

**State of Illinois  
Office of the Treasurer  
Illinois Secure Choice Savings Program**

Financial Audit  
For the Year Ended June 30, 2019

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

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Financial Audit  
For the Year Ended June 30, 2019**

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**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Financial Audit  
For the Year Ended June 30, 2019**

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**Treasurer's Office Officials**

Treasurer	The Honorable Michael W. Frerichs
Chief of Staff	Mr. G. Allen Mayer
Deputy Treasurer & Chief Investment Officer	Mr. Rodrigo Garcia
General Counsel & Ethics Officer	Ms. Laura Duque (December 1, 2019 to Present)
General Counsel & Ethics Officer ( <i>Acting</i> )	Mr. Chris Flynn (April 22, 2019 to November 30, 2019)
General Counsel & Ethics Officer	Ms. Gwendolyn Drake (July 1, 2018 to April 21, 2019)
Chief Financial Products Officer	Mr. Fernando Diaz
Director of Illinois Secure Choice	Ms. Courtney Eccles
Director of Investment Analysis & Due Diligence	Mr. Joe Aguilar
Director of Fiscal Operations	Ms. Deborah Miller
Executive Inspector General for the Illinois State Treasurer ( <i>Acting</i> )	Mr. Dennis Rendleman (February 18, 2020 to Present)
Executive Inspector General for the Illinois State Treasurer	Vacant (January 1, 2020 to February 17, 2020) Mr. Raymond Watson (July 1, 2018 to December 31, 2019)
Chief Internal Auditor	Ms. Leighann Manning

**Treasurer's Office Locations**

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

Executive Office  
State Capitol  
219 State House  
Springfield, Illinois 62706

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

Unclaimed Property Division  
Myers Building  
1 W. Old State Capitol Plaza, Suite 400  
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 Secure Choice Savings Program  
Financial Audit  
For the Year Ended June 30, 2019**

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**Financial Statement Report**

**Summary**

The audit of the accompanying financial statements of the Illinois Secure Choice Savings Program (Secure Choice) of the State of Illinois, Office of the Treasurer (Office), was performed by Crowe LLP as of and for the year ended June 30, 2019.

Based on their audit, the auditors expressed an unmodified opinion on the Secure Choice 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 and material noncompliance.

<u>Item No.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2019-001	40	New	Inadequate Controls in Place for Financial Statement Reporting and Noncompliance with State Statute	Material Weakness and Noncompliance

**Exit Conference**

The finding and recommendation appearing in this report were discussed with Office personnel at an exit conference on February 18, 2020. Attending were:

Office of the State Treasurer

Leighann Manning, Chief Internal Auditor  
Deborah Miller, Director of Fiscal Operations  
Wes Howerton, Deputy Director of Fiscal Operations  
Fernando Diaz, Chief Financial Products Officer  
Courtney Eccles, Director of Illinois Secure Choice

Office of the Auditor General

Stacie Sherman, Audit Manager

Crowe LLP

Chris Mower, Partner  
Lisa Stinson, Senior Manager  
Emily Flint, Senior Staff

The response to the recommendation was provided by Leighann Manning, Chief Internal Auditor, in correspondence dated February 21, 2020.

**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 Secure Choice Savings Program (Secure Choice), a fiduciary (private-purpose trust) fund of the State of Illinois, Office of the Treasurer, as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 Secure Choice, of the State of Illinois, Office of the Treasurer, as of June 30, 2019, and the changes in financial position thereof for the year 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 Secure Choice, 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, 2019, the changes in financial position, or, where applicable, cash flows for the year 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 Secure Choice of the State of Illinois, Office of the Treasurer. The Supplementary Information (pages 15 - 18) and Other Information (pages 19 - 37) 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, 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 Key Performance Measures and the Illinois Secure Choice Savings Program Investment Policy Statements, have 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 them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2020 on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of Secure Choice and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office of the Treasurer's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Office of the Treasurer's internal control over financial reporting of Secure Choice and its compliance.

Crowe LLP

Springfield, Illinois  
February 24, 2020

## **FINANCIAL STATEMENTS**

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Statement of Fiduciary Net Position  
June 30, 2019**

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	<u>2019</u>
Assets	
Cash and Cash Equivalents	\$ 413,703
Receivable for Investments Sold	1,515
Investments	<u>2,778,829</u>
Total Assets	<u>3,194,047</u>
Liabilities and Net Position	
Withdrawals Payable	24,765
Payable for Investments Purchased	22,534
Accrued Program Management Fees	1,505
Seed Money Payable	<u>10,445</u>
Total Liabilities	<u>59,249</u>
Net Position Held in Trust for Participants	<u>\$ 3,134,798</u>

The accompanying notes are an integral part of these statements.

**State of Illinois**  
**Office of the Treasurer**

**Illinois Secure Choice Savings Program**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2019**

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	<u>2019</u>
Additions	
Investment Income	
Dividend Income	\$ 35,992
Net Change in Fair Value of Investments	<u>77,486</u>
Total Investment Income	<u>113,478</u>
Investment Expenses	
Administrative Fees	<u>5,956</u>
Seed Money Net Investment Income Distribution	<u>4,595</u>
Net Investment Income	<u>102,927</u>
Other Participant Transactions	
Program Contributions	<u>3,303,533</u>
Total Additions	<u>3,406,460</u>
Deductions	
Program Withdrawals	<u>271,662</u>
Increase in Net Position	3,134,798
Net Position, Beginning	<u>-</u>
Net Position, End	<u>\$ 3,134,798</u>

The accompanying notes are an integral part of these statements.

**State of Illinois  
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**Illinois Secure Choice Savings Program  
Notes to the Financial Statements  
For the Year Ended June 30, 2019**

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Background

On June 1, 2015, the General Assembly of the State of Illinois adopted Public Act 98-1150, creating the Illinois Secure Choice Savings Program Act (820 ILCS 80/1 et seq.) (the "Act"). The Illinois Secure Choice Savings Program ("Secure Choice" or the "Program") is a state-administered retirement savings program for Illinois workers who do not have access to an employer-sponsored retirement plan.

Secure Choice applies to employers in Illinois who do not offer a qualified retirement plan, have been in business for at least two years, and have at least 25 full or part time employees. Secure Choice requires employers to either offer a qualified retirement plan or facilitate the enrollment of their employees into Secure Choice. Secure Choice automatically enrolls employees in a payroll deduction Roth Individual Retirement Account ("IRA") under the Internal Revenue Code of 1986, or any successor law, in a convenient, low-cost, and portable manner. Employers that elect to participate in Secure Choice instead of providing a qualified retirement plan must facilitate Secure Choice enrollment. Facilitation of Secure Choice includes registering with the Program, providing the necessary employee census data to the Program so accounts can be opened, and remitting employee contributions as part of each payroll. Employers cannot make contributions, have no decision-making authority over administration or program investments, and are not considered fiduciaries.

Employees (the "Account Owners") who meet eligibility requirements are enrolled, unless the Account Owner opts out within 30 days after an enrollment notice has been provided, with a default 5% contribution rate and a target date fund default investment option. Account Owners can change their contribution rate or investment option at any time or opt-out of Secure Choice entirely. Accounts are owned by the Account Owners and are established for the purpose of helping Account Owners meet their expenses in retirement on a tax favored basis.

Secure Choice is administered by the Illinois State Treasurer's Office (the "Office") on behalf of the seven person Illinois Secure Choice Savings Board (the "Board"). The Board consists of the State Treasurer (or designee), who serves as chair; the State Comptroller (or designee); the Director of the Governor's Office of Management and Budget (or designee); two public representatives with expertise in retirement savings plan administration and/or investments, appointed by the Governor; a representative of participating employers, appointed by the Governor; and a representative of enrollees, appointed by the Governor. The Board intends that the Program be operated in such a manner as not to be considered a pension plan under Title I of the Employee Retirement Income Security Act (ERISA). Changes in or interpretations of laws and regulations could have a significant impact on the structure of the Program.

