

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

Financial Audit  
Years Ended June 30, 2016 and 2015  
Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois



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

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

**Treasurer's Office Officials**

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

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, Suite 401  
Springfield, Illinois 62704

Unclaimed Property & Other Divisions  
Myers Building  
1 W. Old State Capitol Plaza, 1<sup>st</sup> and 4<sup>th</sup> 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  
The Illinois Funds**

**Financial Statement Report**

**Summary**

The audits of the accompanying financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer, were performed by RSM US LLP as of and for the years ended June 30, 2016 and 2015.

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

## **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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, and the changes in its financial position, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer. The Supplementary Information (pages 17 – 23), and the other Information (pages 24 – 30) are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 29, 2016 and December 21, 2015, on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and its compliance.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
December 29, 2016



**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statements of Fiduciary Net Position  
June 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Cash equivalents		
Repurchase agreements, including accrued interest of \$14,917 and \$4,153 in 2016 and 2015, respectively	\$ 1,600,014,917	\$ 2,050,004,153
Commercial paper, net of unamortized discount of \$396,087 and \$239,012 in 2016 and 2015, respectively	676,978,913	1,226,260,987
Money market mutual funds	519,365,194	667,278,692
U.S. agency obligations		
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$0 and \$559 in 2016 and 2015, respectively	-	24,999,441
Total cash equivalents	2,796,359,024	3,968,543,273
Deposits and investments		
Commercial paper, net of unamortized discount of \$1,057,861 and \$73,806 in 2016 and 2015, respectively	643,942,139	184,926,195
U.S. Treasury Bills net of unamortized discount of \$0 and \$37,048 in 2016 and 2015, respectively	-	49,962,952
U.S. Treasury Notes, net of unamortized discount (premium) of \$87,247 and (\$63,488) in 2016 and 2015, respectively	189,912,753	100,063,488
U.S. agency obligations		
Federal Home Loan Bank Debentures, net of unamortized discount of \$0 and \$2,546 in 2016 and 2015, respectively	150,000,000	324,997,454
Federal Home Loan Mortgage Corporation Notes, net of unamortized net premium of \$36,576 and \$0 in 2016 and 2015, respectively	65,991,576	-
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$24,650 and \$33,035 in 2016 and 2015, respectively	11,975,350	182,458,965

(Continued)

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statements of Fiduciary Net Position (Continued)  
June 30, 2016 and 2015**

	2016	2015
<b>Assets (Continued)</b>		
U.S. agency obligations (Continued)		
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$68,583 and \$4,552 in 2016 and 2015, respectively	\$ 74,931,416	\$ 24,995,448
Farm Credit Discount Notes, net of unamortized discount of \$286,767 and \$71,056 in 2016 and 2015, respectively	149,713,233	49,928,944
Federal Farm Credit Bureau Debentures, net of unamortized discount of \$0 and \$3,392 in 2016 and 2015, respectively	25,000,000	49,996,608
Federal Agriculture Mortgage Corporation Discount Notes, net of unamortized discount of \$0 and \$36,385 in 2016 and 2015, respectively	-	49,963,615
Supranational Notes, net of unamortized discount of \$88,711 and \$0 in 2016 and 2015, respectively	100,911,289	-
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$182,448 and \$72,835 in 2016 and 2015, respectively	<u>232,237,552</u>	<u>214,927,165</u>
Total deposits and investments	1,644,615,308	1,232,220,834
Accrued interest receivable	<u>705,334</u>	<u>424,672</u>
Total assets	<u>\$ 4,441,679,666</u>	<u>\$ 5,201,188,779</u>
<b>Liabilities and Net Position</b>		
Accrued liabilities		
Bank custodial fees	\$ 294,845	\$ 143,198
State management fees	<u>179,367</u>	<u>217,253</u>
Total liabilities	<u>474,212</u>	<u>360,451</u>
Net position held in trust for pool participants	<u>\$ 4,441,205,454</u>	<u>\$ 5,200,828,328</u>
The pricing of shares		
Participant shares outstanding (\$1.00 par, unlimited shares authorized)	<u>\$ 4,441,205,454</u>	<u>\$ 5,200,828,328</u>
Participant net position value, offering and redemption price per share	<u>\$ 1.00</u>	<u>\$ 1.00</u>

The accompanying notes are an integral part of these statements.

