	24,981,892	24,982,500	25,000,000	0.177%	11/27/20
Federal Farm Credit Bureau Debentures	677,096,406	677,157,398	677,100,000	0.119-0.456%	07/01/20-09/13/20
Federal National Mortgage Assn Debentures	29,941,880	29,960,989	29,945,000	0.132-1.767%	07/01/20-07/30/20
Supranational Notes	154,594,876	154,754,786	154,502,000	0.162-4.490%	07/09/20-05/24/21
	<u>\$ 7,000,397,088</u>	<u>\$ 7,001,610,899</u>	<u>\$ 6,997,208,057</u>		

**State of Illinois
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**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 2. Deposits and Investments (Continued)

Summary of Investments at June 30, 2019:

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 1,600,415,375	\$ 1,600,415,375	\$ 1,600,000,000	2.300-2.510%	07/01/19-08/13/19
Commercial Paper	1,846,697,319	1,847,877,454	1,855,375,000	2.344-3.124%	07/01/19-02/05/20
Money Market Mutual Funds	400,180,132	400,180,132	400,180,132	NA	NA
United States Treasury Notes*	74,883,688	74,894,800	75,000,000	2.206-2.484%	06/29/19-09/30/19
Federal Home Loan Mtg Corp Notes	201,965,013	201,933,860	202,000,000	1.497-2.591%	07/02/19-06/04/20
Corporate Bonds	276,098,376	276,530,518	276,696,000	2.506-2.886%	07/30/19-02/03/20
Federal Home Loan Bank Debentures*	449,999,941	449,956,600	450,000,000	2.250-2.558%	06/29/19-06/17/20
Federal Home Loan Bank Discount Notes	34,824,067	34,836,800	35,000,000	2.342-2.349%	09/03/19-09/27/19
Federal Farm Credit Bureau Debentures*	435,498,598	435,476,865	435,500,000	2.197-2.747%	06/29/19-12/04/19
Farm Credit Discount Note	39,836,722	39,862,200	40,000,000	2.527-2.693%	08/07/19-09/16/19
Federal National Mortgage Assn Debentures	13,000,000	12,995,060	13,000,000	1.049%	07/12/19
Supranational Notes	234,546,939	234,700,374	235,077,000	2.310-2.691%	07/08/19-12/06/19
	<u>\$ 5,607,946,170</u>	<u>\$ 5,609,660,038</u>	<u>\$ 5,617,828,132</u>		

*These investments have a callable or floating interest reset date of 06/29/19 used for the calculation of the Weighted Average Maturity and do not reflect the end of the maturity.

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 Treasurer has a formal policy to address custodial credit 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.

As noted above, 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 \$600,000,000 and \$1,600,000,000 as of June 30, 2020 and 2019, respectively. The fair value, including accrued interest, of the underlying

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**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 2. Deposits and Investments (Continued)

securities to be resold based on commitments under the repurchase agreements was \$615,061,826 and \$1,636,827,688 as of June 30, 2020 and 2019, respectively.

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.

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.

Within The Illinois Funds, certain U.S. Agency Obligations, Supranational Notes, and Commercial Paper carry variable rates that reset at a specific date, based on each individual investment. The date used for the calculation of interest rate risk is that of the variable rate reset date for each investment that contains a variable rate.

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**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019**

Note 2. Deposits and Investments (Continued)

Investments: The Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2020 and 2019. (Amounts are in thousands.)

	2020				2019			
	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	Total	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	Total
Repurchase agreements	\$ 600,019	\$ -	\$ -	\$ 600,019	\$ 1,550,314	\$ 50,101	\$ -	\$ 1,600,415
Commercial paper	489,822	409,701	731,499	1,631,022	543,437	798,709	504,551	1,846,697
Supranational notes	39,090	47,499	68,006	154,595	51,494	76,075	106,978	234,547
Corporate Bonds	207,401	108,845	443,198	759,444	-	56,395	219,703	276,098
Certificates of Deposit	-	-	120,065	120,065	-	-	-	-
U.S. Treasury bills	-	49,981	224,867	274,848	-	-	-	-
U.S. Treasury notes	75,041	-	-	75,041	20,000	29,932	24,952	74,884
U.S. agency obligations	1,007,107	174,939	124,982	1,307,028	798,000	240,234	136,891	1,175,125
Subtotal	\$ 2,418,480	\$ 790,965	\$ 1,712,617	4,922,062	\$ 2,963,245	\$ 1,251,446	\$ 993,075	5,207,766
Treasury-only money market mutual funds				2,078,335				400,180
Investments				\$ 7,000,397				\$ 5,607,946

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, 2020, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings and the Supranational Notes that were rated AAA by Standard & Poor's. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service and A-1+ by Standard & Poor's Ratings. Commercial Paper issued by Caterpillar Inc and United Healthgroup Inc were also rated P-2 by Moody's Investor Services. The Illinois Funds investments in Corporate Bonds were rated as A-1 and A-1+ by Standard & Poor's and P-1 by Moody's Investors Services except for ones issued by PNC Financial Services and United Health Group that were rated P-2. 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, 2019, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings and the Supranational Notes that were rated AAA by Standard & Poor's. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 or A-1+ by Standard & Poor's Ratings. Commercial Paper issued by Caterpillar Inc and United Healthgroup Inc were also rated P-2 by Moody's Investor Services. The Illinois Funds investments in Corporate Bonds were rated as A-1 and A-1+ by Standard & Poor's and P-1 by Moody's Investors Services. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's Ratings.

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Notes to the Financial Statements
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Note 2. Deposits and Investments (Continued)

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, 2020 and 2019. (Amounts are in thousands.)

	2020		2019	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
Repurchase agreements				
HSBC Securities*	\$ -	- %	\$ 400,080	7.13%
Bank of Nova Scotia	-	-	500,100	8.92
Bank of Montreal	-	-	450,183	8.03
U.S. Agency				
Federal Home Loan Bank	385,034	5.50	450,000	8.02
FFCB Notes	677,096	9.67	435,499	7.77
Commercial Paper				
HSBC Securities*	-	-	255,024	4.55

*Issuer total exceeds 5% for all investment types though concentration for a specific investment type may not

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 270 days to maturity. Additionally, a maximum of 25% of the total assets may be invested in any approved AAAM Money Market Fund.

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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 titled "The Illinois Funds' Administrative Office." This division had 16 and 18 average full time equivalent employees for the years ended June 30, 2020 and 2019, respectively. The revenues and expenditures of the division are recorded in an enterprise fund maintained by the Treasurer titled 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. The fee is accrued daily and is paid via a voucher payment. The custodian's Annual Custody, Fund Accounting Transfer Agent Fee shall be based upon average net assets per fund as follows: Base fee of \$240,000 per fund per year plus, 0.0350% for the first \$3,000,000,000; 0.0275% for the next \$2,000,000,000; 0.0250% for the next \$2,000,000,000; 0.0175% on the balance. The minimum annual fee is \$1,200,000.

