

**State of Illinois
Office of the Treasurer
Illinois Achieving a Better Life
Experience Program**

Financial Audit
For the Period January 9, 2017
through June 30, 2017

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

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Financial Audit
For the Period January 9, 2017 through June 30, 2017**

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**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Financial Audit
For the Period January 9, 2017 through June 30, 2017**

Treasurer's Office Officials

Treasurer	The Honorable Michael W. Frerichs
Deputy Treasurer	Mr. Jay Rowell
Chief of Staff	Mr. Justin Cajindos (through January 5, 2018)*
Chief Investment Officer/Chief Financial Officer	Mr. Rodrigo Garcia
General Counsel	Mr. Allen Mayer (December 1, 2017 to present) Mr. Keith Horton (through December 8, 2017)
Chief Policy and Programs Officer	Mr. Julian Federle (through January 19, 2018)*
Chief Financial Products Officer	Mr. Fernando Diaz (January 16, 2018 to present)**
Director of ABLE Illinois	Ms. JJ Hanley (July 17, 2017 to present) Vacant (July 1, 2017 to July 16, 2017)
Director of Investment Analysis and Due Diligence	Mr. Joe Aguilar (January 18, 2018 to present)**
Deputy Director of Investment Analysis and Due Diligence	Mr. Joe Aguilar (through January 17, 2018)*
Director of Fiscal Operations	Ms. Deborah Miller
Inspector General	Mr. Ray Watson
Chief Internal Auditor	Ms. Leighann Manning

*Due to reorganization, these positions have been eliminated.

**New position due to reorganization.

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

Executive Office
State Capitol
219 State House
Springfield, Illinois 62706

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

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

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

FINANCIAL STATEMENT REPORT

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
For the Period January 9, 2017 through June 30, 2017**

Financial Statement Report

Summary

The audit of the accompanying financial statements of the Illinois Achieving a Better Life Experience program (ABLE) of the State of Illinois, Office of the Treasurer, was performed by Crowe Horwath LLP for the Period January 9, 2017 through June 30, 2017.

Based on their audit, the auditors expressed an unmodified opinion on the ABLE's financial statements.

Summary of Findings

The auditors identified a matter involving the Office's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying Schedule of Findings on page 24 of this report as item 2017-001, Lack of Adequate Controls over the Review of External Service Provider.

Exit Conference

The finding and recommendation appearing in this report were discussed with Treasurer personnel at an exit conference on February 2, 2018. Attending were:

Office of the State Treasurer

Jay Rowell	Deputy Treasurer
Rodrigo Garcia	Chief Investment Officer/Chief Financial Officer
JJ Hanley	Director of ABLE Illinois
Fernando Diaz	Chief Financial Products Officer
Leighann Manning	Chief Internal Auditor
Deborah Miller	Director of Fiscal Operations
Wes Howerton	Deputy Director of Fiscal Operations

Office of the Auditor General

Stacie Sherman	Audit Manager
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Crowe Horwath, LLP

Chris Mower	Partner
Lisa Stinson	Senior Manager
Adam Bruning	Senior Staff

The responses to the recommendations were provided by Leighann Manning in an email dated February 9, 2018.

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 Achieving a Better Life Experience Program (ABLE), a fiduciary (private-purpose trust) fund of the State of Illinois, Office of the Treasurer, as of June 30, 2017 and for the period January 9, 2017 through June 30, 2017, 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 audit. We conducted our audit 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 ABLE, of the State of Illinois, Office of the Treasurer, as of June 30, 2017, and the changes in financial position thereof for the period January 9, 2017 through June 30, 2017 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 ABLE, 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, 2017, and the changes in its financial position, or, where applicable, its cash flows for the period January 9, 2017 through June 30, 2017 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of ABLE of the State of Illinois, Office of the Treasurer. The Supplementary Information (pages 13 - 15) and Other Information (pages 16 - 21) 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 statements by portfolio and notes to the supplementary information, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Other Information, consisting of the National ABLE Alliance Achieving a Better Life Experience, Illinois Investment Policy Statement 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 15, 2018 on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of ABLE 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 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 ABLE and its compliance.