Secure Choice officially launched July 1, 2018 with a small pilot program and began official implementation in the fall of 2018. Secure Choice is being rolled out to employers in three separate waves based on employer size through the end of calendar year 2019.

Amounts contributed to Secure Choice are invested in the Illinois Secure Choice Savings Program Trust. Ascensus Government Savings and its affiliates serve as the Program Manager, providing general administrative and investment management services, including but not limited to recordkeeping, client services, and advisory services. The Bank of New York Mellon is responsible for the custody and valuation of the underlying investments. State Street Global Advisors, BlackRock Fund Advisors, and Charles Schwab Investment Management, Inc. manage the underlying funds that comprise each investment option. The Office, on behalf of the Board, is responsible for the overall administration of the Program.

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Notes to the Financial Statements  
For the Year Ended June 30, 2019**

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**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, Secure Choice is part of the primary government and is included in the Illinois Comprehensive Annual Financial Report as a private-purpose trust fund.

Secure Choice is an instrumentality of the State of Illinois, with the assets segregated into a trust, established by state statute, with the Board serving as its trustee. However, for financial reporting purposes, Secure Choice is a part of the primary government. The scope of the Secure Choice financial statements presented herein is limited to the financial position of the Secure Choice Savings Program private-purpose trust fund.

Fiduciary Fund

The Secure Choice Savings Program Fund is classified as a private-purpose trust fund. This trust fund is used to account for assets administered by the Board 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 Secure Choice 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 money market mutual funds and timing differences associated with the purchase of mutual fund shares and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

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 as determined 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

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Notes to the Financial Statements  
For the Year Ended June 30, 2019**

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

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**

Fair Value Measurements

Secure Choice investments are recorded at fair value as of June 30, 2019. GASB Statement No. 72, *Fair Value Measurement and Application*, 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 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

Permitted Investments

The Secure Choice investment activities are governed by the Board's published Illinois Secure Choice Savings Program Investment Policy Statement (included in the "other information" section of this report), which was developed in accordance with the State statute.

The Illinois Secure Choice Savings Program Investment Policy allows contributions to be invested in one of several funds, each with a designated mix of investments that is appropriate for the investment objective of the fund.

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Notes to the Financial Statements  
For the Year Ended June 30, 2019**

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**Note 2. Investments (Continued)**

Each fund may allocate assets in a combination of underlying investments, including but not limited to the following broad asset categories: cash and money market funds, fixed income investments, real estate investments, domestic equity investments, and international equity investments. The asset allocation of each fund is established by the Board and managed by the Program Manager. The Board may change the investment options and/or the underlying investment funds consistent with the Illinois Secure Choice Savings Program Investment Policy.

Investment Options

General Overview

Secure Choice offered the following investment funds as of June 30, 2019:

Target Retirement Date Funds

- Target Date Retirement Fund
- Target Date Retirement Fund 2020
- Target Date Retirement Fund 2025
- Target Date Retirement Fund 2030
- Target Date Retirement Fund 2035
- Target Date Retirement Fund 2040
- Target Date Retirement Fund 2045
- Target Date Retirement Fund 2050
- Target Date Retirement Fund 2055
- Target Date Retirement Fund 2060
- Target Date Retirement Fund 2065

The goal of the target retirement date funds is to provide Account Owners with an asset allocation that changes dynamically over time and emphasizes asset growth for younger Account Owners and shifts toward income generation and asset preservation as Account Owners age. The target retirement date funds are highly diversified and include a blend of asset classes.

Conservative Funds

- Conservative Fund

The goal of the Conservative Fund is to track the domestic investment grade bond market by investing primarily in government, corporate, and mortgage-related bonds. The fund seeks more stable returns of fixed income investment in exchange for giving up the long-term return potential that the stock market may offer.

**State of Illinois  
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**Illinois Secure Choice Savings Program  
Notes to the Financial Statements  
For the Year Ended June 30, 2019**

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**Note 2. Investments (Continued)**

Capital Preservation Funds

- Capital Preservation Fund
- 90 Day Holding Vehicle

The goal of Capital Preservation Funds is to maximize current income, to the extent consistent with the preservation of capital and liquidity, by investing in money market securities.

Growth Fund

- Growth Fund

The goal of the Growth Fund is to seek long-term growth of capital through investments in large capitalization U.S. common stocks.

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.

The investments in Secure Choice are not guaranteed or insured by the State of Illinois, the Office, the Board, the Program Manager, affiliates of the Program Manager, the FDIC, or any other party.

The fair values, interest rate risk and credit risk of the money market and fixed income funds, which make up a portion of the total Cash and Cash Equivalents and Investments, for Secure Choice as of June 30, 2019 are detailed in the table below.

**State of Illinois  
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**Illinois Secure Choice Savings Program  
Notes to the Financial Statements  
For the Year Ended June 30, 2019**

**Note 2. Investments (Continued)**

Type	2019				
	Fair Value	Interest Rate Risk Duration	Calculation Method	Credit Risk	Rating Service
Money Market:	\$ 368,149	0.093 years	Weighted Average Maturity	AAAm	S&P
Fixed Income Fund:	9,596	7.800 years	Weighted Average Maturity	NR*	NA**
	<u>\$ 377,745</u>				

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

\*\* Not applicable

Fair Value Measurement

The Program Manager has provided the Office with the fair value measurements, the level of fair value hierarchy, and the valuation techniques as of June 30, 2019.

The Program determines the fair value for investments classified in Level 1 by using quoted prices as of the close of the New York Stock Exchange (the Exchange).

Various inputs may be used to determine the value of the fund's investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The Program classifies each of its investments in the registered underlying mutual funds as Level 1, totaling \$3,146,978 without consideration as to the classification level of the specific investments held by the underlying investments.

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Notes to the Financial Statements  
For the Year Ended June 30, 2019**

**Note 2. Investments (Continued)**

The following table summarizes the Program's investments within the fair value hierarchy at June 30, 2019:

<u>Type</u>	<u>Fair Value</u>		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>	
Money Market:	\$	368,149	\$	368,149	\$	-	\$	-
Investments		2,778,829		2,778,829		-		-
Total	\$	3,146,978	\$	3,146,978	\$	-	\$	-

**Note 3. Administrative Fees**

To administer Secure Choice, the Office has a division entitled, "Illinois Secure Choice". The revenues and expenses of the division are recorded in an enterprise proprietary fund maintained by the Office on behalf of the Board titled Illinois Secure Choice Administrative Fund No. 254.

Employers participating in Secure Choice are not charged a fee. The fees are charged against the Account Owners' accounts. Each investment option has annual asset-based fees that are deducted from the total assets in each investment option. Total fees are no more than 0.75% of the average daily net assets on each investment option. The total fee is split between the state fee, underlying investment fee, and program administration fee.

State Fees

The Illinois Secure Choice Administrative Fund receives 0.05% on net assets, payable to the Board to offset expenses related to oversight and administration of the Program.

Program Administration Fees

The Program Manager is paid a program management fee as compensation for administering and managing the investment options of Secure Choice. This fee varies from 0.55% to 0.67% of the average daily net assets depending on the investment option.

Underlying Investment Fees

The underlying investment fee includes investment advisory fees, administrative fees, and other expenses of the underlying investment. This fee varies from 0.03% to 0.15% of the average daily net assets depending on the investment 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.