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statements of Changes in Fiduciary Net Position  
For the Years Ended June 30, 2016 and 2015**

	2016	2015
Operations		
Investment income		
Investment earnings	\$ 11,440,716	\$ 5,288,742
Investment expenses		
Bank custodial fees	1,734,169	1,767,163
State management fees	2,415,223	2,647,655
Total investment expenses	<u>4,149,392</u>	<u>4,414,818</u>
Net investment income	<u>7,291,324</u>	<u>873,924</u>
Dividends to participants from net investment income	(7,291,324)	(873,924)
Share transactions (dollar amounts and number of shares are the same)		
Subscriptions	17,802,821,508	19,081,201,240
Reinvestments	7,332,497	843,518
Redemptions	<u>(18,569,776,879)</u>	<u>(19,190,701,697)</u>
Change in net position and shares resulting from share transactions	(759,622,874)	(108,656,939)
Net position, beginning of year	<u>5,200,828,328</u>	<u>5,309,485,267</u>
Net position, end of year	<u>\$ 4,441,205,454</u>	<u>\$ 5,200,828,328</u>

The accompanying notes are an integral part of these statements.

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

**Notes to the Financial Statements**

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Background

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

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

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

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

As a governmental sponsored investment pool, The Illinois Funds meets the criteria contained in GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This allows the entity to measure all of its investments at amortized cost. The criteria contained in GASB Statement No. 79 address (1) how the pool transacts with participants, (2) requirements for portfolio maturity, quality, diversification and liquidity, and (3) calculation and requirements of a shadow price.

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

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

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

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

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

**State of Illinois  
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The Illinois Funds**

**Notes to the Financial Statements**

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

Money market mutual funds are carried at the net asset value (NAV) per share provided by the Fund. The NAV per share is calculated using the amortized cost method which approximates fair value and are purchased from various brokerage firms. The funds are comprised of U.S. Treasury and U.S. agency obligations. Mutual fund yields are subject to market rate fluctuations.

U.S. agency obligations 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 Available to Participants: The net position available to participants represents the total value of all participant deposits including late deposits held in an overnight investment account as of June 30, 2016 and 2015.

The Illinois Funds operates in a manner similar to an open-end mutual fund. Participants' deposits and withdrawals were accounted for as purchases and sales of The Illinois Funds' capital shares. The amount of net proceeds from the sale of shares represents the gross withdrawals, which were redeemed from The Illinois Funds' shares during the year. The cost of shares purchased represents the gross deposits, which were invested in The Illinois Funds' shares during the year. These amounts did not include deposits or earnings, which were remitted directly to participants versus invested (or reinvested) in The Illinois Funds' shares. There are no limitations or restrictions on participant withdrawals.

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

**Notes to the Financial Statements**

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**Note 2. Deposits and Investments**

Governmental Accounting Standards Board (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 instrument measured at fair value on a recurring basis:

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

The following table summarizes The Illinois Funds' investments within the fair value hierarchy at June 30, 2016. Information for June 30, 2015 is not available.

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

**Notes to the Financial Statements**

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

<b>Type</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Repurchase Agreements	\$ 1,600,014,917	\$ -	\$ 1,600,014,917	\$ -
Commercial Paper	1,320,769,288	-	1,320,769,288	-
Money Market Mutual Funds	519,365,194	-	519,365,194	-
United States Treasury Notes	190,081,250	-	190,081,250	-
Federal Home Loan Mtg Corp Discount Notes	11,981,640	-	11,981,640	-
Federal National Mtg Assoc Discount Notes	74,950,250	-	74,950,250	-
Federal Home Loan Bank Debentures	150,013,050	-	150,013,050	-
Federal Home Loan Bank Discount Notes	232,316,632	-	232,316,632	-
Federal Farm Credit Bureau Debentures	25,003,750	-	25,003,750	-
Farm Credit Discount Note	149,825,200	-	149,825,200	-
Supranational Notes	100,971,320	-	100,971,320	-
Federal Home Loan Mtg Corp Notes	66,017,702	-	66,017,702	-
	<u>\$ 4,441,310,193</u>	<u>\$ -</u>	<u>\$ 4,441,310,193</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 identical or 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.