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 2020 and 2019.

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

	<u>2020</u>	<u>2019</u>
Fees received	\$ 6,057,000	\$ 5,540,000
Expenditures	4,935,000	4,819,000

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**The Illinois Funds
Notes to the Financial Statements
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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 2020 and 2019, 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, 2020 and 2019, was approximately \$1,278,000 and \$2,566,000, respectively.

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

	2020	2019
Total number of participants	1,516	1,533
Number of State of Illinois participants	24	24
Balance of State of Illinois investments	\$2,707,318,456	\$1,916,803,244

Note 6. Contingencies

The State of Illinois, Office of the Treasurer (Treasurer) is involved in a lawsuit. While the range of potential losses as a result of this lawsuit against the Treasurer is unknown at this time, the Treasurer believes the potential losses would be immaterial to The Illinois Funds financial statements.

Note 7. COVID-19 Impact

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. As a result, economic uncertainties have arisen which could negatively impact the fair market value of investments held by the Illinois Funds. Other financial implications could occur though potential impact is unknown at this time. No adjustments or provisions were made in these financial statements related to COVID-19.

SUPPLEMENTARY INFORMATION

**State of Illinois
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**The Illinois Funds
Portfolio of Investments
June 30, 2020**

	Execution Date	Interest Rate	Maturity Date	Face Amount	Fair Value
Repurchase Agreements					
BANK OF MONTREAL	5/20/2020	0.112%	7/7/2020	\$ 200,000,000	\$ 200,018,333
BANK OF MONTREAL	6/30/2020	0.071%	7/1/2020	100,000,000	100,000,195
BANK OF NOVA SCOTIA	6/30/2020	0.051%	7/1/2020	100,000,000	100,000,139
HSBC SECURITIES	6/30/2020	0.051%	7/1/2020	50,000,000	50,000,069
SUN TRUST	6/30/2020	0.071%	7/1/2020	150,000,000	150,000,292
				<u>\$ 600,000,000</u>	<u>\$ 600,019,028</u>
Total Repurchase Agreements					

**State of Illinois
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**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2020**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Commercial Paper					
ABN AMRO FDG USA LLC CP	01/10/20	1.825%	07/08/20	\$ 49,998,500	\$ 49,982,500
ABN AMRO FDG USA LLC CP	01/27/20	1.729%	07/24/20	24,997,500	24,972,767
CATERPILLAR FINL SVCS CORP	06/19/20	0.210%	07/24/20	69,993,000	69,990,736
CHEVRON CORP NEW	05/05/20	0.304%	07/08/20	9,999,700	9,999,417
CITIGROUP GLOBAL MKTS INC	04/23/20	0.771%	09/02/20	24,991,750	24,966,750
CITIGROUP GLOBAL MKTS INC	05/11/20	0.382%	12/01/20	62,420,625	62,399,913
CITIGROUP GLOBAL MKTS INC	05/21/20	0.335%	12/28/20	24,962,500	24,958,750
CITIGROUP GLOBAL MKTS INC	05/26/20	0.330%	01/28/21	34,930,350	34,933,330
COCA COLA COMPANY	03/04/20	0.963%	07/17/20	24,998,250	24,989,444
COCA COLA COMPANY	03/04/20	0.943%	08/11/20	24,995,000	24,973,521
EXXON CORPORATION	04/06/20	2.084%	07/06/20	49,999,000	49,985,729
EXXON CORPORATION	04/21/20	1.004%	07/09/20	19,999,400	19,995,600
EXXON CORPORATION	05/26/20	0.243%	08/10/20	24,995,000	24,993,333
GLAXOSMITHKLINE LLC DISC COML	04/17/20	1.419%	07/16/20	39,997,600	39,976,667
GLAXOSMITHKLINE LLC DISC COML	04/28/20	1.014%	07/28/20	44,995,050	44,966,250
HSBC USA INC	04/08/20	1.369%	07/07/20	39,999,200	39,991,000
ING US FDG LLC	03/04/20	0.913%	09/01/20	49,983,500	49,922,500
JP MORGAN SECURITIES LLC	05/08/20	0.350%	12/07/20	34,953,800	34,946,669
JP MORGAN SECURITIES LLC	06/15/20	0.345%	03/12/21	24,940,000	24,940,028
JOHNSON & JOHNSON	05/27/20	0.188%	12/08/20	24,966,750	24,979,444
JOHNSON & JOHNSON	06/24/20	0.172%	12/14/20	99,862,000	99,921,611
NATL SEC CLEARING CORP	01/10/20	1.764%	07/01/20	30,000,000	30,000,000
NATL SEC CLEARING CORP	01/08/20	1.769%	07/10/20	24,999,000	24,989,094
NESTLE CAP CORP	06/15/20	0.203%	12/14/20	49,931,000	49,953,889
NESTLE CAP CORP	06/04/20	0.233%	01/04/21	24,957,250	24,970,132
NESTLE CAP CORP	06/03/20	0.233%	01/29/21	24,950,000	24,966,139
PFIZER INC	06/25/20	0.162%	08/26/20	74,979,000	74,981,333
PFIZER INC	03/16/20	1.348%	09/16/20	24,989,750	24,928,882
PFIZER INC	06/22/20	0.228%	10/30/20	24,978,250	24,981,094
PFIZER INC	05/14/20	0.284%	11/02/20	24,977,500	24,975,889
PFIZER INC	06/19/20	0.230%	11/05/20	49,954,000	49,959,960
PFIZER INC	06/22/20	0.243%	12/15/20	49,930,500	49,944,333
PROCTER AND GAMBLE CO	05/20/20	0.152%	08/17/20	49,988,500	49,990,208
PROCTER AND GAMBLE CO	06/24/20	0.172%	09/25/20	34,984,250	34,985,786
SIEMENS CAP CO LLC	05/08/20	0.231%	09/04/20	99,966,000	99,958,924
TORONTO DOMINION HLDGS USA INC	01/23/20	1.739%	07/21/20	14,998,800	14,985,708
TORONTO DOMINION HLDGS USA INC	05/08/20	0.304%	12/04/20	49,935,000	49,935,000
TORONTO DOMINION HLDGS USA INC	06/05/20	0.304%	03/01/21	49,885,500	49,898,750
TORONTO DOMINION HLDGS USA INC	06/09/20	0.319%	03/08/21	24,941,000	24,945,312
TORONTO DOMINION HLDGS USA INC	06/29/20	0.304%	03/26/21	49,873,500	49,888,333
UNITED HEALTHCARE CORP	06/17/20	0.224%	07/10/20	44,998,200	44,997,513
Total Commercial Paper				<u>\$ 1,631,195,475</u>	<u>\$ 1,631,022,238</u>

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**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2020**