**State of Illinois  
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**Illinois Secure Choice Savings Program  
Notes to the Financial Statements  
For the Year Ended June 30, 2019**

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**Note 3. Administrative Fees (Continued)**

The Secure Choice administrative fees paid from the Trust were as follows:

	<u>2019</u>
Administrative Fees	<u>\$ 5,956</u>
Total	<u>\$ 5,956</u>

**Note 4. Seed Money**

At the inception of Secure Choice, the Program Manager as well as two fund custodians added seed money of \$5,000 to each fund in order to have a sufficient balance in each fund to buy and sell shares. Before the end of fiscal year 2019, the seed money and any earnings from the funds that were sufficiently funded were removed. At June 30, 2019, the seed money remained in the Capital Preservation Fund and the Conservative Fund. For financial reporting purposes, the seed money and related activity was either eliminated or reported separately in the Financial Statements and Supplementary Information statements.

For the Statement of Fiduciary Net Position and Statement of Fiduciary Net Position by Portfolio, the remaining seed money is reported in Investments and in the Seed Money Payable. The seed money is not included in the Net Position Held in Trust for Participants. For the Statement of Changes in Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position by Portfolio, Program Contributions and Program Withdrawals have seed money activity eliminated. Further, the related activity for Dividend Income, Net Change in Fair Value of Investments, and Administrative Expenses include the seed money activity. The account Net Investment Income from Seed Money reports the net seed money activity.

**SUPPLEMENTARY INFORMATION**

State of Illinois  
Office of the Treasurer

Illinois Secure Choice Savings Program  
Statement of Fiduciary Net Position by Portfolio  
June 30, 2019

	90 Day Holding Vehicle	Capital Preservation Fund	Conservative Fund	Growth Fund	Target Date Retirement Fund	Target Date Retirement Fund 2020	Target Date Retirement Fund 2025	Target Date Retirement Fund 2030
<b>Assets</b>								
Cash and Cash Equivalents	\$ 388,571	\$ 6,877	\$ 12	\$ 192	\$ 47	\$ 54	\$ 269	\$ 501
Receivable for Investments Sold	-	-	-	-	-	-	-	-
Investments	-	-	9,596	50,255	118,682	48,296	197,534	278,952
<b>Total Assets</b>	<b>388,571</b>	<b>6,877</b>	<b>9,608</b>	<b>50,447</b>	<b>118,729</b>	<b>48,350</b>	<b>197,803</b>	<b>279,453</b>
<b>Liabilities and Net Position</b>								
<b>Liabilities</b>								
Withdrawals Payable	6,786	-	-	-	-	-	-	209
Payable for Investments Purchased	20,653	20	10	173	43	55	246	343
Accrued Program Management Fees	131	3	5	30	60	26	96	137
Seed Money Payable	-	5,085	5,360	-	-	-	-	-
<b>Total Liabilities</b>	<b>27,570</b>	<b>5,108</b>	<b>5,375</b>	<b>203</b>	<b>103</b>	<b>81</b>	<b>342</b>	<b>689</b>
<b>Net Position Held in Trust for Participants</b>	<b>\$ 361,001</b>	<b>\$ 1,769</b>	<b>\$ 4,233</b>	<b>\$ 50,244</b>	<b>\$ 118,626</b>	<b>\$ 48,269</b>	<b>\$ 197,461</b>	<b>\$ 278,764</b>

(Continued)

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Statement of Fiduciary Net Position by Portfolio (Continued)  
June 30, 2019**

	Target Date Retirement Fund 2035	Target Date Retirement Fund 2040	Target Date Retirement Fund 2045	Target Date Retirement Fund 2050	Target Date Retirement Fund 2055	Target Date Retirement Fund 2060	Target Date Retirement Fund 2065	Total
<b>Assets</b>								
Cash and Cash Equivalents	\$ 529	\$ 2,306	\$ 4,608	\$ 5,065	\$ 1,703	\$ 2,614	\$ 355	\$ 413,703
Receivable for Investments Sold	586	-	-	-	-	517	412	1,515
Investments	258,858	291,617	288,830	315,188	394,819	391,034	135,168	2,778,829
<b>Total Assets</b>	<b>259,973</b>	<b>293,923</b>	<b>293,438</b>	<b>320,253</b>	<b>396,522</b>	<b>394,165</b>	<b>135,935</b>	<b>3,194,047</b>
<b>Liabilities and Net Position</b>								
<b>Liabilities</b>								
Withdrawals Payable	1,140	2,224	4,080	4,976	1,279	3,277	794	24,765
Payable for Investments Purchased	-	51	469	105	366	-	-	22,534
Accrued Program Management Fees	128	144	143	156	193	188	65	1,505
Seed Money Payable	-	-	-	-	-	-	-	10,445
<b>Total Liabilities</b>	<b>1,268</b>	<b>2,419</b>	<b>4,692</b>	<b>5,237</b>	<b>1,838</b>	<b>3,465</b>	<b>859</b>	<b>59,249</b>
<b>Net Position Held in Trust for Participants</b>	<b>\$ 258,705</b>	<b>\$ 291,504</b>	<b>\$ 288,746</b>	<b>\$ 315,016</b>	<b>\$ 394,684</b>	<b>\$ 390,700</b>	<b>\$ 135,076</b>	<b>\$ 3,134,798</b>

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Statement of Changes in Fiduciary Net Position by Portfolio  
June 30, 2019**

	90 Day Holding Vehicle	Capital Preservation Fund	Conservative Fund	Growth Fund	Target Date Retirement Fund	Target Date Retirement Fund 2020	Target Date Retirement Fund 2025	Target Date Retirement Fund 2030
<b>Additions</b>								
Investment Income (Expense)								
Dividend Income	\$ 6,002	\$ 124	\$ 179	\$ 252	\$ 1,195	\$ 549	\$ 2,104	\$ 2,838
Net Change in Fair Value of Investments	-	-	361	3,169	3,695	1,640	5,460	8,402
Administrative Fees	(1,598)	(33)	(44)	(138)	(205)	(102)	(294)	(420)
Net Investment Income from Seed Money	(70)	(85)	(360)	(480)	(305)	(300)	(310)	(330)
Net Investment Income (Loss)	4,334	6	136	2,803	4,380	1,787	6,960	10,490
Other Participant Transactions								
Program Contributions	2,109,180	1,673	4,443	46,012	51,601	20,031	78,926	117,367
Exchanges In	-	1,572	378	4,086	66,752	27,967	117,025	161,286
Total Increase from Participant Transactions	2,109,180	3,245	4,821	50,098	118,353	47,998	195,951	278,653
Total Additions	2,113,514	3,251	4,957	52,901	122,733	49,785	202,911	289,143
<b>Deductions</b>								
Other Participant Transactions								
Program Withdrawals	120,364	1,482	397	1,950	4,107	1,516	5,450	10,269
Exchanges Out	1,632,149	-	327	707	-	-	-	110
Total Increase (Decrease) From Participant Transactions	1,752,513	1,482	724	2,657	4,107	1,516	5,450	10,379
Total Deductions	1,752,513	1,482	724	2,657	4,107	1,516	5,450	10,379
Change in Net Position	361,001	1,769	4,233	50,244	118,626	48,269	197,461	278,764
Net Position, Beginning of Year	-	-	-	-	-	-	-	-
Net Position, End of Year	\$ 361,001	\$ 1,769	\$ 4,233	\$ 50,244	\$ 118,626	\$ 48,269	\$ 197,461	\$ 278,764

(Continued)

**State of Illinois  
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**Illinois Secure Choice Savings Program  
Statement of Changes in Fiduciary Net Position by Portfolio (Continued)  
For the Year Ended June 30, 2019**