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

**Notes to the Financial Statements**

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**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, 2016 and 2015 is as follows:

**Summary of Investments at June 30, 2016:**

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 1,600,014,917	\$ 1,600,014,917	\$ 1,600,000,000	0.300-0.430%	07/01/2016
Commercial Paper	1,320,921,052	1,320,769,288	1,322,375,000	0.320-0.909%	7/1/16-12/6/16
Money Market Mutual Funds	519,365,194	519,365,194	519,365,194	NA	NA
United States Treasury Notes	189,912,753	190,081,250	190,000,000	0.342-0.634%	9/30/16-4/30/17
Federal Home Loan Mtg Corp Notes	65,991,576	66,017,702	65,955,000	0.473-0.581%	10/14/16-1/27/17
Federal Home Loan Mtg Corp Discount Notes	11,975,350	11,981,640	12,000,000	0.511%	11/23/16
Federal National Mtg Assoc Discount Notes	74,931,416	74,950,250	75,000,000	0.401-0.521%	7/18/16-12/1/16
Federal Home Loan Bank Debentures	150,000,000	150,013,050	150,000,000	0.420-0.625%	7/15/16-3/23/17
Federal Home Loan Bank Discount Notes	232,237,552	232,316,632	232,420,000	0.461-0.562%	7/20/16-11/4/16
Federal Farm Credit Bureau Debentures	25,000,000	25,003,750	25,000,000	0.400%	08/11/2016
Farm Credit Discount Notes	149,713,233	149,825,200	150,000,000	0.412-0.663%	7/25/16-12/12/16
Supranational Notes	100,911,289	100,971,320	101,000,000	0.511-0.763%	8/29/16-5/2/17
	<u>\$ 4,440,974,332</u>	<u>\$ 4,441,310,193</u>	<u>\$ 4,443,115,194</u>		



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

**Notes to the Financial Statements**

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

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

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 2,050,004,153	\$ 2,050,004,153	\$ 2,050,000,000	0.070-0.130%	07/01/2015
Commercial Paper	1,411,187,182	1,411,208,880	1,411,500,000	0.100-0.304%	7/1/15-10/1/15
Money Market Mutual Funds	667,278,692	667,278,692	667,278,692	NA	NA
United States Treasury Bills	49,962,952	49,990,500	50,000,000	0.126-0.276%	7/9/15-1/7/16
United States Treasury Notes	100,063,488	100,064,500	100,000,000	0.146-0.233%	8/31/15-4/15/16
Federal Home Loan Mtg Corp Discount Notes	182,458,965	182,480,135	182,492,000	0.130-0.160%	7/10/15-9/14/15
Federal National Mtg Assoc Discount Notes	24,995,448	24,998,500	25,000,000	0.115%	08/27/2015
Federal Home Loan Bank Debentures	324,997,454	324,990,250	325,000,000	0.190-0.420%	10/8/15-7/15/16
Federal Home Loan Bank Discount Notes	239,926,606	239,964,300	240,000,000	0.035-0.185%	7/24/15-12/2/15
Federal Farm Credit Bureau Debentures	49,996,608	49,990,500	50,000,000	0.180-0.300%	8/21/15-3/4/16
Farm Credit Discount Note	49,928,944	49,948,000	50,000,000	0.160-0.301%	8/17/15-5/12/16
Federal Agriculture Mortgage Corp Discount Notes	49,963,615	49,978,250	50,000,000	0.170-0.215%	10/6/15-12/15/15
	<u>\$ 5,200,764,107</u>	<u>\$ 5,200,896,660</u>	<u>\$ 5,201,270,692</u>		

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

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

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

**Investments:** The Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2016 and 2015. (Amounts are in thousands.)

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

**Notes to the Financial Statements**

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

	2016					2015				
	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	One to Two Years	Total	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	One to Two Years	Total
Repurchase agreements	\$ 1,600,015	\$ -	\$ -	\$ -	\$ 1,600,015	\$ 2,050,004	\$ -	\$ -	\$ -	\$ 2,050,004
Commercial paper	422,545	644,051	254,325	-	1,320,921	621,469	739,747	49,971	-	1,411,187
U.S. Treasury obligations	-	-	189,913	-	189,913	24,999	25,046	99,981	-	150,026
U.S. agency obligations	172,379	224,878	312,592	-	709,849	118,484	328,922	449,862	25,000	922,268
Supranational notes	-	44,972	55,939	-	100,911	-	-	-	-	-
Subtotal	<u>\$ 2,194,939</u>	<u>\$ 913,901</u>	<u>\$ 812,769</u>	<u>\$ -</u>	<u>3,921,609</u>	<u>\$ 2,814,956</u>	<u>\$ 1,093,715</u>	<u>\$ 599,814</u>	<u>\$ 25,000</u>	<u>4,533,485</u>
Treasury-only money market mutual funds					519,365					667,279
Total Investments					<u>\$ 4,440,974</u>					<u>\$ 5,200,764</u>