	Fair Value	Face Amount
Money Market Mutual Funds		
Blackrock Liquidity Funds	\$ 225,122,757	\$ 225,067,726
DWS ESG Liq Fd Inst Investors Cash Trust	25,192,223	25,189,660
Federated Prime Oblig Fund Inst	225,220,427	225,197,806
Goldman Sachs FS Govt Fund	655,754,384	655,754,384
Invesco Govt and Agency Port Inst	102,810,099	102,810,099
JP Morgan Prime MMKT Academy	225,845,958	225,760,617
Legg Mason Partners Instl Tr WA Inst Gv Inst	5,530,088	5,530,088
Morgan Stanley Instl Liquidity Govt Inst	6,610,908	6,610,908
Northern Inst US Govt Select	606,413,801	606,413,801
	<u>606,413,801</u>	<u>606,413,801</u>
Total Money Market Mutual Funds	<u>\$ 2,078,500,645</u>	<u>\$ 2,078,335,089</u>

**State of Illinois
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**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2020**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
United States Treasury Obligations					
U.S. Treasury Bills					
Treasury Bills	05/29/20	0.162%	09/24/20	\$ 49,983,000	\$ 49,981,111
Treasury Bills	05/27/20	0.145%	11/19/20	199,872,000	199,887,396
Treasury Bills	06/11/20	0.185%	12/10/20	24,982,000	24,979,469
Total U.S. Treasury Bills				<u>\$ 274,837,000</u>	<u>\$ 274,847,976</u>
U.S. Treasury Notes					
Treasury Notes	02/05/20	0.273%	07/01/20	\$ 75,098,250	\$ 75,041,289
Total U.S. Treasury Notes				<u>\$ 75,098,250</u>	<u>\$ 75,041,289</u>
Certificates of Deposit					
Certificates of Deposit	05/01/20	0.798%	04/30/21	\$ 45,025,650	\$ 45,025,650
Certificates of Deposit	05/18/20	0.548%	05/14/21	75,039,750	75,039,750
Total Certificates of Deposit				<u>\$ 120,065,400</u>	<u>\$ 120,065,400</u>
Supranational Notes					
African Dev Bk Global Mtn Sr Fr 0.45%	04/29/20	4.490%	04/09/21	\$ 50,063,500	\$ 50,000,000
Inter-American Dev Bk VR 080715-071520	08/28/19	1.200%	07/15/20	7,366,872	7,364,130
Inter-American Dev Bk VR 101217-100920	12/13/19	0.183%	07/09/20	11,583,756	11,587,000
Inter-American Dev Bk VR 112015-101520	10/24/19	1.228%	07/15/20	20,143,112	20,139,230
International Bank for Recon & Dev 11370	03/27/20	0.391%	08/11/20	4,504,005	4,509,629
International Bank for Recon & Dev Fr 1.95%	12/24/19	1.746%	11/09/20	10,061,500	10,006,768
International Bank for Recon & Development Disc Nt	06/03/20	0.162%	08/24/20	24,994,500	24,994,000
International Bank for Recon & Glbl 100128 Nt	09/13/19	1.832%	09/04/20	15,035,250	14,994,119
International Bank for Recon & Senior Glbl Nt 21	04/24/20	0.350%	05/24/21	8,001,931	7,998,717
International Financial Corporation	05/13/20	0.233%	09/15/20	3,000,360	3,001,283
Total Supranational Notes	23			<u>\$ 154,754,786</u>	<u>\$ 154,594,876</u>

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**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2020**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Corporate Bonds					
3M Company	12/17/19	1.797%	08/07/20	\$ 10,017,000	\$ 10,002,117
Automatic Data Processing Inc Sr Gbl Nt 20	03/30/20	2.423%	09/15/20	2,004,420	1,999,517
Bank of New York Mellon Corporation	06/03/20	0.278%	05/03/21	23,845,363	23,859,734
Bank of New York Mtn Bk Ent	06/17/20	1.025%	08/17/20	32,211,643	32,205,223
Bank of New York Mtn Bk Ent	03/24/20	1.495%	08/17/20	9,208,648	9,197,373
Bank of New York Mtn Bk Ent	01/27/20	1.773%	11/27/20	7,869,227	7,832,610
BB&T Company Global Bk Mtn	06/08/20	0.748%	04/01/21	28,393,437	28,346,048
Bristol-Myers Squibb Company	05/07/20	1.043%	08/15/20	4,733,688	4,730,594
Bristol-Myers Squibb Company	06/10/20	0.630%	10/15/20	17,601,853	17,602,645
Bristol-Myers Squibb Company	06/25/20	0.308%	05/14/21	45,881,670	45,878,364
Bristol-Myers Squibb Company	06/12/20	0.368%	08/17/20	1,927,329	1,927,642
Caterpillar Financial Services	03/10/20	0.403%	09/04/20	11,045,630	11,044,443
Citibank NA NY	05/12/20	1.589%	10/20/20	42,305,672	42,192,535
Citibank NA NY	04/30/20	1.284%	07/20/20	20,345,857	20,338,246
Citibank NA NY	06/11/20	0.638%	02/12/21	33,256,462	33,215,974
Walt Disney Company	12/10/19	2.008%	08/15/20	2,012	2,009
Intel Corporation	03/16/20	1.269%	07/29/20	15,024,750	15,013,561
JP Morgan Chase Bank	01/27/20	1.724%	02/27/21	35,023,800	35,000,000
JP Morgan Chase Bank	01/27/20	1.005%	07/27/20	34,800,150	35,000,000
JP Morgan Chase Bank	02/05/20	0.548%	08/05/20	24,917,500	25,000,000
Pepsico Inc	11/05/19	1.691%	10/14/20	17,607,850	17,553,341
Pfizer Inc	11/01/19	1.806%	08/12/20	5,732,184	5,723,361
Pfizer Inc	06/03/20	0.267%	06/03/21	7,719,092	7,718,129
PNC Bank NA Pittsburgh	05/14/20	1.345%	11/05/20	43,012,894	42,906,028
PNC Bank NA Pittsburgh	06/23/20	0.553%	04/29/21	30,156,948	30,122,262
PNC Bank NA Pittsburgh	05/01/20	1.389%	01/22/21	13,938,784	13,872,386
PNC Bank NA Pittsburgh	05/18/20	1.165%	07/22/20	17,802,653	17,808,336
US Bancorp Mtns Bk Ent	06/04/20	1.508%	01/29/21	17,033,465	16,943,413
Unitedhealth Group Inc	03/02/20	1.594%	02/15/21	5,995,226	5,968,568
Unitedhealth Group Inc	04/21/20	1.940%	07/15/20	61,084,097	61,048,916
Unitedhealth Group Inc	06/26/20	0.069%	03/15/21	4,035,211	4,036,014
Unitedhealth Group Inc	01/13/20	1.253%	07/15/20	11,404,332	11,402,164
Unitedhealth Group Inc	02/05/20	1.665%	10/15/20	10,850,652	10,808,778
Unitedhealth Group Inc	06/22/20	0.306%	06/15/21	8,592,863	8,592,539
US Bancorp Mtns Bk Ent	06/26/20	0.313%	05/24/21	20,157,685	20,160,068
US Bank Association	05/21/20	1.148%	10/23/20	23,191,476	23,147,529
US Bank Association	02/05/20	1.019%	07/23/20	3,608,339	3,611,571
US Bank Association	06/17/20	0.776%	04/26/21	6,450,950	6,430,609
US Bank Association	05/13/20	1.586%	07/27/20	43,348,546	43,177,712
US Bank Association	04/30/20	0.861%	02/04/21	1,013,370	1,010,903
US Bank Association	06/24/20	0.531%	08/04/20	7,009,800	7,012,481
Total Corporate Bonds				\$ 760,162,528	\$ 759,443,743