	Target Date Retirement Fund 2035	Target Date Retirement Fund 2040	Target Date Retirement Fund 2045	Target Date Retirement Fund 2050	Target Date Retirement Fund 2055	Target Date Retirement Fund 2060	Target Date Retirement Fund 2065	Total
<b>Additions</b>								
Investment Income (Expense)								
Dividend Income	\$ 2,964	\$ 3,163	\$ 3,463	\$ 3,546	\$ 4,236	\$ 3,985	\$ 1,392	\$ 35,992
Net Change in Fair Value of Investments	7,872	8,718	8,992	8,710	9,645	8,303	2,519	77,486
Administrative Fees	(400)	(443)	(472)	(499)	(574)	(542)	(192)	(5,956)
Net Investment Income from Seed Money	(330)	(330)	(340)	(340)	(340)	(340)	(335)	(4,595)
Net Investment Income (Loss)	10,106	11,108	11,643	11,417	12,967	11,406	3,384	102,927
<b>Participant Transactions</b>								
Program Contributions	109,244	127,715	126,969	139,881	163,573	157,007	49,911	3,303,533
Exchanges In	150,806	171,793	174,513	191,729	235,493	248,340	86,994	1,638,734
Total Increase from Participant Transactions	260,050	299,508	301,482	331,610	399,066	405,347	136,905	4,942,267
Total Additions	270,156	310,616	313,125	343,027	412,033	416,753	140,289	5,045,194
<b>Deductions</b>								
Other Participant Transactions								
Program Withdrawals	11,451	18,469	24,379	24,958	15,784	25,873	5,213	271,662
Exchanges Out	-	643	-	3,053	1,565	180	-	1,638,734
Total Increase (Decrease) From Participant Transactions	11,451	19,112	24,379	28,011	17,349	26,053	5,213	1,910,396
Total Deductions	11,451	19,112	24,379	28,011	17,349	26,053	5,213	1,910,396
Change in Net Position	258,705	291,504	288,746	315,016	394,684	390,700	135,076	3,134,798
Net Position, Beginning of Year	-	-	-	-	-	-	-	-
Net Position, End of Year	\$ 258,705	\$ 291,504	\$ 288,746	\$ 315,016	\$ 394,684	\$ 390,700	\$ 135,076	\$ 3,134,798

## **OTHER INFORMATION**

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Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Key Performance Measures  
June 30, 2019  
(Unaudited)**

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	<u><b>2019</b></u>
Number of Accounts	13,281
Market Value	\$3,134,798

Notes:

The difference between the Market Value presented above and the information presented in the statements is because two systems are used to calculate the information.

“Accounts” are defined as the number of accounts that have a funded position.

**Illinois Secure Choice Savings Program  
Investment Policy Statement  
(Effective July 2018)  
(Unaudited)**

**State of Illinois  
Office of the Treasurer**

**Illinois Secure Choice Savings Program  
Investment Policy Statement  
(Effective July 2018)  
(Unaudited)**

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### **1.0 PURPOSE OF THE POLICY**

This Illinois Secure Choice Savings Program Investment Policy Statement (“Policy”) sets forth the investment objectives of the Illinois Secure Choice Savings Program (“Secure Choice”) and establishes policies and procedures to create the highest probability that these investment objectives are met in a prudent manner that is consistent with established guidelines for similar retirement savings programs, governing rules and regulations, and best practice standards adopted by the marketplace. This Policy covers the following:

- A. The Board’s investment objectives;
- B. The number and type of investment options available in Secure Choice;
- C. The general guidelines for providing suitable investment options for all employees who participate in Secure Choice (“Participants”);
- D. The guidelines for the selection of underlying investment funds to satisfy the investment options;
- E. The ongoing supervision of the investments, including a regular review of the roles and responsibilities of the Office of the Illinois State Treasurer (“Treasurer”), the Board, and various contractors;
- F. The monitoring and review of the performance and investment characteristics of the investment options and/or the underlying investment funds offered; and
- G. The decisions that may be made regarding the addition, replacement, or elimination of the actual investment options and/or underlying investment funds offered.

To fulfill its fiduciary duty to the Participants, all Board members must use the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of similar character and aims.

The Board may deviate from this Policy as it deems appropriate, including on a case-by-case basis with respect to any investment manager appointed by the Board. However, the Program Manager (defined in Section 6.0) is not permitted to deviate from this Policy without prior written Board approval.

This Policy describes the objectives, guidelines, and constraints for the investment of the Secure Choice assets and shall be used to develop an appropriate investment framework for Secure Choice. This Policy will also be used as the basis for future investment performance measurement and evaluation. In general, this Policy is intended to provide sufficient flexibility to accommodate current and future economic and market conditions and changes in applicable accounting, regulatory, and statutory requirements. The Board may amend this Policy at any time in writing and upon reasonable notice to all applicable parties.

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## **2.0 ESTABLISHMENT AND AUTHORITY OF SECURE CHOICE**

In accordance with 820 ILCS 80/10, Secure Choice has been established as a retirement savings program in the form of an automatic enrollment payroll deduction Individual Retirement Account (“IRA”). Secure Choice was established to promote greater retirement savings for private-sector employees in a convenient, low-cost, and portable manner.

## **3.0 INVESTMENT PRINCIPLES**

The following investment principles shall guide the investment design, objectives, and operations of the Program (the following shall collectively be, the “Principles”):

- A. Low Cost – The investment options shall be constructed and administered in a manner that minimizes the Participants’ fees. The lowest cost index-based portfolios that meet this Policy’s criteria shall be viewed as the default standard in evaluating investment management fees.
- B. Market Performance – The investment options shall be constructed and administered in a manner that attempts to consistently track market performance, as measured in comparison to applicable market benchmarks/peer groups, thus mitigating the potential for significant underperformance of the investment options. Index-based investment options shall be viewed as the default standard.
- C. Simplicity – The investment options shall be constructed and administered in a manner that provides a range of clear, easily understood investment options (defined in terms of expected risk/return) in order to maximize participation and savings.

## **4.0 INVESTMENT PHILOSOPHY**

Long-term investment options offered to Participants, including target date funds and stand-alone investment funds, shall consist of or be constructed with funds that efficiently capture market returns (i.e., index funds). Furthermore, target date funds shall utilize an optimal, long-term diversified asset allocation strategy. The asset allocation components for target date funds may be divided into the following broad asset categories:

- A. Cash / Money Market funds;
- B. Fixed Income Investments;
- C. Real Estate Investments;
- D. Domestic Equity Investments; and
- E. International Equity Investments.

Contributions to Secure Choice will be directed by the Participant to one or more of the available investment options, each composed of a designated mix of underlying investment funds or a single underlying investment fund. The Board shall determine the investment parameters of each investment option and take into account the financial characteristics of the investments in Secure Choice. 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 forty (40) years.

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The Board, or its designee, will review the investment performance of each investment option and underlying investment fund at least quarterly and review this Policy at least annually. While the investment parameters offered under Secure Choice are developed by the Board, Participants bear the risk of the investment results. Individual Participants who seek investments materially different from those offered in Secure Choice may wish to select an investment alternative other than Secure Choice.

Participation in Secure Choice does not guarantee investment returns to Participants or preservation of capital. Each Participant is encouraged to seek appropriate financial advice as he or she deems necessary. The Board and the Program Manager should make reasonable efforts to communicate this fact to Participants.

Consistent with the investment objectives and the Principles, the Board will endeavor to identify and evaluate market index portfolio investment managers that are more than 50% owned and/or managed by minorities, women, military veterans, or disabled persons. In addition, consistent with the investment objectives and Principles, the Board will endeavor to identify and evaluate market index investment managers that incorporate sound corporate governance and risk mitigation practices.