Signature on File

Crowe Horwath LLP

Springfield, Illinois
February 15, 2018

FINANCIAL STATEMENTS

State of Illinois
Office of the Treasurer

Illinois ABLE Program
Statement of Fiduciary Net Position
June 30, 2017

	2017
<hr/>	
Assets	
Investments	<u>\$ 426,744</u>
 Total Assets	 <u><u>\$ 426,744</u></u>
 Net Position	
 Net Position Held in Trust for Participants	 <u>\$ 426,744</u>
 Total Net Position	 <u><u>\$ 426,744</u></u>

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Statement of Changes in Fiduciary Net Position
For the Period January 9, 2017 through June 30, 2017**

	2017
Additions	
Investment Income	
Investment Earnings	\$ 4,925
Other Income	<u>46</u>
Total Investment Income	<u>4,971</u>
Investment Expenses	
Management Fees	178
Other Expense	<u>67</u>
Total Investment Expenses	<u>245</u>
Net Investment Income	<u>4,726</u>
Other Participant Transactions	
Program Contributions	<u>434,159</u>
Total Additions	<u>438,885</u>
Deductions	
Program Withdrawals	<u>12,141</u>
Increase in Net Position	426,744
Net Position, Beginning of Period	<u>-</u>
Net Position, End of Period	<u><u>\$ 426,744</u></u>

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Notes to the Financial Statements
For the Period January 9, 2017 through June 30, 2017**

Background

The Stephen Beck Jr., Achieving a Better Life Experience Act of 2014 (the “ABLE Act”) enacted on December 19, 2014, as part of The Tax Increase Prevention Act of 2014 (Pub. L. 113-295), added section 529A to the Internal Revenue Code of 1986, as amended (Section 529A). The ABLE Act provides eligible individuals with blindness or qualifying disabilities a means to save for disability-related expenses in a tax-advantaged way. Section 529A allows the creation of a “qualified ABLE program” by a state under which a separate ABLE account may be established for a disabled individual who is the designated beneficiary and owner of that account.

On January 1, 2016, the General Assembly of the State of Illinois adopted Public Act 99-145, creating the Illinois Achieving a Better Life Experience (“IL ABLE”) program within the Illinois State Treasurer’s Office (the “Treasurer”) to allow individuals with disabilities and their families to save money to cover qualified disability expenses, without giving up eligibility for public benefits. Illinois, along with several other states, formed a consortium (the “Consortium” or “Member States”) and entered into an Interstate Agreement to benefit from efficiencies and economies of scale achieved by working together to adopt common program elements.

The Treasurer officially launched IL ABLE on January 30, 2017. The Treasurer is responsible for the administration and implementation of IL ABLE in accordance with federal rules and regulations. IL ABLE is a “qualified ABLE program” under Section 529A of the Internal Revenue Code of 1986, as amended, so the IL ABLE accounts’ earnings are federally tax-advantaged.

Savings and investments in IL ABLE are intended to improve the quality of life of the IL ABLE designated beneficiary (the “Beneficiary”). IL ABLE accounts are sold directly to the public. The Beneficiary may be a resident or non-resident of Illinois. The Beneficiary or designated representative (the “Account Owner”) selects investment portfolios for the purpose of helping the Beneficiary or Account Owner meet the qualified expenses of the Beneficiary. Withdrawals from IL ABLE accounts can be used to pay for qualified disability expenses including, but are not limited to education, health and wellness, housing, transportation, legal fees, financial management, employment training and support, assistive technology, personal support services, oversight and monitoring, and funeral and burial expenses of the Beneficiary.

Amounts contributed to IL ABLE are invested in the Ascensus ABLE Consortium Trust (the “Trust”). As of June 30, 2017, Ascensus College Savings Recordkeeping Services, LLC (the “Program Manager”) provided investment management services and general administrative services. The Bank of New York Mellon was responsible for the custody and valuation of the underlying investments. Fifth Third Bank was responsible for the custody of the investments within checking accounts.

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. For financial reporting purposes, IL ABLE is part of the primary government and is included in the Illinois Comprehensive Annual Financial Report as a private-purpose trust fund.

IL ABLE is a separate legal entity from the State of Illinois. An Agreement of Trust was entered into by the Program Manager, Ascensus Investment Advisors, LLC (the “Trust Administrator”), Delaware Trust

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Notes to the Financial Statements
For the Period January 9, 2017 through June 30, 2017**

Note 1. Summary of Significant Accounting Policies (Continued)

Company, and the Member States to establish the Ascensus ABLE Consortium Trust (the "Trust"). Within the Trust, each Member State's assets are held in the state's unique Series. The Illinois ABLE Series holds Illinois' assets including the related income, earnings, profits, and proceeds from the sale, exchange, and liquidation of such assets. The scope of the IL ABLE financial statements presented herein is limited to the financial position of the IL ABLE private-purpose trust fund.

Fiduciary Fund

The Illinois ABLE Fund is classified as a private-purpose trust fund. This trust fund is used to account for assets administered by the Treasurer in a trustee capacity. This fund is not held in the State Treasury and is a non-appropriated fund.