The master repurchase agreements utilized by The Illinois Funds require the broker or financial institution to maintain the fair value of collateral securities at 102% of the agreement. The carrying amount of the repurchase agreements (excluding accrued interest) was \$1,600,000,000 and \$2,050,000,000 as of June 30, 2016 and 2015, respectively. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was \$1,633,389,573 and \$2,091,004,845 as of June 30, 2016 and 2015, respectively.

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

**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, 2016, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings or Aaa by Moody's Investors Service with the exception of Federal Agricultural Mortgage Corporation obligations which were not rated by Standard & Pools and the Supranational Notes that were rated AAA by Standard & Pools. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Toronto Dominion HDG USA, Abbott Laboratories, Coca-Cola Company, Exxon Mobil, Nestle Capital, Novartis Finance Corp, Apple Inc, and Pfizer Inc which were rated A-1+ by Standard & Poor's. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's Ratings.

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

**Notes to the Financial Statements**

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

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of The Illinois Funds' investment in a single issuer. The following investments exceeded 5% of The Illinois Funds' total investments at June 30, 2016 and 2015. (Amounts are in thousands.)

	2016		2015	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
Repurchase agreements				
HSBC*	\$ 1,000,008	22.52%	\$ 1,700,003	32.69%
Bank of Nova Scotia	300,003	6.76	-	-
U.S. Agency				
Federal Home Loan Bank	382,238	8.61	564,924	10.86
Commercial Paper				
HSBC*	134,593	3.03	199,928	3.84

\*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 180 days to maturity. Additionally, a maximum of 25% of the total assets may be invested in any approved AAAM Money Market Fund.

**Note 3. Investment Income**

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

**Note 4. Administrative Fees**

To administer The Illinois Funds, the Treasurer has established a division entitled "The Illinois Funds' Administrative Office." This division had 16 and 17 average full time equivalent employees for the years ended June 30, 2016 and 2015. The revenues and expenditures of the division are recorded in an enterprise fund maintained by the Treasurer entitled The Illinois Funds' Administrative Trust Fund No. 195.

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

**Notes to the Financial Statements**

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

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

Fees are calculated on a tiered structure. Both fees are paid from a charge based on the net asset value of The Illinois Funds. The fee is accrued daily and is now a voucher payment instead of an automatic withdrawal. 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 2016 and 2015.

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

	2016	2015
Fees received	\$ 2,415,000	\$ 2,648,000
Expenditures	3,013,000	2,453,000

**Note 5. Related Parties**

The Illinois Funds' Administrative Office, a division of the State Treasurer's Office, is responsible for the administration of The Illinois Funds, including management of investments and marketing services. The Illinois Funds' Administrative Office received fees as stated in Note 4 during fiscal years 2016 and 2015, 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, 2016 and 2015, was approximately \$2,664,000 and \$2,763,000, respectively.

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

	2016	2015
Total number of participants	1,670	2,205
Number of State of Illinois participants	21	31
Balance of State of Illinois investments	\$ 1,604,650,530	\$ 1,542,063,924

## **SUPPLEMENTARY INFORMATION**

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments  
June 30, 2016**

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value *
Repurchase Agreements					
BMO CAPITAL MARKETS	06/30/2016	0.370%	07/01/2016	\$ 150,000,000	\$ 150,001,542
BANK OF NOVA SCOTIA	06/30/2016	0.400%	07/01/2016	300,000,000	300,003,333
HSBC SECURITIES	06/30/2016	0.300%	07/01/2016	1,000,000,000	1,000,008,333
SUN TRUST	06/30/2016	0.430%	07/01/2016	100,000,000	100,001,195
WELLS FARGO	06/30/2016	0.370%	07/01/2016	50,000,000	50,000,514
Total Repurchase Agreements				<u>\$ 1,600,000,000</u>	<u>\$ 1,600,014,917</u>