#### **5.0 INVESTMENT OBJECTIVES**

The primary investment objective of Secure Choice is to offer low-cost, streamlined investment options that track relevant market performance. The Board intends to offer investment options that meet the following criteria:

- A. Investment options encourage prudent diversification, consistent with a Participant's goals and objectives;
- B. Each investment option is adequately diversified;
- C. Each investment option has a risk profile, consistent with its position in the overall set of choices;
- D. Costs for each investment option are not excessive when compared to alternative options of a similar style and available to equivalent programs; and
- E. When Participants invest in multiple investment options, such options shall increase or decrease risk and the opportunity for return.

#### **6.0 INVESTMENT RESPONSIBILITIES**

The Board is responsible for this Policy, the choice of investment options offered to Participants, and administration of the Secure Choice assets. The Board, or its designee, will engage a contractor(s) for administrative and investment management services ("Program Manager"). The Board shall also seek guidance from an external investment consultant for investment advisory services. In addition to its other responsibilities, the Program Manager shall be responsible for implementation of the investment strategy outlined in this Policy. Below is a list of the parties with investment responsibilities and their respective responsibilities.

- A. The Board shall be responsible for the following:
  - 1. Acting as a fiduciary in the sole interest of Participants;
  - 2. Administering the Secure Choice investment options;

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3. Establishing and maintaining this Policy; and
  4. Selecting the investment options offered to Participants.
- B. The Treasurer shall be responsible for the following:
1. Reviewing and overseeing the investment options and underlying investment funds for Secure Choice;
  2. Implementing Secure Choice's internal investment processes and procedures, subject to the approval of the Board;
  3. Evaluating the investment framework and advising the Board as to the performance and continuing appropriateness of each investment manager; and
  4. Recommending to the Board any necessary modifications to the investment policies, objectives, guidelines, or management structure.
- C. The external investment consultant shall be responsible for the following:
1. Monitoring and reviewing the performance of each investment option and underlying investment funds;
  2. Providing periodic performance reports to the Board and Treasurer on investment options and/or underlying investment funds;
  3. Meeting with the Board and Treasurer on a regular basis to review the performance of each investment option and/or underlying investment fund;
  4. Analyzing the Program Manager's recommendations for investment options, underlying investment funds, investment guidelines, and this Policy;
  5. Assisting the Board in ensuring that Secure Choice complies with this Policy; and
  6. Updating the Board and Treasurer on current investment trends and issues.
- D. The Program Manager shall be responsible for the following:
1. Making recommendations on investment options, underlying investment funds, investment guidelines, and this Policy;
  2. Implementing Board-approved investment options and underlying investment funds;
  3. Providing periodic performance reports to the Board and Treasurer on investment options and/or underlying investment funds;
  4. Arranging meetings between each investment provider/manager and the Board and/or its designee(s), such as the Treasurer, to provide the following:
    - a. A verbal and written review of their performance and portfolio structure;
    - b. A summary of their key investment decisions, their underlying rationale for such decisions, and the expected future impact of such decisions;
    - c. An organizational update; and
    - d. A description of the market, economy, and other factors potentially impacting investment performance, etc.
  5. Notifying the Board and Treasurer immediately, in writing of any changes in fund operation and personnel that may negatively impact performance (this includes any organizational or strategy changes that impact asset management);
  6. Providing information about Secure Choice and its investment options to Participants; and
  7. Assisting the Board and Treasurer in the day-to-day administration of Secure Choice.

The Board, Secure Choice, and its various contractor(s) engaged in administrative and investment management services are prohibited from borrowing for Secure Choice investment purposes under any circumstance.

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## **7.0 INVESTMENT PARAMETERS**

Contributions will be invested in one or more of the available investment options, each composed of a designated mix of underlying investment funds or a single underlying investment fund. Target date funds may allocate assets among cash/money market funds, fixed income investments, real estate investments, domestic equity investments, international equity investments, and other investments that the Board determines are suitable. The Board may change the investment options and/or the underlying investment funds, consistent with this Policy.

The asset allocation methodology and construction of the target date retirement fund glidepaths are reviewed, evaluated, and approved, at a minimum, on an annual basis, for suitability and appropriateness to current and prospective investors.

The Board shall demonstrate care in selecting the investment options and structure of the underlying investment funds that best matches the return, risk, diversification, liquidity, and cost requirements associated with each investment option.

The specific underlying investment funds chosen by the Board must have appropriate investment characteristics and be managed by organizations that, by their record and experience, have demonstrated their investment expertise. Such underlying investment funds shall also meet the following criteria:

- A. Be well diversified;
- B. Have acceptable volatility, when compared to an appropriate peer group and benchmark;
- C. Have sufficient liquidity;
- D. Have reasonable fees and expenses; and
- E. Meet all other relevant requirements set forth in this Policy.

### **7.1 Review of Investment Policy**

The Board shall review this Policy at least annually and make necessary or appropriate amendments. The Board may amend this Policy at any time in writing and upon reasonable notice to all applicable parties.

The Board encourages the external investment consultant, Treasurer, and Participants to make recommendations to the Board regarding appropriate changes to this Policy.

### **7.2 Review of Investment Funds**

The Board or its designee will review the underlying investment funds at least once a year. The reviews will focus on the following topics:

- A. Adherence to this Policy;
- B. Material changes in the structure of any underlying investment funds, such as those caused by changes in investment philosophy and personnel, or by acquisition or loss of major accounts; and

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- C. Comparison of each underlying investment fund's performance to stated benchmarks and/or peer group.

The Board or its designee has the ability to add, remove, or replace investment options and funds as appropriate at any time.

### **7.3 Watch List**

At its discretion, the Board, or its designee, may place an underlying investment fund on a list of funds that will be subject to more frequent monitoring ("Watch List"). However, Watch List status is not a required precursor to termination of an underlying investment fund, and it should not be used as a means to change the investment methodology of an investment manager.

### **7.4 Emergency Changes**

The final authority to replace investment options and/or underlying investment funds under the Secure Choice investment framework shall be vested with the Board. However, in the instances that material events occur such as, but not limited to, the departure of a fund's investment personnel or its parent firm's senior executives, a sudden drop of seven percent (7%) in market value in a single trading session, or allegations of fraudulence and misrepresentation ("Material Events"), and the Board is unable to meet within twenty-four (24) hours of the Material Event to make responsive investment changes, the Board has delegated authority to the Treasurer to make investment changes pursuant to this Policy. The Treasurer, in consultation with the external investment consultant, may only replace underlying investment funds with similar types of investment funds or a capital preservation fund. At its next Board meeting, which shall be scheduled no later than thirty (30) days after any such changes, the Board shall a) ratify any changes made by the Treasurer, or b) ratify any changes made by the Treasurer and make additional changes to the underlying investment funds.

### **7.5 Standard of Performance**

In consideration of Secure Choice's investment philosophy, Principles, and investment objectives, market/benchmark indices will be used to evaluate investment performance.

## **8.0 INVESTMENT OPTIONS**

Initially, Secure Choice intends to offer the following investment options:

- A. Target Retirement Date Funds;
- B. Capital Preservation Fund;
- C. Growth Fund; and
- D. Conservative Fund.
  - a). Participant contributions will be directed into a capital preservation investment selected by the Board during the account revocation period. As of the close of business on the last day of the revocation period (or the first day the New York Stock Exchange is open for trading, if later) the existing balance in the account will be invested in the Default Investment Option ("DIO") selected by the Board unless a participant has provided an

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alternate investment election. Participant contributions made subsequent to the end of the revocation period will be directed into the DIO at the default contribution rate approved by the Board, unless a participant has provided an alternate investment election. The Board shall review the DIO at least annually and make necessary or appropriate changes.

Secure Choice may offer additional investment options and/or underlying investment funds in the future, at the discretion of the Board.