Basis of Accounting and Measurement Focus

The accounts of IL ABLE are maintained and reported using the economic resources measurement focus and 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 and Cash Equivalents

Cash and cash equivalents consist of IL ABLE accounts that have investments in the Checking Option or have investments in a portfolio whose underlying assets are in a savings account.

Investment Earnings

Investment earnings are a combination of dividend income and interest income generated from mutual fund investments. Mutual fund yields are subject to market rate fluctuations.

Fair Value of Investments

Investments in the underlying funds are carried at fair value based on the closing net asset or unit value per share of each Underlying Fund on the last business day on or prior to June 30.

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 reporting period. These estimates may differ from actual results.

Note 2. Investments

Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement and applying fair value to certain investments for financial reporting purposes. GASB Statement No. 72 permits investments that do not have a readily determinable fair value to use the net asset value (NAV) per share, or its equivalent, to establish the fair value of the investments. IL ABLE reports all investments at the NAV based on closing prices on June 30, 2017.

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Notes to the Financial Statements
For the Period January 9, 2017 through June 30, 2017**

Note 2. Investments (Continued)

Net Asset Value:

As stated in the aforementioned paragraph, IL ABLE reports its investments at the NAV per share for financial reporting purposes. GASB Statement No. 72 requires additional disclosure for investments that calculate the NAV per share, or its equivalent, do not have a readily determinable fair value, and are measured at fair value on a recurring or non-recurring basis during the period. The investments are composed of U.S. equity and U.S. debt mutual funds that invest in marketable equities that are exchange traded in the U.S. and in countries outside the U.S. The fair value of the investments has been determined using the NAV per share provided by the Program Manager. The funds can be redeemed at any point in time. The redemption is processed the same day if received by the Program Manager before the close of the market or the next day if received after. Settlement may take up to 10 business days.

The following table summarizes IL ABLE's investments at NAV per share as of June 30, 2017.

<u>Type</u>	<u>Net Asset Value</u>
Investments	\$ 426,744
Total	\$ 426,744

Permitted Investments:

As a member of the Consortium, IL ABLE investments are specified in the National ABLE Plan Disclosure Statement and may not be changed without prior approval of all Member States. In addition, IL ABLE investment activities are governed by the established National ABLE Alliance Achieving a Better Life Experience Illinois Investment Policy Statement (the "Policy Statement") (included in the "other information" section of this report), which was developed in accordance with the State statute. In addition, the Treasurer has adopted its own investment practices, which supplements the statutory requirements.

The Policy Statement allows funds (contributions) to be invested in one of several Portfolios, each with a designated mix of investments that is appropriate for the investment objective of the Portfolio. The determination of the investment parameters of each Portfolio are made by the Consortium and take into account the financial characteristics of the investments in the program. Each Portfolio allocates assets in a combination of underlying investments, investing among domestic equity, international equity, real estate, domestic and international fixed-income, and/or cash and cash equivalents. The asset allocation of each Portfolio is established by the Consortium and managed by the Program Manager. The Consortium may adjust the weighting in stocks, bonds, real estate, and cash in each Portfolio and may change the underlying investments within the Portfolios consistent with the Policy Statement and its agreement with the Program Manager.

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Notes to the Financial Statements
For the Period January 9, 2017 through June 30, 2017**

Note 2. Investments (Continued)

Investment Options:

General Overview

IL ABLE offered the following investment portfolios as of June 30, 2017:

- Aggressive Portfolio
- Moderately Aggressive Portfolio
- Growth Portfolio
- Moderate Portfolio
- Moderately Conservative Portfolio
- Conservative Portfolio
- Checking Option Portfolio

The portfolios are designed to have a mix between equity, fixed-income, and cash depending on the Account Owner's goals and desired level of risk. The more aggressive portfolios seek higher returns by having a higher percentage of equity while the more conservative portfolios place capital preservation over growth by having a higher percentage of fixed-income and cash and cash equivalents.

Additional Program Information:

Additional information concerning IL ABLE may be obtained online at il.savewithable.com or by calling toll free 888-609-8683.

Investment Risk:

Interest Rate and Credit Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As written in the Policy Statement, the Office of the State Treasurer, as well as the Consortium, has adopted a long-term total return strategy. A long-term diversified asset allocation strategy based on (1) asset classes (stocks, bonds, cash, etc.), (2) geography/country, (3) industry, and (4) maturity will be the primary method of risk control.