State of Illinois  
Office of the Treasurer

The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2016

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
Commercial Paper					
ALLIANCE CAP MGMT LP	06/30/16	0.450%	07/01/16	\$ 15,000,000	\$ 15,000,000
EXXON CORP	06/30/16	0.320%	07/01/16	35,000,000	35,000,000
ALLIANCE CAP MGMT LP	06/29/16	0.540%	07/06/16	14,998,800	14,998,875
ABBOTT LABORATORIES	06/09/16	0.610%	07/08/16	24,997,250	24,997,035
APPLE INC	04/26/16	0.450%	07/18/16	39,989,600	39,991,500
NOVARTIS FINANCIAL CORP	05/04/16	0.465%	07/18/16	39,989,600	39,991,216
PFIZER INC	05/23/16	0.460%	07/18/16	94,975,300	94,979,364
ABBOTT LABORATORIES	06/22/16	0.610%	07/21/16	32,639,878	32,638,935
ABBOTT LABORATORIES	06/27/16	0.801%	07/27/16	34,986,000	34,979,778
JOHN DEERE FINANCIAL LTD	06/23/16	0.420%	07/27/16	39,984,000	39,987,866
NESTLE CAPITAL CORP	03/29/16	0.541%	07/27/16	49,980,000	49,980,500
ING US FUNDING LLC	06/03/16	0.520%	08/03/16	49,971,500	49,976,167
PFIZER INC	05/11/16	0.471%	08/09/16	49,966,500	49,974,542
NESTLE CAPITAL CORP	05/04/16	0.551%	08/16/16	29,976,300	29,978,917
TORONTO DOMINION BANK	05/04/16	0.561%	08/22/16	99,910,000	99,919,111
ABN AMRO FDG USA LLC CP	05/24/16	0.641%	08/24/16	19,981,400	19,980,800
ABN AMRO FDG USA LLC CP	06/02/16	0.651%	09/01/16	29,965,500	29,966,417
TORONTO DOMINION BANK	06/09/16	0.604%	09/06/16	49,937,500	49,945,097
COCA COLA COMPANY	05/11/16	0.611%	09/08/16	24,968,000	24,970,771
COCA COLA COMPANY	05/24/16	0.591%	09/09/16	44,941,500	44,948,375
NOVARTIS FINANCIAL CORP	06/21/16	0.517%	09/19/16	64,628,560	64,652,417
HSBC USA INC	06/20/16	0.621%	09/20/16	49,924,500	49,930,250
BANK OF MONTREAL	06/23/16	0.620%	09/23/16	39,937,600	39,942,225
BANK OF MONTREAL	06/28/16	0.640%	09/26/16	39,935,200	39,938,232
ABN AMRO FDG USA LLC CP	06/29/16	0.604%	09/27/16	49,918,000	49,927,889
MUFG UNION BANK NA	06/20/16	0.601%	10/17/16	49,892,000	49,910,000
COCA COLA COMPANY	06/20/16	0.591%	10/18/16	39,912,800	39,929,755
NESTLE CAPITAL CORP	06/20/16	0.550%	10/18/16	19,956,400	19,967,300
COCA COLA COMPANY	06/15/16	0.624%	11/08/16	34,901,300	34,922,903
COCA COLA COMPANY	06/02/16	0.702%	11/17/16	24,924,750	24,932,430
HSBC USA INC	06/09/16	0.909%	12/06/16	84,679,550	84,662,385
Total Commercial Paper				<u>\$ 1,320,769,288</u>	<u>\$ 1,320,921,052</u>

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2016**

	Cost/ Fair Value****
Money Market Mutual Funds	
Western Asset Instl Gov't	\$ 298,445,324
Morgan Stanley Gov't Inst	8,729,904
Aim Gov't & Agency Portfolio	<u>212,189,966</u>
Total Money Market Mutual Funds	<u><u>\$ 519,365,194</u></u>