### **8.1 Target Retirement Date Funds**

The target retirement date funds are intended to provide Participants with an asset allocation that changes dynamically over time and emphasizes asset growth for younger Participants and shifts towards income generation and asset preservation as Participants age. The target retirement date funds will be highly diversified and include a blend of asset classes. Performance and volatility expectations will vary, based on the asset allocation and risk profile of each fund in the target date series.

### **8.2 Capital Preservation Fund**

The capital preservation fund is intended to preserve capital and provide Participants the potential for income, consistent with cash and high quality short-term securities. Risk, as measured by risk to principal and the volatility of returns, is intended to be very low. Due to its emphasis on safety, the fund may not provide protection against inflation and may retain the possibility of liquidity and credit risk.

### **8.3 Growth Fund**

The growth fund investment option is intended to provide Participants long-term growth of capital through investments in large capitalization U.S. common stocks. Risk, as measured by the volatility of returns, is expected to be moderate to high. Current income will not be a primary objective of this investment option.

### **8.4 Conservative Fund**

The conservative fund is intended to be a passively managed portfolio of high quality government, corporate and mortgage-related bonds. The U.S. Core Fixed Income Index Fund's maturity, duration, yield and overall risk levels are intended to be consistent with the domestic bond market as a whole. Risk, as measured by the volatility of returns, is expected to be low to moderate. Current income will be a primary objective of this investment option.

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### 8.5 Overview of the Investment Options

The investment objectives, primary investments, levels of expected risk, and benchmarks/peer groups for the investments options within Secure Choice are shown in the tables below.

**Table 1 - Target Retirement Date Investment Funds**

Category	Default Investment Option
<b>Investment Option</b>	<b>Target Retirement Date Funds</b>
<b>Objectives</b>	The objective of this investment option is to invest in equity, fixed income and/or money market instruments using asset allocations targeting investment time horizons based on the Participant's expected retirement date. Investment returns are expected to be derived from current income and/or capital appreciation, based on the target allocation of the particular fund.
<b>Primary Investments</b>	Diversified Asset Classes
<b>Expected Risk</b>	Moderate to high, based on fund selected by Participant
<b>Benchmark</b>	S&P Target Date Index Series
<b>Peer Group</b>	Morningstar Category U.S. Fund Target Date Series

**Table 2 - Growth Fund**

Category	Growth Fund
<b>Investment Option</b>	<b>Growth Fund</b>
<b>Objectives</b>	The objective is to passively invest in the common stock of large capitalization U.S. companies. The investment strategy intends to fully replicate the market capitalization weighting of the S&P 500 stock index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.
<b>Primary Investments</b>	U.S. Large Cap Equity
<b>Expected Risk</b>	High
<b>Benchmark</b>	S&P 500 Index
<b>Peer Group</b>	Passive U.S. Large Cap Equity Universe

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**Table 3 - Conservative Fund**

Category	Conservative Fund
<b>Investment Option</b>	<b>Conservative Fund</b>
<b>Objectives</b>	The objective is to passively invest in a passive mix of government, corporate and mortgage bonds and similar instruments. Credit quality is very high, helping to preserve capital. The maturity of the portfolio is longer than a money market fund, offering a higher yield on investments.
<b>Primary Investments</b>	U.S. Government, Corporate and Mortgage Bonds
<b>Expected Risk</b>	Low to moderate
<b>Benchmark</b>	Bloomberg Barclays Aggregate Bond Index
<b>Peer Group</b>	Core Fixed Income Portfolio Universe

**Table 4 - Capital Preservation Fund**

Category	Capital Preservation Fund
<b>Investment Option</b>	<b>Capital Preservation Fund</b>
<b>Objectives</b>	The objective is to achieve stability of principal through investment in U.S. dollar-denominated money market securities.
<b>Primary Investments</b>	U.S. government securities, certificates of deposits and time deposits of U.S. and foreign banks; commercial paper and other high quality obligations of U.S. or foreign companies; asset-backed securities, including asset-backed commercial paper; mortgage-related securities; and repurchase agreements.
<b>Expected Risk</b>	Low
<b>Benchmark</b>	U.S. Treasury 3-Month Bill
<b>Peer Group</b>	Morningstar Category Prime Money Market

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(Effective November 2017 through July 2018)  
(Unaudited)**

---

**1.0 PURPOSE OF THE POLICY**

This Illinois Secure Choice Savings Program Investment Policy Statement (“Policy”) sets forth the investment objectives of the Illinois Secure Choice Savings Program (“Secure Choice”) and establishes policies and procedures to create the highest probability that these investment objectives are met in a prudent manner that is consistent with established guidelines for similar retirement savings programs, governing rules and regulations, and best practice standards adopted by the marketplace. This Policy covers the following:

- A. The Board’s investment objectives;
- B. The number and type of investment options available in Secure Choice;
- C. The general guidelines for providing suitable investment options for all employees who participate in Secure Choice (“Participants”);
- D. The guidelines for the selection of underlying investment funds to satisfy the investment options;
- E. The ongoing supervision of the investments, including a regular review of the roles and responsibilities of the Office of the Illinois State Treasurer (“Treasurer”), the Board, and various contractors;
- F. The monitoring and review of the performance and investment characteristics of the investment options and/or the underlying investment funds offered; and
- G. The decisions that may be made regarding the addition, replacement, or elimination of the actual investment options and/or underlying investment funds offered.

To fulfill its fiduciary duty to the Participants, all Board members must use the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of similar character and aims.

The Board may deviate from this Policy as it deems appropriate, including on a case-by-case basis with respect to any investment manager appointed by the Board. However, the Program Manager (defined in Section 6.0) is not permitted to deviate from this Policy without prior written Board approval.

This Policy describes the objectives, guidelines, and constraints for the investment of the Secure Choice assets and shall be used to develop an appropriate investment framework for Secure Choice. This Policy will also be used as the basis for future investment performance measurement and evaluation. In general, this Policy is intended to provide sufficient flexibility to accommodate current and future economic and market conditions and changes in applicable accounting, regulatory, and statutory requirements. The Board may amend this Policy at any time in writing and upon reasonable notice to all applicable parties.

**2.0 ESTABLISHMENT AND AUTHORITY OF SECURE CHOICE**

In accordance with 820 ILCS 80/10, Secure Choice has been established as a retirement savings program in the form of an automatic enrollment payroll deduction Individual Retirement Account (“IRA”). Secure Choice was established to promote greater retirement savings for private-sector employees in a convenient, low-cost, and portable manner.

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**3.0 INVESTMENT PRINCIPLES**

The following investment principles shall guide the investment design, objectives, and operations of the Program (the following shall collectively be, the "Principles"):

- A. Low Cost – The investment options shall be constructed and administered in a manner that minimizes the Participants' fees. The lowest cost index-based portfolios that meet this Policy's criteria shall be viewed as the default standard in evaluating investment management fees.
- B. Market Performance – The investment options shall be constructed and administered in a manner that attempts to consistently track market performance, as measured in comparison to applicable market benchmarks/peer groups, thus mitigating the potential for significant underperformance of the investment options. Index-based investment options shall be viewed as the default standard.
- C. Simplicity – The investment options shall be constructed and administered in a manner that provides a range of clear, easily understood investment options (defined in terms of expected risk/return) in order to maximize participation and savings.

**4.0 INVESTMENT PHILOSOPHY**

Long-term investment options offered to Participants, including target date funds and stand-alone investment funds, shall consist of or be constructed with funds that efficiently capture market returns (i.e., index funds). Furthermore, target date funds shall utilize an optimal, long-term diversified asset allocation strategy. The asset allocation components for target date funds may be divided into the following broad asset categories:

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- C. Real Estate Investments;
- D. Domestic Equity Investments; and
- E. International Equity Investments.