The investments in IL ABLE are not guaranteed or insured by the State of Illinois, the Treasurer, the Program Manager, affiliates of the Program Manager, the FDIC, or any other party. The portion of funds held as cash in IL ABLE's checking account options are held by Fifth Third Bank and are insured by the FDIC up to \$250,000, and amounts in excess of FDIC insurance limits are not collateralized or covered by supplemental insurance.

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Notes to the Financial Statements
For the Period January 9, 2017 through June 30, 2017**

Note 2. Investments (Continued)

As discussed above in the first and second paragraph of Note 2, the IL ABLE reports its investments at the NAV per share for financial reporting purposes. The fair value, interest rate risk and credit risk of the fixed income funds, which make up a portion of the total investment reported at NAV, for IL ABLE as of June 30, 2017 are detailed in the table below.

<u>Type</u>	<u>Fair Value</u>	<u>Interest Rate Risk</u>	<u>Method</u>	<u>Credit Risk</u>	<u>Rating Service</u>
Fixed Income Funds:					
Open-Ended Mutual Funds - Effective Maturity Funds	\$ 100,992	4.69 years	Effective Maturity	NR*	NA**
Open-Ended Mutual Funds - Weighted Average Maturity Funds	<u>11,221</u>	8.92 years	Duration	NR*	NA**
	<u>\$ 112,213</u>				

*Credit Risk of NR indicates that while the underlying securities within the funds may be rate the mutual fund itself is not rated.

**Not applicable

Note 3. Administrative Fees

To administer IL ABLE, the Treasurer has a division entitled, "Illinois ABLE". The revenues and expenses of the division are recorded in an enterprise proprietary fund maintained by the Treasurer Illinois ABLE Accounts Administrative Fund No. 358.

Program Management Fees

The Program Manager is paid a program management fee as compensation for administering and managing the investment options and IL ABLE. The fee is 0.32% on net assets in each investment option excluding the Checking Option. The fee accrues daily and reduces the net asset value per share.

Underlying Investment Fees

The underlying investment fee includes investment advisory fees, administrative fees, and other expenses of the underlying investment. This fee varies from 0.02% to 0.06% depending on the investment option, excluding the Checking Option. These fees are paid out of the assets of the mutual funds and reduce the amount of income available for distribution in the form of dividends or capital gains.

Account-Based Fees

After an IL ABLE account has been open for at least 90 days, a \$15 Quarterly Account Maintenance Fee is assessed. The Program Manager receives \$13.75 of this fee as compensation for administering and managing IL ABLE, and the Treasurer's Office receives the remaining \$1.25. This fee may be discounted if the account owner chooses electronic delivery of statements and confirmations.

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Notes to the Financial Statements
For the Period January 9, 2017 through June 30, 2017**

Note 3. Administrative Fees (Continued)

Checking Option Service Charge

Each account that is invested in the Checking Option is assessed a monthly service charge of \$2. This fee is waived if the Account Owner maintains an average minimum daily balance of \$250 or if the account owner chooses electronic statement delivery. The fee is paid to Fifth Third Bank.

The IL ABLE program management fees paid from the Trust and the Illinois ABLE Accounts Administrative Fund expenses were as follows:

	<u>2017</u>
Program Management Fees	\$ 178
Administrative Trust Fund Expenses	-
	<u>\$ 178</u>

SUPPLEMENTARY INFORMATION

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Statement of Fiduciary Net Position by Portfolio
For the Period January 9, 2017 through June 30, 2017**

	Aggressive Portfolio	Moderately Aggressive Portfolio	Growth Portfolio	Moderate Portfolio	Moderately Conservative Portfolio	Conservative Portfolio	Checking Option Portfolio	Total
Assets								
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ 5,866	\$ 43,008	\$ 70,173	\$ 119,047
Investments	77,963	60,255	61,938	57,878	17,599	28,672	-	304,305
Net Unsettled Transactions	1,738	305	293	157	168	613	220	3,494
Other Assets	-	28	-	-	1	17	-	46
Total Assets	<u>\$ 79,701</u>	<u>\$ 60,588</u>	<u>\$ 62,231</u>	<u>\$ 58,035</u>	<u>\$ 23,634</u>	<u>\$ 72,310</u>	<u>\$ 70,393</u>	<u>\$ 426,892 *</u>
Liabilities and Net Position								
Liabilities								
Other Liabilities	\$ 32	\$ -	\$ 25	\$ 10	\$ -	\$ -	\$ -	\$ 67
Accrued Program Management Fees	18	15	14	12	5	17	-	81
Total Liabilities	<u>50</u>	<u>15</u>	<u>39</u>	<u>22</u>	<u>5</u>	<u>17</u>	<u>-</u>	<u>148</u>
Net Position Held in Trust for Participants	<u>79,651</u>	<u>60,573</u>	<u>62,192</u>	<u>58,013</u>	<u>23,629</u>	<u>72,293</u>	<u>70,393</u>	<u>426,744</u>
Total Liabilities and Net Position	<u>\$ 79,701</u>	<u>\$ 60,588</u>	<u>\$ 62,231</u>	<u>\$ 58,035</u>	<u>\$ 23,634</u>	<u>\$ 72,310</u>	<u>\$ 70,393</u>	<u>\$ 426,892</u>