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**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2020**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
United States Agency Obligations					
Federal Home Loan Mortgage Corporation Notes					
Federal Home Loan Mortgage Corporation Notes	08/20/19	0.101%	07/01/20	\$ 24,990,250	\$ 25,000,000
Federal Home Loan Mortgage Corporation Notes	09/03/19	0.091%	07/01/20	14,997,450	15,000,000
Federal Home Loan Mortgage Corporation Notes	07/10/19	0.101%	07/01/20	24,999,500	25,000,000
Federal Home Loan Mortgage Corporation Notes	03/06/20	0.203%	07/01/20	24,995,250	25,000,000
Total Federal Home Loan Mortgage Corporation Notes				<u>\$ 89,982,450</u>	<u>\$ 90,000,000</u>
Federal Home Loan Mortgage Corp Discount Notes					
Federal Home Loan Mortgage Corp Discount Notes	05/20/20	0.127%	09/17/20	\$ 99,970,000	\$ 99,972,916
Total Federal Home Loan Mortgage Corp Discount Notes				<u>\$ 99,970,000</u>	<u>\$ 99,972,916</u>
Federal Home Loan Bank Discount Notes					
Federal Home Loan Bank Discount Notes	05/29/20	0.177%	11/27/20	\$ 24,982,500	\$ 24,981,892
Total Federal Home Loan Bank Discount Notes				<u>\$ 24,982,500</u>	<u>\$ 24,981,892</u>

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**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2020**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Federal Farm Credit Bureau Debentures					
Federal Farm Credit Bureau Bullet Notes	12/11/19	0.289%	07/13/20	\$ 25,003,750	\$ 24,997,794
Federal Farm Credit Bureau Bullet Notes	09/05/19	0.305%	07/01/20	20,001,000	19,995,809
Federal Farm Credit Bureau Bullet Notes	09/24/18	0.218%	07/07/20	14,999,550	15,000,000
Federal Farm Credit Bureau Bullet Notes	10/11/18	0.294%	07/01/20	14,999,100	15,000,000
Federal Farm Credit Bureau Bullet Notes	11/06/19	0.288%	07/02/20	15,641,089	15,630,842
Federal Farm Credit Bureau Bullet Notes	12/04/18	0.259%	08/16/20	15,495,350	15,500,000
Federal Farm Credit Bureau Bullet Notes	07/25/18	0.304%	07/01/20	10,000,800	10,000,000
Federal Farm Credit Bureau Bullet Notes	08/17/18	0.198%	07/01/20	14,999,250	15,000,000
Federal Farm Credit Bureau Bullet Notes	11/30/18	0.233%	08/30/20	24,992,500	25,000,000
Federal Farm Credit Bureau Bullet Notes	09/11/18	0.335%	07/01/20	20,006,600	20,000,000
Federal Farm Credit Bureau Bullet Notes	10/10/19	0.294%	07/09/20	15,010,800	15,000,000
Federal Farm Credit Bureau Bullet Notes	10/25/19	0.253%	07/01/20	25,014,250	25,000,000
Federal Farm Credit Bureau Bullet Notes	11/05/19	0.277%	07/05/20	15,015,600	15,000,000
Federal Farm Credit Bureau Bullet Notes	11/12/19	0.305%	07/12/20	20,023,000	20,000,000
Federal Farm Credit Bureau Bullet Notes	11/12/19	0.393%	08/16/20	19,487,879	19,453,954
Federal Farm Credit Bureau Bullet Notes	09/10/19	0.167%	07/01/20	24,972,750	25,000,000
Federal Farm Credit Bureau Bullet Notes	10/02/19	0.232%	07/09/20	30,011,400	29,998,688
Federal Farm Credit Bureau Bullet Notes	11/13/19	0.259%	09/13/20	15,005,850	15,012,158
Federal Farm Credit Bureau Bullet Notes	10/03/19	0.243%	07/18/20	115,020,700	114,997,326
Federal Farm Credit Bureau Bullet Notes	10/02/19	0.456%	07/01/20	14,996,700	15,000,000
Federal Farm Credit Bureau Bullet Notes	10/04/19	0.343%	07/04/20	10,012,900	10,000,000
Federal Farm Credit Bureau Bullet Notes	08/02/19	0.217%	07/26/20	15,005,850	15,000,000
Federal Farm Credit Bureau Bullet Notes	10/10/19	0.260%	07/10/20	25,012,500	25,000,000
Federal Farm Credit Bureau Bullet Notes	11/25/19	0.268%	07/25/20	24,997,250	25,000,000
Federal Farm Credit Bureau Bullet Notes	12/04/19	0.292%	07/02/20	7,504,650	7,500,000
Federal Farm Credit Bureau Bullet Notes	12/09/19	0.284%	07/09/20	20,014,400	20,000,000
Federal Farm Credit Bureau Bullet Notes	12/13/19	0.279%	07/13/20	9,008,280	9,000,000
Federal Farm Credit Bureau Bullet Notes	06/11/20	0.284%	07/01/20	44,973,900	45,000,000
Federal Farm Credit Bureau Bullet Notes	04/14/20	0.119%	07/28/20	25,004,250	25,009,835
Federal Farm Credit Bureau Bullet Notes	03/09/20	0.203%	07/01/20	24,925,500	25,000,000
Total Federal Farm Credit Bureau Debentures				<u>\$ 677,157,398</u>	<u>\$ 677,096,406</u>