Contributions to Secure Choice will be directed by the Participant to one or more of the available investment options, each composed of a designated mix of underlying investment funds or a single underlying investment fund. The Board shall determine the investment parameters of each investment option and take into account the financial characteristics of the investments in Secure Choice. 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 forty (40) years.

The Board, or its designee, will review the investment performance of each investment option and underlying investment fund at least quarterly and review this Policy at least annually. While the investment parameters offered under Secure Choice are developed by the Board, Participants bear the risk of the investment results. Individual Participants who seek investments materially different from those offered in Secure Choice may wish to select an investment alternative other than Secure Choice.

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Participation in Secure Choice does not guarantee investment returns to Participants or preservation of capital. Each Participant is encouraged to seek appropriate financial advice as he or she deems necessary. The Board and the Program Manager should make reasonable efforts to communicate this fact to Participants.

Consistent with the investment objectives and the Principles, the Board will endeavor to identify and evaluate market index portfolio investment managers that are more than 50% owned and/or managed by minorities, women, military veterans, or disabled persons. In addition, consistent with the investment objectives and Principles, the Board will endeavor to identify and evaluate market index investment managers that incorporate sound corporate governance and risk mitigation practices.

## **5.0 INVESTMENT OBJECTIVES**

The primary investment objective of Secure Choice is to offer low-cost, streamlined investment options that track relevant market performance. The Board intends to offer investment options that meet the following criteria:

- A. Investment options encourage prudent diversification, consistent with a Participant's goals and objectives;
- B. Each investment option is adequately diversified;
- C. Each investment option has a risk profile, consistent with its position in the overall set of choices;
- D. Costs for each investment option are not excessive when compared to alternative options of a similar style and available to equivalent programs; and
- E. When Participants invest in multiple investment options, such options shall increase or decrease risk and the opportunity for return.

## **6.0 INVESTMENT RESPONSIBILITIES**

The Board is responsible for this Policy, the choice of investment options offered to Participants, and administration of the Secure Choice assets. The Board, or its designee, will engage a contractor(s) for administrative and investment management services ("Program Manager"). The Board shall also seek guidance from an external investment consultant for investment advisory services. In addition to its other responsibilities, the Program Manager shall be responsible for implementation of the investment strategy outlined in this Policy. Below is a list of the parties with investment responsibilities and their respective responsibilities.

- A. The Board shall be responsible for the following:
  - 1. Acting as a fiduciary in the sole interest of Participants;
  - 2. Administering the Secure Choice investment options;
  - 3. Establishing and maintaining this Policy; and
  - 4. Selecting the investment options offered to Participants.
- B. The Treasurer shall be responsible for the following:
  - 1. Reviewing and overseeing the investment options and underlying investment funds for Secure Choice;

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2. Implementing Secure Choice's internal investment processes and procedures, subject to the approval of the Board;
  3. Evaluating the investment framework and advising the Board as to the performance and continuing appropriateness of each investment manager; and
  4. Recommending to the Board any necessary modifications to the investment policies, objectives, guidelines, or management structure.
- C. The external investment consultant shall be responsible for the following:
1. Monitoring and reviewing the performance of each investment option and underlying investment funds;
  2. Providing periodic performance reports to the Board and Treasurer on investment options and/or underlying investment funds;
  3. Meeting with the Board and Treasurer on a regular basis to review the performance of each investment option and/or underlying investment fund;
  4. Analyzing the Program Manager's recommendations for investment options, underlying investment funds, investment guidelines, and this Policy;
  5. Assisting the Board in ensuring that Secure Choice complies with this Policy; and
  6. Updating the Board and Treasurer on current investment trends and issues.
- D. The Program Manager shall be responsible for the following:
1. Making recommendations on investment options, underlying investment funds, investment guidelines, and this Policy;
  2. Implementing Board-approved investment options and underlying investment funds;
  3. Providing periodic performance reports to the Board and Treasurer on investment options and/or underlying investment funds;
  4. Arranging meetings between each investment provider/manager and the Board and/or its designee(s), such as the Treasurer, to provide the following:
    - a. A verbal and written review of their performance and portfolio structure;
    - b. A summary of their key investment decisions, their underlying rationale for such decisions, and the expected future impact of such decisions;
    - c. An organizational update; and
    - d. A description of the market, economy, and other factors potentially impacting investment performance, etc.
  5. Notifying the Board and Treasurer immediately, in writing of any changes in fund operation and personnel that may negatively impact performance (this includes any organizational or strategy changes that impact asset management);
  6. Providing information about Secure Choice and its investment options to Participants; and
  7. Assisting the Board and Treasurer in the day-to-day administration of Secure Choice.

The Board, Secure Choice, and its various contractor (s) engaged in administrative and investment management services are prohibited from borrowing for Secure Choice investment purposes under any circumstance.

## **7.0 INVESTMENT PARAMETERS**

Contributions will be invested in one or more of the available investment options, each composed of a designated mix of underlying investment funds or a single underlying investment fund. Target date funds may allocate assets among cash/money market funds, fixed income investments, real estate investments, domestic equity investments, international equity investments, and other investments that the Board

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determines are suitable. The Board may change the investment options and/or the underlying investment funds, consistent with this Policy.

The asset allocation methodology and construction of the target date retirement fund glidepaths are reviewed, evaluated, and approved, at a minimum, on an annual basis, for suitability and appropriateness to current and prospective investors.

The Board shall demonstrate care in selecting the investment options and structure of the underlying investment funds that best matches the return, risk, diversification, liquidity, and cost requirements associated with each investment option.

The specific underlying investment funds chosen by the Board must have appropriate investment characteristics and be managed by organizations that, by their record and experience, have demonstrated their investment expertise. Such underlying investment funds shall also meet the following criteria:

- A. Be well diversified;
- B. Have acceptable volatility, when compared to an appropriate peer group and benchmark;
- C. Have sufficient liquidity;
- D. Have reasonable fees and expenses; and
- E. Meet all other relevant requirements set forth in this Policy.

**7.1 Review of Investment Policy**

The Board shall review this Policy at least annually and make necessary or appropriate amendments. The Board may amend this Policy at any time in writing and upon reasonable notice to all applicable parties.

The Board encourages the external investment consultant, Treasurer, and Participants to make recommendations to the Board regarding appropriate changes to this Policy.

**7.2 Review of Investment Funds**

The Board or its designee will review the underlying investment funds at least once a year. The reviews will focus on the following topics:

- A. Adherence to this Policy;
- B. Material changes in the structure of any underlying investment funds, such as those caused by changes in investment philosophy and personnel, or by acquisition or loss of major accounts; and
- C. Comparison of each underlying investment fund's performance to stated benchmarks and/or peer group.

The Board or its designee has the ability to add, remove, or replace investment options and funds as appropriate at any time.

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**7.3 Watch List**

At its discretion, the Board, or its designee, may place an underlying investment fund on a list of funds that will be subject to more frequent monitoring (“Watch List”). However, Watch List status is not a required precursor to termination of an underlying investment fund, and it should not be used as a means to change the investment methodology of an investment manager.

**7.4 Emergency Changes**

The final authority to replace investment options and/or underlying investment funds under the Secure Choice investment framework shall be vested with the Board. However, in the instances that material events occur such as, but not limited to, the departure of a fund’s investment personnel or its parent firm’s senior executives, a sudden drop of seven percent (7%) in market value in a single trading session, or allegations of fraudulence and misrepresentation (“Material Events”), and the Board is unable to meet within twenty-four (24) hours of the Material Event to make responsive investment changes, the Board has delegated authority to the Treasurer to make investment changes pursuant to this Policy. The Treasurer, in consultation with the external investment consultant, may only replace underlying investment funds with similar types of investment funds or a capital preservation fund. At its next Board meeting, which shall be scheduled no later than thirty (30) days after any such changes, the Board shall a) ratify any changes made by the Treasurer, or b) ratify any changes made by the Treasurer and make additional changes to the underlying investment funds.