*See Note to the Supplementary Information, Note 1.

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Statement of Changes in Fiduciary Net Position by Portfolio
For the Period January 9, 2017 through June 30, 2017**

	Aggressive Portfolio	Moderately Aggressive Portfolio	Growth Portfolio	Moderate Portfolio	Moderately Conservative Portfolio	Conservative Portfolio	Checking Option Portfolio	Total
Investment Income (Expense)								
Investment Earnings	\$ 1,107	\$ 1,387	\$ 1,095	\$ 749	\$ 160	\$ 427	\$ -	\$ 4,925
Other Income	-	28	-	-	1	17	-	46
Exchanges In	-	-	-	-	-	-	1,951	1,951
Management Fees	(11)	(44)	(35)	(31)	(13)	(44)	-	(178)
Other Expense	(32)	-	(25)	(10)	-	-	-	(67)
Net Investment Earnings (Loss)	1,064	1,371	1,035	708	148	400	1,951	6,677
Participant Transactions								
Program Contributions	80,571	64,375	61,819	57,863	23,673	73,462	72,396	434,159
Program Withdrawals	(1,984)	(4,692)	(195)	(558)	(192)	(566)	(3,954)	(12,141)
Exchanges Out	-	(481)	(467)	-	-	(1,003)	-	(1,951)
Total Increase (Decrease) from Participant Transactions	78,587	59,202	61,157	57,305	23,481	71,893	68,442	420,067
Increase in Net Position	79,651	60,573	62,192	58,013	23,629	72,293	70,393	426,744
Net Position, Beginning of Period	-	-	-	-	-	-	-	-
Net Position, End of Period	\$ 79,651	\$ 60,573	\$ 62,192	\$ 58,013	\$ 23,629	\$ 72,293	\$ 70,393	\$ 426,744

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Note to the Supplementary Information
For the Period January 9, 2017 through June 30, 2017**

Note 1. Reconciliation of Total Assets

The Statement of Fiduciary Net Position by Portfolio reports ABLE investments at the individual portfolio level, reporting the specific assets and liabilities related to the portfolio. The Statement of Fiduciary Net Position reports investments at the state level based on net asset value. Following is the reconciliation of assets between the two statements as of June 30, 2017:

	<u>Amount</u>
Statement of Fiduciary Net Position by Portfolio – Total Assets	\$ 426,892
Statement of Fiduciary Net Position by Portfolio – Total Liabilities	<u>(148)</u>
Statement of Fiduciary Net Position – Total Assets	<u>\$ 426,744</u>

Other Information

**National ABLÉ Alliance Achieving a Better Life Experience
Illinois Investment Policy Statement
(Unaudited)**

**NATIONAL ABLE ALLIANCE
ACHIEVING A BETTER LIFE EXPERIENCE
ILLINOIS INVESTMENT POLICY STATEMENT
(Unaudited)**

1.0 Statement of Purpose of Investment Policy

The purpose of this Investment Policy Statement (the “Policy”) is to assist contractors retained by the National ABLE Alliance (the “Consortium”) to provide services related to the management of the assets of the Illinois Achieving a Better Life Experience (“ABLE”) pool that are contributed to the Illinois Achieving a Better Life Experience program (the “Program”) and to assist the Consortium in evaluating the performance of such contractors by:

- Describing the Consortium’s investment objectives;
- Providing general guidelines for the investment of assets of the Program;
- Describing the Consortium’s long-term investment strategy;
- Describing the process of evaluating the performance of employees or contractors that provide investment management services to the Program; and
- Specifying the responsibilities of any contractors that provide investment management services to the Program.

This is the official Policy of the Program. Deviation from this Policy is not permitted without prior, explicit, written permission from the Consortium.