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**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2020**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Federal Home Loan Bank Debentures					
Federal Home Loan Bank Notes	11/26/19	0.308%	07/01/20	\$ 14,992,050	\$ 14,994,921
Federal Home Loan Bank Notes	07/15/19	2.007%	07/15/20	30,022,200	29,999,981
Federal Home Loan Bank Notes	08/09/19	0.122%	07/01/20	9,994,600	10,000,000
Federal Home Loan Bank Notes	08/14/19	0.137%	07/01/20	14,988,750	15,000,000
Federal Home Loan Bank Notes	09/12/19	0.167%	07/01/20	14,986,200	15,000,000
Federal Home Loan Bank Notes	09/23/19	0.183%	07/01/20	20,001,400	20,000,000
Federal Home Loan Bank Notes	09/30/19	0.183%	07/01/20	35,000,000	35,000,000
Federal Home Loan Bank Notes	10/16/19	0.213%	07/01/20	15,002,550	15,000,000
Federal Home Loan Bank Notes	10/18/19	0.183%	07/01/20	15,000,000	15,000,000
Federal Home Loan Bank Notes	04/16/20	0.064%	07/05/20	50,012,500	50,039,453
Federal Home Loan Bank Notes	02/12/20	0.198%	07/01/20	24,967,000	25,000,000
Federal Home Loan Bank Notes	03/04/20	0.203%	07/01/20	19,973,600	20,000,000
Federal Home Loan Bank Notes	03/06/20	0.233%	07/01/20	19,997,600	20,000,000
Federal Home Loan Bank Notes	05/22/20	0.144%	10/15/20	99,986,000	100,000,000
Total Federal Home Loan Bank Debentures				<u>\$ 384,924,450</u>	<u>\$ 385,034,355</u>
Federal National Mortgage Association Debentures					
Federal National Mortgage Association Debentures	03/16/20	0.132%	07/01/20	\$ 14,999,400	\$ 15,000,000
Federal National Mortgage Association Debentures	09/05/19	1.767%	07/30/20	14,961,589	14,941,880
Total Federal National Mortgage Association Debentures				<u>\$ 29,960,989</u>	<u>\$ 29,941,880</u>

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**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, 2020
(Expressed in thousands)**

CONDENSED STATEMENT OF FIDUCIARY NET POSITION BY INVESTOR TYPE
June 30, 2020

	Total	Internal	External
Assets			
Cash equivalents	\$ 3,349,809	\$ 1,295,511	\$ 2,054,298
Deposits and investments	3,650,588	1,411,807	2,238,781
Interest receivable	5,399	2,113	3,286
	<u>7,005,796</u>	<u>2,709,431</u>	<u>4,296,365</u>
Liabilities			
Bank custodial fees	651	325	326
State management fees	480	112	368
	<u>7,004,665</u>	<u>2,708,994</u>	<u>4,295,671</u>
Net position	<u>\$ 7,004,665</u>	<u>\$ 2,708,994</u>	<u>\$ 4,295,671</u>

CONDENSED STATEMENT OF CHANGES IN FIDUCIARY
NET POSITION BY INVESTOR TYPE
For the Year Ended June 30, 2020

	Total	Internal	External
Subscriptions and reinvestments	\$ 25,989,892	\$ 11,041,537	\$ 14,948,355
Investment earnings	109,565	33,011	76,554
Investment expense	(5,233)	(2,024)	(3,209)
Redemptions	(24,599,984)	(10,251,022)	(14,348,962)
Dividends to participants	(104,332)	(31,639)	(72,693)
	<u>1,389,908</u>	<u>789,863</u>	<u>600,045</u>
Change in net position and shares			
Beginning net position	<u>5,614,757</u>	<u>1,919,131</u>	<u>3,695,626</u>
Ending net position	<u>\$ 7,004,665</u>	<u>\$ 2,708,994</u>	<u>\$ 4,295,671</u>

OTHER INFORMATION

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective August 2019)
(Unaudited)**

**State of Illinois
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**The Illinois Funds
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1.0 POLICY

The Office of the Illinois State Treasurer (“Treasurer”) has authority under Section 17 of the State Treasurer’s Act (15 ILCS 505/17) to establish and administer a Public Treasurer’s Investment Pool to supplement and enhance investment opportunities otherwise available to custodians of public funds for public agencies in the State of Illinois. The Public Treasurer’s Investment Pool is a local government investment pool known as “The Illinois Funds.” Under this instrument, The Illinois Funds Local Government Investment Pool Investment Policy Statement (“Policy”), it is the policy of the Treasurer to invest funds pooled by local and State custodians of public funds for public agencies in The Illinois Funds in a manner that will provide safety to the principal investment, meet the daily cash flow demands of participants, and seek the highest investment return, using authorized instruments in accordance with 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 Illinois Funds is the safety of principal. In addition, it is the Treasurer’s objective to manage liquidity for payment of the State’s financial obligations and provide the highest investment return, using authorized instruments, while prudently exercising sustainable stewardship in its investment decision-making.

2.1 Safety

The safety of principal is the foremost objective of the investment program. The Illinois Funds’ 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 Illinois Funds properly manages market, operational, reputational, financial, legal, sustainability, interest rate, and credit risks.

2.2 Liquidity

The investment portfolio shall remain sufficiently liquid to enable The Illinois Funds to meet all participant redemption demands that might be reasonably anticipated.

2.3 Return on Investment

The investment portfolio shall be designed to obtain the highest available return. The Treasurer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as mandated by Section 1.0 of this Policy.

The Treasurer will select accepted industry benchmarks that best reflect The Illinois Funds’ portfolio and measure performance against those benchmarks over time. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

2.4 Sustainability

The Treasurer seeks to invest all funds under its control in a manner that provides the highest risk- adjusted investment return using authorized instruments. To achieve this objective, the Treasurer has a responsibility to recognize and evaluate risk factors that may have a material and relevant financial impact on the safety and/or performance of investments. Consistent with achieving the investment objectives set forth herein,

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the Treasurer and its agents shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability accounting has both confirmatory and predictive value, thus, it can be used to evaluate past performance and be used for future planning and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company's performance on material factors likely to impact its long-term value.

Sustainability factors may include, but are not limited to, the following:

- a) Corporate governance and leadership factors, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
- b) Environmental factors that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.
- c) Social capital factors that impact relationships with key outside parties, such as customers, local communities, the public, and the government, which may impact investment performance. Social capital factors include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.
- d) Human capital factors that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.
- e) Business model and innovation factors that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design and life cycle management, and physical impacts of climate change.

The Treasurer shall develop policy guidelines to integrate material sustainability risks relevant to particular financial products, investment funds, companies, or government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The policy guidelines for integrating sustainability factors shall be reviewed and updated every two (2) years at a minimum to ensure consistency within the rapidly evolving global economy.

The Illinois Funds' investment officers shall identify and select authorized investment options that meet the Treasurer's criteria for sustainable investing opportunities and risk parameters and fall within the framework of the investment objectives.

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3.0 ETHICS AND CONFLICTS OF INTEREST

Authorized investment staff and employees in policy-making positions for The Illinois Funds shall refrain from engaging in personal business activity that could (a) conflict, or give the appearance of a conflict, with proper execution of the investment program or (b) impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of The Illinois Funds' portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of The Illinois Funds, particularly with regard to the time of purchases 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 Treasurer's 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 \$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 10.0 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, the Treasurer shall maintain a list of approved security brokers/dealers, which shall be utilized by authorized investment officers. The security brokers/dealers shall be 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, or the extent to which the broker/dealer has a large labor or economic impact on the State. The approved broker/dealers 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 documents or the 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 or -managed 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 and Authorized Counterparty Questionnaire;
- f) Certification of notice and acknowledgment of this Policy; and
- g) Any other documentation deemed necessary by the Treasurer.