State of Illinois  
Office of the Treasurer

The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2016

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
United States Treasury Obligations					
U.S. Treasury Notes					
Treasury Notes	03/29/16	0.342%	04/30/17	\$ 15,002,250	\$ 15,000,000
Treasury Notes	03/15/16	0.418%	09/30/16	25,009,250	24,999,559
Treasury Notes	02/26/16	0.526%	10/31/16	25,001,750	24,987,546
Treasury Notes	03/16/16	0.574%	11/30/16	50,027,000	49,975,965
Treasury Notes	03/09/16	0.625%	12/31/16	25,024,500	25,000,000
Treasury Notes	03/10/16	0.634%	01/31/17	50,016,500	49,949,683
				<u>\$ 190,081,250</u>	<u>\$ 189,912,753</u>
Total U.S. Treasury Notes					
International Notes					
Supranational Notes					
International Bank for Reconstruction and Development	02/05/16	0.511%	08/29/16	\$ 29,987,700	\$ 29,974,925
International Bank for Reconstruction and Development	03/17/16	0.690%	09/12/16	15,006,450	14,997,302
International Bank for Reconstruction and Development	02/26/16	0.679%	10/14/16	25,014,500	24,996,160
International Bank for Reconstruction and Development	05/25/16	0.521%	11/15/16	24,963,750	24,950,528
International Bank for Reconstruction and Development	06/07/16	0.763%	05/02/17	5,998,920	5,992,374
				<u>\$ 100,971,320</u>	<u>\$ 100,911,289</u>
Total Supranational Notes					

(Continued)

State of Illinois  
Office of the Treasurer

The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2016

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
United States Agency Obligations***					
Federal Home Loan Mtg Corp Discount Notes					
Federal Home Loan Mtg Corp Discount Notes	06/02/16	0.511%	11/23/16	\$ 11,981,640	\$ 11,975,350
Total Federal Home Loan Mtg Corp Discount Notes				<u>\$ 11,981,640</u>	<u>\$ 11,975,350</u>
Federal Home Loan Bank Discount Notes					
Federal Home Loan Bank Discount Notes	01/20/16	0.501%	07/20/16	\$ 27,417,532	\$ 27,412,764
Federal Home Loan Bank Discount Notes	01/22/16	0.501%	07/22/16	49,995,000	49,985,417
Federal Home Loan Bank Discount Notes	01/27/16	0.511%	07/27/16	19,997,600	19,992,633
Federal Home Loan Bank Discount Notes	01/15/16	0.562%	08/08/16	9,997,400	9,994,089
Federal Home Loan Bank Discount Notes	01/22/16	0.552%	08/29/16	19,991,800	19,981,972
Federal Home Loan Bank Discount Notes	01/22/16	0.552%	08/30/16	19,991,600	19,981,667
Federal Home Loan Bank Discount Notes	06/01/16	0.461%	09/02/16	24,987,750	24,979,875
Federal Home Loan Bank Discount Notes	03/23/16	0.501%	09/19/16	24,984,500	24,972,222
Federal Home Loan Bank Discount Notes	05/24/16	0.516%	11/04/16	34,953,450	34,936,913
Total Federal Home Loan Bank Discount Notes				<u>\$ 232,316,632</u>	<u>\$ 232,237,552</u>
Federal National Mortgage Association Discount Notes					
Federal National Mortgage Association Discount Notes	08/19/15	0.401%	07/18/16	\$ 24,998,000	\$ 24,995,277
Federal National Mortgage Association Discount Notes	08/17/15	0.402%	08/01/16	24,994,750	24,991,389
Federal National Mortgage Association Discount Notes	06/02/16	0.521%	12/01/16	24,957,500	24,944,750
Total Federal National Mortgage Association Discount Notes				<u>\$ 74,950,250</u>	<u>\$ 74,931,416</u>

(Continued)

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments (Continued)  
June 30, 2016**

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
Federal Home Loan Mortgage Corporation Notes					
Federal Home Loan Mortgage Corporation Notes	03/16/16	0.581%	10/14/16	\$ 50,063,500	\$ 50,041,987
Federal Home Loan Mortgage Corporation Notes	06/06/16	0.473%	01/27/17	15,954,202	15,949,589
Total Federal Home Loan Mortgage Corporation Notes				<u>\$ 66,017,702</u>	<u>\$ 65,991,576</u>
Federal Farm Credit Bureau Debentures					
Federal Farm Credit Bureau Bullet Notes	07/20/16	0.400%	08/11/16	\$ 25,003,750	\$ 25,000,000
Total Federal Farm Credit Bureau Debentures				<u>\$ 25,003,750</u>	<u>\$ 25,000,000</u>
Farm Credit Discount Notes					
Farm Credit Discount Notes	08/11/15	0.412%	07/25/16	\$ 24,997,250	\$ 24,993,167
Farm Credit Discount Notes	03/04/16	0.501%	09/07/16	24,986,750	24,976,389
Farm Credit Discount Notes	02/23/16	0.542%	11/10/16	19,972,200	19,960,400
Farm Credit Discount Notes	03/11/16	0.639%	11/18/16	39,940,800	39,901,028
Farm Credit Discount Notes	03/16/16	0.663%	12/08/16	24,955,500	24,926,666
Farm Credit Discount Notes	03/03/16	0.653%	12/12/16	14,972,700	14,955,583
Total Farm Credit Discount Notes				<u>\$ 149,825,200</u>	<u>\$ 149,713,233</u>
Federal Home Loan Bank Debentures					
Federal Home Loan Bank Notes	06/15/15	0.420%	07/15/16	\$ 25,001,500	\$ 25,000,000
Federal Home Loan Bank Notes	06/23/16	0.486%	03/23/17	49,989,000	50,000,000
Federal Home Loan Bank Notes	02/08/16	0.585%	02/08/17	10,005,200	10,000,000
Federal Home Loan Bank Notes	07/27/15	0.430%	08/12/16	25,002,750	25,000,000
Federal Home Loan Bank Notes	08/24/15	0.510%	09/09/16	25,006,500	25,000,000
Federal Home Loan Bank Notes	03/02/16	0.625%	11/23/16	15,008,100	15,000,000
Total Federal Home Loan Bank Debentures				<u>\$ 150,013,050</u>	<u>\$ 150,000,000</u>