2.0 Establishment and Authority of Entity

The Illinois Achieving a Better Life Experience program has been established as part of Illinois’ State Treasurer Act, 15 ILCS 505 (“Act”). The Act creates ABLE account program to encourage and assist individuals and families in saving private funds for the purpose of supporting persons with disabilities in endeavors to maintain health, independence, and quality of life, and to provide secure funding for disability-related expenses on behalf of designated beneficiaries with disabilities that will supplement, but not supplant, benefits provided through private insurance, federal and State medical and disability insurance, the beneficiary’s employment, and other sources.

3.0 Investment Philosophy

The Illinois State Treasurer’s Office, as a member of the Consortium, has adopted a long-term total return strategy for the Program and its investments. In order to achieve the Program’s objectives, investments shall be diversified so as to minimize the risk of loss. While some asset classes may experience short-term and intermediate-term volatility, their long-term return assumptions justify their inclusion. A long-term focus on investment results as well as prudent diversification across public security markets will be the primary risk control mechanisms.

In its investment strategy, the Consortium has relied on prevailing financial theory, which currently utilizes a long-term diversified asset allocation strategy. A prudently allocated investment program possesses a significant level of diversification, which produces risk reduction. In terms of impact, diversification shall be considered along the following lines: (1) asset classes (stocks, bonds, cash, etc.); (2) geography/country; (3) industry; and (4) maturity.

Contributions to the Program will be directed to one or more of the available Target Portfolios (“Portfolios”), each composed of a designated mix of investments funds. The determination of the investment parameters of each Portfolio shall be made by the Consortium and shall take into account the financial characteristics of the investments in the Program. The investment parameters will also give due consideration to the fact that the investment horizon for participants will vary from a few months to over 25 years.

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The Illinois State Treasurer's Office will review the investment performance of each Portfolio at least quarterly and shall review this Policy at least annually.

The holdings of the Program and the Portfolios are divided into the following broad asset categories:

- Short-Term Investments
- Domestic Fixed Income Investments
- International Fixed Income Investments
- Domestic Equity Investments
- International Equity Investments
- Real Estate Investments

The Consortium will establish reasonable guidelines for each Portfolio, specifying (as applicable) limits on asset and asset class exposures, risk constraints and investment return objectives. While the investment parameters offered under the Program are developed by the Consortium, participants bear the risk of investment results.

The administration and offering of the Program should not be relied upon as a guarantee to participants. Each participant should seek appropriate advice as he or she deems necessary.

Consistent with achieving the foremost investment objectives of the Consortium set forth herein, the Consortium's Office will prudently exercise ethical and social stewardship in its investment decision-making as the Consortium aspires to contribute to a more just, accountable and sustainable environment. As such, the Consortium shall endeavor to:

- A. Integrate environmental, social and governance (ESG) factors as components of investment decision-making, due diligence and risk management; and
- B. Take into account corporate governance practices, environmental or social impact, and regulatory and reputational risks associated with investment options.

4.0 Investment Objectives

The overall investment program for the Program and, as applicable, the Portfolios provided to the participants shall seek to achieve the following long-term investment objectives:

- A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section 7.0 hereof; and
- An investment program flexible enough to meet the needs of participants based upon their age or investment objective and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

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5.0 Investment Responsibilities

The Consortium is responsible for the direction of investments and administration of the assets of the Program. In order to properly carry out his responsibilities, the Consortium may rely on one or more contractors to assist in the administration of the Program. The Consortium will engage and plan to rely heavily on said contractor (the “Manager”) for administrative services and investment management services. Among the current responsibilities of the Manager is the implementation of the investment strategy outlined in this Policy and the rebalancing of the Target Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. With the Consortium’s approval, the Manager may retain an investment advisor to provide it with portfolio design, due diligence and ongoing monitoring services with respect to the Portfolios and the implementation of the investment strategy outlined in this policy. The Consortium and the Manager shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

In managing the investments of the Program and the Portfolios, the Manager agrees that it will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives.

The Program will rely on external investment consultants for investment and administrative advisory services. The independent investment consultant will:

- Measure investment performance results, evaluate the investment program, and advise the Consortium as to the performance and continuing appropriateness of each investment manager;
- Recommend modifications to the investment policies, objectives, guidelines, or management structure as appropriate; and
- Promptly inform the Consortium regarding significant matters pertaining to the investment program.

6.0 Investment Parameters

Contributions will be invested in one or more of the available Portfolios, each composed of a designated mix of investments which is appropriate for the investment preference of the participant or the investment objective of the Portfolio. Each Portfolio may allocate assets among domestic equity, international equity, real estate, domestic and international fixed-income, and/or cash and cash equivalents. The asset allocation of each Portfolio will be established by the Consortium and managed by the Manager. The Consortium may adjust the weighting in stocks, bonds, real estate, and cash in each Portfolio and may change the underlying investment funds within the Portfolios consistent with this Policy.