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To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall seek to provide preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status. The Treasurer shall establish a process by which said specially claimed statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall also seek to accord preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. The Treasurer shall establish a process to verify the location of broker/dealers' corporate headquarters, and a review shall be conducted at fixed intervals to ensure that the Illinois-based location continues 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 authorized, pursuant to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2):

- a) Federally guaranteed obligations that receive the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies of the United States as originally issued by the agencies. For purposes of this Section, the term "agencies of the United States" includes the following: 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 or supported through an Act of Congress and issues United States dollar-denominated debt;
- c) Obligations of instrumentalities of the United States, as originally issued by the instrumentalities. For the purposes of this section, the term "instrumentalities of the United States" is an instrumentality created or supported through an Act of Congress and issues United States dollar-denominated debt;
- d) Obligations of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated at one (1) of the three (3) highest classifications established by at least two (2) standard rating services (upper medium grade for a long-term rating of A- and above or equivalent), and 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;
- e) Interest-bearing bonds, 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 at one (1) of the three (3) highest classifications established by at least one (1) standard rating service with nationally recognized expertise in rating bonds of states and their political subdivisions, (upper medium grade for the long-term rating of A- and above or equivalent). The maturity or pre-refunded date(s) of the bonds

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authorized by this subsection shall, at the time of purchase, not exceed ten (10) years. Notwithstanding the foregoing, a longer maturity is authorized, if the State of Illinois has a put option to tender the bonds within ten (10) years from the date of purchase;

- f) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C. § 78o-5);
- 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 (1) of the two (2) highest classifications established by at least two (2) standard rating services, (short-term rating of A-2 and above or equivalent);
- h) Obligations of either corporations or limited liability companies organized in the United States that have a significant presence in the State of Illinois, with assets exceeding \$500,000,000 and rated at the time of purchase at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (upper medium grade for a long-term rating of A- and above or equivalent). At the time of purchase, the maturity or pre-refunded date(s) shall not be less than 270 days and shall not exceed ten (10) years;
- i) Money market mutual funds registered under the Investment Company Act of 1940;
- j) Securities may be lent in accordance with the Federal Financial Institution Examination Council guidelines and only if the securities are collateralized at a satisfactory level 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; and
- k) 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.).

6.0 INVESTMENT RESTRICTIONS

The following investment restrictions apply to the Illinois Funds portfolio:

- a) Any investments not authorized by this or any other investment policy or applicable law are prohibited;
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers that meet the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- d) All qualified repurchase agreement dealers, commercial paper issuers and corporate bond issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;

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- e) Commercial paper with a credit rating or evaluation that is derived from any factor other than the full faith and credit of the issuing institution and/or the guarantee of the parent company is prohibited;
- f) Obligations may not be purchased from a corporation or limited liability company that has been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-110.16 of the Illinois Pension Code (40 ILCS 5);
- g) Asset-backed securities and mortgage-backed securities of any kind are prohibited;
- h) Investments in bankers' acceptances of any kind are prohibited; and
- i) Certificates of deposit may not be purchased from The Illinois Funds' custodial institution or any of its subcontractors.

6.1 Operational Requirements

Pursuant to Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7), the Treasurer shall:

- a) Maintain and execute standard operating procedures for deviations beyond the normal net asset value ("NAV") of The Illinois Funds; and
- b) Annually complete a checklist that clarifies the intention of the Treasurer to operate The Illinois Funds as a Securities and Exchange Commission Rule 2a7-like fund.

7.0 RATINGS CRITERIA

The Illinois Funds strives to achieve AAAM fund rating guidelines. As such, the fund will meet and abide by the guidelines for an AAAM fund rating from a "Nationally Recognized Statistical Rating Organization" (NRSRO).

8.0 COLLATERALIZATION

The Illinois Funds 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.

9.0 SAFEKEEPING AND CUSTODY

All direct treasury, agency and instrumentality security transactions entered into by The Illinois Funds 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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10.0 DIVERSIFICATION

The primary purpose of diversification in general is to control credit and market risk. The Illinois Funds 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 The Illinois Funds' 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 The Illinois Funds assets, The Illinois Funds portfolio will observe the following diversification guidelines, at the time of purchase:

- a) The Illinois Funds will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers.
- b) The Illinois Funds shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits.
- c) The Illinois Funds shall not hold obligations of corporations or limited liability companies that exceed 10% of the corporation's or the limited liability company's outstanding obligations. No more than one third of the public agency's funds can be invested in such obligations of corporations or limited liability companies.
- 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. The Illinois Funds will invest no more than 50% of its total assets in securities with maturities greater than thirty (30) days issued by any single permissible United States government agency or instrumentality;
 - ii. The Illinois Funds will invest no more than 5% of its total assets in securities issued by any single commercial paper issuer;
 - iii. The Illinois Funds will invest no more than 1/3 of its total assets in direct commercial paper obligations not to exceed 270 days to maturity at the time of purchase;
 - iv. A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
 - v. The Illinois Funds shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two (2) years maturity; and
 - vi. No more than 5% of The Illinois Funds shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(j) of this Policy.

11.0 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

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public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment staff of The Illinois Funds.

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

12.0 ASSET ALLOCATION

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

13.0 COMPETITIVE BIDDING

Authorized investment staff shall obtain competitive bids from at least three (3) brokers/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States government agency or instrumentality securities, obligations of either corporations or limited liability companies, bonds issued by counties or municipal corporations of the State of Illinois, or commercial paper from a broker/dealer. Reverse inquiry investments, investments in a new issue, and investments defined under Section 5(a)-(b) of this Policy purchased from the agency discount window 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.

14.0 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 relation to The Illinois Funds.

15.0 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) The performance of The Illinois Funds as compared to the established benchmark;
- b) Asset allocation;
- c) Any deviation from the standards established in Section 10.0 of this Policy;
- d) Any change in investment policy adopted during the quarter; and
- e) The average number of 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.

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16.0 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 this Policy is in the best interest of the participants;
- c) Within thirty (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 the following:
 - 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; and
 - iv. The reason for deviating from this Policy.

17.0 STATUTORY REFERENCES

Any statutory references in this Policy shall include any amendments to or repeals of those statutes.

18.0 AMENDMENTS

The Treasurer reserves the right to amend this Policy at any time.

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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 a Public Treasurer's Investment Pool to supplement and enhance investment opportunities otherwise available to custodians of public funds for public agencies in the State of Illinois. The Public Treasurer's Investment Pool is a local government investment pool known as "The Illinois Funds." Under this instrument, The Illinois Funds Local Government Investment Pool Investment Policy Statement ("Policy"), it is the policy of the Treasurer to invest funds pooled by local and State custodians of public funds for public agencies in The Illinois Funds in a manner that will provide safety to the principal investment, meet the daily cash flow demands of participants, and seek the highest investment return, using authorized instruments in accordance with 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 Illinois Funds is the safety of principal. In addition, it is the Treasurer's objective to provide all participants daily access to the invested funds and a competitive rate of return, while prudently exercising ethical and social stewardship in its investment decision-making.