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

\*\* Fair value represents the closing bid price on June 30, 2016.

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

\*\*\*\* Measured at the net asset value (NAV) per share provided by the Fund. The NAV per share is calculated using the amortized cost method which approximates fair value.

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds**

**Condensed Statement of Fiduciary Net Position by Investor Type and  
Condensed Statement of Changes in Fiduciary Net Position by Investor Type**

**June 30, 2016**

**(Dollars in thousands)**

CONDENSED STATEMENT OF FIDUCIARY NET POSITION BY INVESTOR TYPE

June 30, 2016

	Total	Internal	External
<b>Assets</b>			
Cash equivalents	\$ 2,796,359	\$ 1,010,352	\$ 1,786,007
Deposits and investments	1,644,615	594,215	1,050,400
Interest receivable	705	256	449
	<hr/>	<hr/>	<hr/>
	4,441,679	1,604,823	2,836,856
<b>Liabilities</b>			
Bank fees	295	107	188
Management fees	179	65	114
	<hr/>	<hr/>	<hr/>
Net position	<u>\$ 4,441,205</u>	<u>\$ 1,604,651</u>	<u>\$ 2,836,554</u>

CONDENSED STATEMENT OF CHANGES IN FIDUCIARY  
NET POSITION BY INVESTOR TYPE

Year Ended June 30, 2016

	Total	Internal	External
Participant deposits	\$ 17,810,154	\$ 7,372,321	\$ 10,437,833
Interest and other investment income	11,440	1,998	9,442
Investment expense	(4,149)	(1,499)	(2,650)
Redemptions	(18,569,777)	(7,309,798)	(11,259,979)
Dividends to shareholders	(7,291)	(435)	(6,856)
	<hr/>	<hr/>	<hr/>
Change in net position and shares	(759,623)	62,587	(822,210)
Beginning net position	5,200,828	1,542,064	3,658,764
	<hr/>	<hr/>	<hr/>
Ending net position	<u>\$ 4,441,205</u>	<u>\$ 1,604,651</u>	<u>\$ 2,836,554</u>

**MONEY MARKET FUND INVESTMENT POLICY  
(UNAUDITED)**



## ***The Illinois Funds Money Market Fund*** **Investment Policy Statement**

### **1.0 POLICY:**

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

### **2.1 SAFETY:**

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

### **2.2 LIQUIDITY:**

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

### **2.3 RETURN ON INVESTMENT:**

While the safety of principal and the availability of sufficient liquidity are the foremost objectives of the investment program, the investment portfolio shall be designed to obtain the highest available return. The Portfolio Manager shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy.

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

### **2.4 SOCIALLY RESPONSIBLE INVESTING**

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

This Policy shall be implemented within a framework predicated on:

1. 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;
2. Regular evaluation of ESG factors to ensure the factors are relevant to the Treasurer's investment portfolio and the evolving marketplace;
3. 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 to move the marketplace toward more socially responsible investment practices; and
4. 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 Money Market Fund's investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer's criteria for socially responsible investing and are 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 Money Market Fund shall refrain from engaging in personal business activity that (a) conflicts, or give the appearance of a conflict, with proper execution of the investment program, or (b) impairs their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of The Illinois Funds Money Market Fund's portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of The Illinois Funds Money Market Fund, particularly with regard to the time of purchase and sales.