The policy target asset allocations and benchmarks for the underlying investments within the Target Portfolios are shown in the following table. There is a permissible range of plus or minus 5% of the target allocation for each underlying investment fund. Please refer to Exhibit A for Target Portfolio Objectives and refer to Exhibit B for a list of underlying investment products and their corresponding benchmarks.

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Target Portfolios		#1	#2	#3	#4	#5	#6
Asset Class	Benchmark	Aggressive	Moderately Aggressive	Growth	Moderate	Moderately Conservative	Conservative
Domestic Equity	S & P 500 Index	31.50%	26.25%	21.00%	15.75%	10.50%	3.50%
	S & P Completion	27.00%	22.50%	18.00%	13.50%	9.00%	3.00%
Real Estate	Dow Jones U.S. Select Real Estate Index	9.00%	7.50%	6.00%	4.50%	3.00%	1.00%
International Equity	MSCI EAFE	16.20%	13.50%	10.80%	8.10%	5.40%	1.80%
	MSCI Emerging Markets	6.30%	5.25%	4.20%	3.15%	2.10%	0.70%
Domestic Fixed Income	Bloomberg Barclays US Treasury TIPS 0-5 Yrs.	3.50%	8.75%	14.00%	19.25%	15.75%	10.50%
	Bloomberg Barclays U.S. Aggregate Bond	3.00%	7.50%	12.00%	16.50%	13.50%	9.00%
	Bloomberg Barclays U.S. Gov't/Credit 1-5yr	2.50%	6.25%	10.00%	13.75%	11.25%	7.50%
Foreign Bonds	Bloomberg Barclays Global Aggregate Bond ex-US	1.00%	2.50%	4.00%	5.50%	4.50%	3.00%
Money Market	3-month T-Bills	0.00%	0.00%	0.0%	0.00%	25.00%	60.00%

Each underlying investment fund's return objective is to equal or exceed, over a five-year rolling period, the return of the applicable benchmark net of fees. Volatility, measured by the standard deviation of quarterly returns over that period, is expected to be similar to the benchmark. Each underlying investment fund is also expected to perform favorably relative to its peer group.

To the extent that the assets of a Portfolio are invested in one or more underlying investment funds approved by the Consortium having investment objectives consistent with the above-noted asset allocation categories, the above-noted percentage guidelines shall be deemed satisfied. This shall be the case even if such underlying investment fund's underlying assets may not be entirely invested in the asset class in which such underlying investment fund has been placed.

7.0 Banking Option

The Program has included the option for participants for a short-term investment vehicle in the form of a Demand Deposit Account (the "Banking Option"). The Banking Option will be an FDIC-Insured bank account whose primary objective is the preservation and safety of the principal and the provision of a stable and low-risk rate of return. This option allows the participants the ability to execute recurring transactions with greater ease. The provider for the Banking Option will be Fifth Third Bank (the "Banking Option Provider").

The Banking Option Provider will provide monthly account statements following any month in which an account using the Account utilizing the Banking Option had financial activity. All account statements shall be sent to the respective Account Owner and any authorized agents and may be sent via /or Authorized Agents by U.S. postal mail and/or provided via website access electronic delivery, as selected specified by the Account Owner.

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**Exhibit A
Target Portfolio Objectives**

The **Very Aggressive Target Portfolio** seeks to provide very aggressive capital appreciation and some current income. The fund holds 90% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 10% in bonds, allocated among domestic and international bonds. Investors with a long-term time horizon who are looking for the most aggressive growth of principal over time and who can accept stock market volatility may wish to consider this Portfolio.

The **Aggressive Target Portfolio** seeks to provide aggressive capital appreciation and some current income. The fund holds 75% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 25% in bonds, allocated among domestic and international bonds. Investors with a long-term time horizon who are looking for aggressive growth of principal over time and who can accept stock market volatility may wish to consider this Portfolio.

The **Growth Target Portfolio** seeks to provide capital appreciation and some current income. The fund holds 60% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 40% in bonds, allocated among domestic and international bonds. Investors with a long-term time horizon who are looking for growth of principal over time and who can accept stock market volatility may wish to consider this Portfolio.

The **Moderate Target Portfolio** seeks to provide moderate capital appreciation and current income. The fund holds 45% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 55% in bonds, allocated among domestic and international bonds. Investors with a long-term time horizon who are looking for growth of principal over time and who can accept stock market volatility may wish to consider this Portfolio.