2.1 Safety

The safety of principal is the foremost objective of the investment program. The Illinois Funds' 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 Illinois Funds properly manages market, interest rate, and credit risks.

2.2 Liquidity

The investment portfolio shall remain sufficiently liquid to enable The Illinois Funds to meet all participant redemption demands that might be reasonably anticipated.

2.3 Return on Investment

The investment portfolio shall be designed to obtain the highest available return. The Treasurer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as mandated by Section 1.0 of this Policy.

The Treasurer will select accepted industry benchmarks that best reflect The Illinois Funds' portfolio and measure performance against those benchmarks over time. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

2.4 Socially Responsible Investing

Consistent with achieving the investment objectives of the Treasurer set forth herein, the Treasurer shall prudently exercise ethical and social stewardship in its investment decision-making, because the Treasurer aspires to contribute to a more just, accountable, and sustainable State of Illinois.

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Socially responsible investing shall be implemented within a framework predicated on the following:

- a) Integration of environmental, social and governance (“ESG”) factors as components of investment decision-making, due diligence, and risk management, given that these intangible factors may have a material financial impact as well as non-financial impacts;
- b) Regular evaluation of ESG factors to ensure the factors are relevant to the Treasurer’s investment portfolio and the evolving marketplace;
- c) Attentive oversight of investment holdings to encourage the advancement of ESG through engagement with entities, such as funds, companies, government bodies, and other organizations and move the marketplace toward more socially responsible investment practices; and
- d) Consideration of long-term sustainability and regulatory and reputational risks, in addition to the current return environment in investment decision-making.

The Treasurer shall develop criteria for socially responsible investing that may pertain to particular products, funds, companies, or government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The criteria for socially responsible investing shall be reviewed and updated every two (2) years at a minimum to ensure consistency within the rapidly changing definition of socially responsible investing.

The Illinois Funds’ investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer’s criteria for socially responsible investing and fall within the framework of the investment objectives.

3.0 ETHICS AND CONFLICTS OF INTEREST

Authorized investment staff and employees in policy-making positions for The Illinois Funds shall refrain from engaging in personal business activity that could (a) conflict, or give the appearance of a conflict, with proper execution of the investment program or (b) impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of The Illinois Funds’ portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of The Illinois Funds, particularly with regard to the time of purchases 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 Treasurer’s 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 \$25,000. 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 10.0 of this Policy. No public deposit

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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, the Treasurer shall maintain a list of approved security brokers/dealers, which shall be utilized by authorized investment officers. The security brokers/dealers shall be 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, or the extent to which the broker/dealer has a large labor or economic impact on the State. The approved broker/dealers 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 documents or the 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 or -managed 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 and Authorized Counterparty Questionnaire;
- f) Certification of notice and acknowledgment of this Policy; and
- g) Any other documentation deemed necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall seek to provide preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status. The Treasurer shall establish a process by which said specially claimed statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall also seek to accord preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. The Treasurer shall establish a process to verify the location of broker/dealers' corporate headquarters, and a review shall be conducted at fixed intervals to ensure that the Illinois-based location continues 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.

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5.0 AUTHORIZED AND SUITABLE INVESTMENTS

The following investments are permitted investments of The Illinois Funds, pursuant 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;
- b) Bonds, notes, debentures, or similar obligations of the United States or its agencies;
- 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;
- d) 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 (1) of the two (2) highest classifications established by at least two (2) standard rating services, (i.e. not less than an A-1 short-term rating or equivalent);
- 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 at the highest classification by at least one (1) standard rating service (i.e., not less than a AAA long-term rating or equivalent rating);
- f) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated at the time of purchase at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, but not less than an A- long-term rating or equivalent, and 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;
- g) Bonds issued by counties or municipal corporations of the State of Illinois;
- 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.);
- i) Suitable securities in The Illinois Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines; and
- j) Obligations of either corporations or limited liability companies organized in the United States that have a significant presence in the State of Illinois, with assets exceeding \$500,000,000 and rated at the time of purchase at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (i.e., not less than an A- long-term rating or equivalent). At the time of purchase, the maturity – date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five years.

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6.0 INVESTMENT RESTRICTIONS

The following restrictions will apply to all The Illinois Funds 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 that meet the Treasurer's standards, which will include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) All qualified repurchase agreement dealers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- d) All qualified commercial paper issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- e) All qualified corporate bond issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- f) There will be no investments in mortgage-backed securities of any kind;
- g) There will be no investments in asset-backed securities of any kind;
- h) Certificates of deposit may not be purchased from The Illinois Funds' custodial institution or any of its subcontractors;
- i) Investments in bankers' acceptances of any kind are prohibited;
- j) Asset-backed commercial paper is prohibited;
- k) Commercial paper with a credit rating or evaluation that is derived from any factor other than the full faith and credit of the issuing institution and/or the guarantee of the parent company is prohibited;
- l) Obligations may not be purchased from a corporation or limited liability company that has been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-110.16 of the Illinois Pension Code; and
- m) The authorization of the Treasurer to invest in new obligations under Section 5.0(j) of this Policy shall expire on June 30, 2019.

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6.1 Operational Requirements

Pursuant to Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7), the Treasurer shall:

- a) Maintain and execute standard operating procedures for deviations beyond the normal net asset value (“NAV”) of The Illinois Funds; and
- b) Annually complete a checklist that clarifies the intention of the Treasurer to operate The Illinois Funds as a Securities and Exchange Commission Rule 2a7-like fund.

7.0 RATINGS CRITERIA

The Illinois Funds strives to achieve AAAM fund rating guidelines. As such, the fund will meet and abide by the guidelines for a AAAM fund rating from a “Nationally Recognized Statistical Rating Organization” (NRSRO).

8.0 COLLATERALIZATION

All The Illinois Funds 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.

9.0 SAFEKEEPING AND CUSTODY

All direct treasury, agency and instrumentality security transactions entered into by The Illinois Funds 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.

10.0 DIVERSIFICATION

The primary purpose of diversification in general is to control credit and market risk. The Illinois Funds 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 The Illinois Funds’ 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 The Illinois Funds assets, The Illinois Funds portfolio will observe the following diversification guidelines, at the time of purchase:

- a) The Illinois Funds will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers.
- b) The Illinois Funds shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits.
- c) The Illinois Funds shall not hold obligations of corporations or limited liability companies that exceed 10% of the corporation’s or the limited liability company’s outstanding obligations.