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

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

No monies may be deposited in any financial institution until the credit review team has conducted a safety and soundness review of the financial institution by consulting various bank rating services. If the financial institution has not yet been rated by the bank rating services the institution may be eligible for a deposit that at maturity will not exceed \$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 9.0 of this Policy. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*).

In addition, a list shall also be maintained of approved security brokers/dealers selected according to their credit worthiness, and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office and the extent to which the broker/dealer has a large labor or economic impact on the State. 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 or equivalent acceptable to the Treasurer, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned 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 knowledge of this Policy; and
- g) Any other documentation determined necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer's Office shall seek to accord preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status. The Treasurer's Office 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's Office 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's Office 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 permitted investments of state funds according to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2) and are authorized to the extent they are approved by Standard & Poor's for AAAm rated funds:

- a) Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- b) Bonds, notes, debentures, or similar obligations of the United States or its agencies; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- c) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986, subject to the provisions of such Act and the regulations issued thereunder; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- d) Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding \$500,000,000 and is rated at the time of purchase at one of the two highest classifications established by at least two standard rating services;
- e) Money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio of any such money market mutual fund is limited to United States Treasury and United States Agency Securities and agreements to repurchase such obligations provided the funds are rated AAA; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- f) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment



obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations;

- g)** Bonds issued by counties or municipal corporations of the State of Illinois; Deposit of State Moneys Act (15 ILCS 520/22.5);
- h)** Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5); and
- i)** Suitable securities in The Illinois Funds Money Market Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines.
- 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 is rated at the time of purchase at one of the three highest classifications established by at least two standard rating services. At the time of purchase, the maturity or pre-refunded date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five years.

## **6.0 INVESTMENT RESTRICTIONS:**

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

- a)** Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- b)** Repurchase agreements may only be executed with financial institutions or broker/dealers meeting the Treasurer's standards, which will include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c)** 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 Money Market Fund's custodial institution or any of its subcontractors;
- i)** Investments in Bankers' Acceptances of any kind are prohibited;
- j)** There will be no investments prohibited by Section 22.6 of the Deposit of State Moneys Act (15 ILCS 520/22.6) shall be prohibited;

- k)** Asset-backed commercial paper is prohibited;
- l)** 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;
- m)** 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
- n)** The authorization of the Treasurer to invest in new obligations under Section 5.0(j) of this Policy shall expire on June 30, 2019.

## **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 Money Market Fund; and
- b)** Annually complete a checklist that clarifies the intention of the Treasurer to operate The Illinois Funds Money Market Fund as a Securities and Exchange Commission Rule 2a7-like fund.

## **7.0 COLLATERALIZATION:**

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

## **8.0 SAFEKEEPING AND CUSTODY:**

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

## **9.0 DIVERSIFICATION:**

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

- a)** The Illinois Funds Money Market Fund will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers;
- b)** The Illinois Funds Money Market Fund shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits;

- c) The Illinois Funds Money Market Fund 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.
- 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 Money Market Fund will invest no more than 50% of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality;
  - ii. The Illinois Funds Money Market Fund will invest no more than 5% of its total assets in securities issued by any single Commercial Paper Issuer;
  - iii. The Illinois Funds Money Market Fund 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 Money Market Fund shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two years maturity; and
  - vi. No more than 5% of The Illinois Funds Money Market Fund shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(k) of this Policy.

**10.0 INTERNAL CONTROLS:**

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

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

**11.0 ASSET ALLOCATION:**

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

**12.0 COMPETITIVE BIDDING:**

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

### **13.0 LIABILITY:**

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

### **14.0 REPORTING:**

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

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

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

### **15.0 EMERGENCY POWERS:**

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

- a) The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of monies;
- b) The Treasurer reasonably believes that deviating from the Policy is in the best interest of the participants;
- c) Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a notice of which shall be posted on the Treasurer's website that includes:
  - i. The date and time that the emergency powers were invoked;
  - ii. The date and time that emergency powers were repealed, if applicable;
  - iii. The section or sections of this Policy that were affected by the emergency or use of emergency powers; and
  - iv. The reason for deviating from this Policy.

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

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

Honorable 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 Funds, a fiduciary (investment trust) fund of the State of Illinois, Office of the Treasurer, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
December 29, 2016