The **Conservative Target Portfolio** seeks to provide conservative capital appreciation and current income. The fund holds 30% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 70% in bonds, allocated among domestic bonds, international bonds, and short term investments. Investors with a medium-term time horizon who are looking for conservative growth of principal over time and who can accept some stock market volatility may wish to consider this Portfolio.

The **Very Conservative Target Portfolio** seeks to provide very conservative capital appreciation and current income. The fund holds 10% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 90% in bonds, allocated among domestic bonds, international bonds, and short term investments. Investors with a short-term time horizon who are looking for very conservative growth of principal over time and who can accept limited stock market volatility may wish to consider this Portfolio.

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**Exhibit B
Underlying Investment Products**

Underlying Investment Product	Asset Class	Benchmark
Vanguard Institutional Index Fund	U.S. Large Cap	S & P 500 Index
Vanguard Extended Market Index Fund	U.S. Small & Mid Cap	S & P Completion
iShares Core MSCI EAFE ETF	Non-U.S. Multi Cap	MSCI EAFE
Schwab Emerging Markets Equity ETF	Emerging Markets	MSCI Emerging Markets
Schwab U.S. REIT ETF	Real Estate	Dow Jones U.S. Select Real Estate Index
Vanguard Total Bond Market Index Fund	U.S. Core Bond	Bloomberg Barclays U.S. Aggregate Bond
Vanguard Short-Term Bond Index Fund	Short-Term Investment Grade	Bloomberg Barclays U.S. Gov't/Credit 1-5yr
Vanguard Short-Term Inflation Protected Securities Index	Short-Term Inflation Protected Bond	Bloomberg Barclays US Treasury TIPS 0-5 Yrs.
iShares Core International Aggregate Bond ETF	International Bond	Bloomberg Barclays Global Aggregate Bond ex-US
Sallie Mae High-Yield FDIC	Cash & Cash Equivalents	3-month T-Bills

**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

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 Achieving a Better Life Experience Program (ABLE), a fiduciary (private-purpose trust) fund of the State of Illinois, Office of the Treasurer, as of June 30, 2017 and for the period January 9, 2017 through June 30, 2017, and the related notes to the financial statements, which collectively comprise the ABLE Program financial statements, and have issued our report thereon dated February 15, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Office of the Treasurer's Response to Findings

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

Signature on File

Crowe Horwath LLP

Springfield, Illinois
February 15, 2018

**State of Illinois
Office of the Treasurer**

**Illinois ABLE Program
Schedule of Findings
For the Period January 9, 2017 through June 30, 2017**

2017-001 **Finding** (Lack of Adequate Controls over the Review of External Service Provider)

The Office of the Treasurer (Office) did not maintain adequate controls to ensure the external service provider's internal controls were reviewed.

The Office utilized an external service provider for the management of the Achieving a Better Life Experiences Program (ABLE). The external service provider was responsible for the operations of the ABLE Program including recordkeeping, investment advisory and administrative services. In addition, the external service provider used third party subservice organizations to perform certain significant services. The external subservice organizations were responsible for various services including the recordkeeping platform, custody and cash management, and providing services for the checking account product within the Checking option. As of June 30, 2017, the net position held in trust for participants was \$426,744.

During testing, the auditors noted the Office did not maintain documentation of their analysis of the Service Organization Control (SOC) report for the external service provider and did not obtain or review the subservice organizations' SOC reports.

The Office is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to assure its critical and confidential data are adequately safeguarded. This responsibility is not limited due to the process being outsourced.

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. In addition, generally accepted information technology guidance endorses the review and assessment of internal controls related to information systems and operations to assure the accurate processing and security of information.

The Office indicated they were not aware of the requirement to document their controls over the review of the SOC reports. In addition, the Office stated they relied on their service organization to perform a review of subservice organization SOC reports and were not aware of the requirement to monitor significant subservice organizations.

Without having reviewed all SOC reports, the Office does not have assurance the external service providers' internal controls are adequate to ensure proper accounting and safekeeping of assets. (Finding Code No. 2017-001)

Recommendation

We recommend the Office review the SOC reports and maintain documentation of their analysis.

Office Response

We accept the recommendation. Management reviewed the applicable SOC reports and no issues were identified within the reports. Therefore, there was no action for our office to take with the service organizations. During previous engagements in which SOC reviews were examined, our level of review on SOC reporting was deemed adequate. Going forward we will maintain written documentation of the review of the SOC reports, to comply with the more formal process now being requested. Senior staff have already been trained on this topic to ensure written documentation is available in the future.