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- 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 The Illinois Funds will invest no more than 50% of its total assets in securities with maturities greater than thirty (30) days issued by any single permissible United States government agency or instrumentality;
 - ii The Illinois Funds will invest no more than 5% of its total assets in securities issued by any single commercial paper issuer;
 - iii The Illinois Funds will invest no more than 1/3 of its total assets in direct commercial paper obligations not to exceed 270 days to maturity at the time of purchase;
 - iv A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
 - v The Illinois Funds shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two (2) years maturity; and
 - vi No more than 5% of The Illinois Funds shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(j) of this Policy.

11.0 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, or imprudent actions by authorized investment staff of The Illinois Funds.

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

12.0 ASSET ALLOCATION

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

13.0 COMPETITIVE BIDDING

Authorized investment staff shall obtain competitive bids from at least three (3) brokers/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States government agency or instrumentality securities, obligations of either corporations or limited liability companies, bonds issued by counties or municipal corporations of the State of Illinois, or commercial paper from a broker/dealer. Reverse inquiry investments, investments in a new issue, and investments defined under Section 5(a)-(b) of this Policy purchased from the agency discount window are exempt from this

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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.

14.0 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 relation to The Illinois Funds.

15.0 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) The performance of The Illinois Funds as compared to the established benchmark;
- b) Asset allocation;
- c) Any deviation from the standards established in Section 10.0 of this Policy;
- d) Any change in investment policy adopted during the quarter; and
- e) The average number of 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.

16.0 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 this Policy is in the best interest of the participants;
- c) Within thirty (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 the following:
 - i. The date and time that the emergency powers were invoked;
 - ii. The date and time that emergency powers were repealed, if applicable;

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- iii. The Section or Sections of this Policy that were affected by the emergency or use of emergency powers; and
- iv. The reason for deviating from this Policy.

17.0 STATUTORY REFERENCES

Any statutory references in this Policy shall include any amendments to or repeals of those statutes.

18.0 AMENDMENTS

The Treasurer reserves the right to amend this Policy at any time.

**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***



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

The Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

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, 2020, and the related notes to the financial statements, which collectively comprise The Illinois Funds financial statements, and have issued our report thereon dated February 2, 2021.

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 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 financial statements. 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*.

Internal Control Over Financial Reporting

Management of the State of Illinois, Office of the Treasurer, The Illinois Funds is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the State of Illinois, Office of the Treasurer's internal control as a basis for designing 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 of The Illinois Funds. 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 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2020-001 that we consider to be a material weakness.

Office of the Treasurer's Response to the Finding

The State of Illinois, Office of the Treasurer's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The State of Illinois, Office of 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Springfield, Illinois
February 2, 2021

SCHEDULE OF FINDINGS

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Schedule of Findings – Current Finding
For the Years Ended June 30, 2020 and 2019**

2020-001 **Finding** (Inadequate Internal Controls Related to Review of Financial Statements)

The Office of the Treasurer (Office) had inadequate internal controls over the Office's Illinois Funds Program financial statement review process.

During testing of the Office's Illinois Funds Program financial statements, various errors were identified in the draft financial statements provided, specifically:

- In the Notes to the Financial Statements, Note 2. Deposits and Investments, the fiscal year 2019 table summarizing the fair value of investments held at June 30, 2019 overreported the carrying amount for Farm Credit Discount Notes by \$358,530,000. The amount was reported as \$398,366,722 but should have been \$39,836,722. As a result, total deposits and investments reported in Note 2 as of June 30, 2019 were also overstated by \$358,530,000.
- In the Notes to the Financial Statements, Note 2. Deposits and Investments, the fiscal year 2020 table summarizing the Illinois Funds' investments within the fair value hierarchy reported carrying value instead of fair value for all investments. The total amount reported was understated by \$1,279,211 as the amount reported was \$7,000,331,688 but should have been \$7,001,610,899.
- In the Notes to the Financial Statements, Note 2. Deposits and Investments, the Credit Risk Note incorrectly included information from fiscal year 2018 as fiscal year 2019 information.
- On the Statements of Fiduciary Net Position, the fiscal year 2019 unamortized premiums and unaccreted discounts for Supranational Notes and Corporate Bonds were switched. The amount reported for Supranational Notes should have been \$532,523 but was reported as \$601,188 and the amount for Corporate Bonds should have been \$601,188 but was reported as \$532,523.
- On the Statement of Fiduciary Net Position, Certificates of Deposit did not include the interest accrued since purchase date of \$65,400.
- In the Notes to the Financial Statements, Note 5. Related Parties cash balance disclosures for the Illinois Funds' Administrative Fund were not updated for fiscal year 2020. The prior fiscal year report (2019 and 2018) balances were reported as June 30, 2020 and 2019 balances.
- On the Condensed Statement of Fiduciary Net Position by Investor Type, Net Position did not agree to the amount reported for Net Position on the Statements of Fiduciary Net Position or the amount reported on the Condensed Statement of Changes in Fiduciary Net Position by Investor Type. The amount did not agree by \$1.
- On the Statements of Fiduciary Net Position, the unamortized premium for fiscal year 2019 Supranational Notes was reported as a discount.
- On the Statements of Fiduciary Net Position, the Money Market Mutual Funds did not disclose the unamortized premium of \$470,032. In addition, the Notes to the Financial Statements, Note 1. Summary of Significant Accounting Policies, did not properly disclose the presentation of Money Market Mutual Funds.

The Office has corrected all errors noted above.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Schedule of Findings – Current Finding
For the Years Ended June 30, 2020 and 2019**

In accordance with generally accepted accounting principles (GAAP), the Office's assets, liabilities, revenues, and expenses should be properly reported in the financial statements and notes. GAAP also requires the proper recording of underlying transactions. 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 to provide assurance 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. Strong management controls, due diligence and fiduciary responsibility require procedures to include proper checks and balances and adequate supervision to ensure proper financial reporting.

The Office attributed the misstatements to oversight in its internal review process.

Failure to maintain adequate internal controls over the financial reporting process led to errors not being identified in the financial statements, notes, and supplementary information. (Finding Code No. 2020-001)

Recommendation

We recommend the Office improve controls over the financial reporting process of the Illinois Funds Program, specifically:

- Verify accuracy of all information reported.
- Verify prior fiscal year information reported within the financial statements, notes and supplementary information agrees to the prior fiscal year audit report.
- Verify all amounts within the financial statements, notes, and supplementary information have been updated.
- Verify amounts reported agree between statements and note schedules.

Office Response

We accept the recommendations. We will examine review procedures of both current and prior year financial statement information and footnotes for improvement.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Schedule of Findings – Prior Finding Not Repeated
For the Years Ended June 30, 2020 and 2019**

A. Finding (Lack of Adequate Controls over the Review of External Service Providers)

During the prior audit, the Office of the Treasurer (Office) did not maintain adequate controls to ensure all external service providers' internal controls were reviewed.

During the current audit, we noted the Office properly reviewed all external service providers' internal controls. (Finding Code No. 2019-001, 2018-001, 2017-002)