**7.5 Standard of Performance**

In consideration of Secure Choice’s investment philosophy, Principles, and investment objectives, market/benchmark indices will be used to evaluate investment performance.

**8.0 INVESTMENT OPTIONS**

Initially, Secure Choice intends to offer the following investment options:

- A. Target Retirement Date Funds;
- B. Capital Preservation Fund;
- C. Growth Fund; and
- D. Conservative Fund.
  - a) Participant contributions will be directed into a capital preservation investment selected by the Board during the account revocation period. As of the close of business on the last day of the revocation period (or the first day the New York Stock Exchange is open for trading, if later) the existing balance in the account will be invested in the Default Investment Option (“DIO”) selected by the Board unless a participant has provided an alternative investment election. Participant contributions made subsequent to the end of the revocation period will be directed into the DIO at the default contribution rate approved by the Board, unless a participant has provided an alternative investment election. The Board shall review the DIO at least annually and make necessary or appropriate changes.

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Secure Choice may offer additional investment options and/or underlying investment funds in the future, at the discretion of the Board.

**8.1 Target Retirement Date Funds**

The target retirement date funds are intended to provide Participants with an asset allocation that changes dynamically over time and emphasizes asset growth for younger Participants and shifts towards income generation and asset preservation as Participants age. The target retirement date funds will be highly diversified and include a blend of asset classes. Performance and volatility expectations will vary, based on the asset allocation and risk profile of each fund in the target date series.

**8.2 Capital Preservation Fund**

The capital preservation fund is intended to preserve capital and provide Participants the potential for income, consistent with cash and high quality short-term securities. Risk, as measured by risk to principal and the volatility of returns, is intended to be very low. Due to its emphasis on safety, the fund may not provide protection against inflation and may retain the possibility of liquidity and credit risk.

**8.3 Growth Fund**

The growth fund investment option is intended to provide Participants long-term growth of capital through investments in large capitalization U.S. common stocks. Risk, as measured by the volatility of returns, is expected to be moderate to high. Current income will not be a primary objective of this investment option.

**8.4 Conservative Fund**

The conservative fund is intended to be a passively managed portfolio of high quality government, corporate and mortgage-related bonds. The U.S. Core Fixed Income Index Fund's maturity, duration, yield and overall risk levels are intended to be consistent with the domestic bond market as a whole. Risk, as measured by the volatility of returns, is expected to be low to moderate. Current income will be a primary objective of this investment option.

**8.5 Overview of the Investment Options**

The investment objectives, primary investments, levels of expected risk, and benchmarks/peer groups for the investments options within Secure Choice are shown in the tables below.

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**Table 1 - Target Retirement Date Investment Funds**

Category	Default Investment Option
<b>Investment Option</b>	<b>Target Retirement Date Funds</b>
<b>Objectives</b>	The objective of this investment option is to invest in equity, fixed income and/or money market instruments using asset allocations targeting investment time horizons based on the Participant's expected retirement date. Investment returns are expected to be derived from current income and/or capital appreciation, based on the target allocation of the particular fund.
<b>Primary Investments</b>	Diversified Asset Classes
<b>Expected Risk</b>	Moderate to high, based on fund selected by Participant
<b>Benchmark</b>	S&P Target Date Index Series
<b>Peer Group</b>	Morningstar Category U.S. Fund Target Date Series

**Table 2 - Growth Fund**

Category	Growth Fund
<b>Investment Option</b>	<b>Growth Fund</b>
<b>Objectives</b>	The objective is to passively invest in the common stock of large capitalization U.S. companies. The investment strategy intends to fully replicate the market capitalization weighting of the S&P 500 stock index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.
<b>Primary Investments</b>	U.S. Large Cap Equity
<b>Expected Risk</b>	High
<b>Benchmark</b>	S&P 500 Index
<b>Peer Group</b>	Passive U.S. Large Cap Equity Universe

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**Table 3 - Conservative Fund**

Category	Conservative Fund
<b>Investment Option</b>	<b>Conservative Fund</b>
<b>Objectives</b>	The objective is to passively invest in a passive mix of government, corporate and mortgage bonds and similar instruments. Credit quality is very high, helping to preserve capital. The maturity of the portfolio is longer than a money market fund, offering a higher yield on investments.
<b>Primary Investments</b>	U.S. Government, Corporate and Mortgage Bonds
<b>Expected Risk</b>	Low to moderate
<b>Benchmark</b>	Bloomberg Barclays Aggregate Bond Index
<b>Peer Group</b>	Core Fixed Income Portfolio Universe

**Table 4 - Capital Preservation Fund**

Category	Capital Preservation Fund
<b>Investment Option</b>	<b>Capital Preservation Fund</b>
<b>Objectives</b>	The objective is to achieve stability of principal through investment in U.S. dollar-denominated money market securities.
<b>Primary Investments</b>	U.S. government securities, certificates of deposits and time deposits of U.S. and foreign banks; commercial paper and other high quality obligations of U.S. or foreign companies; asset-backed securities, including asset-backed commercial paper; mortgage-related securities; and repurchase agreements.
<b>Expected Risk</b>	Low
<b>Benchmark</b>	U.S. Treasury 3-Month Bill
<b>Peer Group</b>	Morningstar Category Prime Money Market

**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***

**Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

The Honorable Frank J. Mautino  
Auditor General  
State of Illinois

**Report on Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Illinois Secure Choice Savings Program (Secure Choice), a fiduciary (private-purpose trust) fund of the State of Illinois, Office of the Treasurer, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Secure Choice financial statements, and have issued our report thereon dated February 24, 2020.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Office of the Treasurer, Secure Choice 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item: 2019-001.

**Internal Control Over Financial Reporting**

Management of the State of Illinois, Office of the Treasurer is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the State of Illinois, Office of the Treasurer's internal control for Secure Choice 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2019-001 that we consider to be a material weakness.

#### **State of Illinois, Office of the Treasurer's Response to the Finding**

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

#### **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.

Crowe LLP

Springfield, Illinois  
February 24, 2020

## **SCHEDULE OF FINDINGS**

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2019-001 **Finding** (Inadequate Controls in Place for Financial Statement Reporting and Noncompliance with State Statute)

The Office of the Treasurer (Office) did not have an adequate process in place to determine the proper financial reporting of seed money (and earnings on the seed money) for the Secure Choice Savings Program and was noncompliant with Illinois State statute related to the seed money.

The Secure Choice Savings Program officially launched July 1, 2018. Seed money was added to the Secure Choice funds by either the Program Manager or a Portfolio Custodian to set the Net Asset Value (NAV) and ensure a sufficient balance in each fund to buy and sell shares. The seed money was invested the same as participant funds and earned investment income. Once an individual fund had a sufficient balance, the seed money and any related investment income was returned to the entity which provided the funds. As identified in Note 4 to the financial statements, the seed money and related earnings was returned in all instances except two fund options by June 30, 2019.

The Office improperly reported seed money and related earnings in the Secure Choice Savings Program financial statements. The Net Position Held in Trust for Participants was overstated by \$10,445 (0.33% of Net Position) and the Seed Money Payable was understated by \$10,445 (0.33% of Net Position) on the Statement of Fiduciary Net Position. Program Contributions were overstated by \$75,000 (2.39% of Net Position), Program Withdrawals were overstated by \$69,150 (2.21% of Net Position) and investment expenses were understated by \$4,595 (0.15% of Net Position) on the Statement of Changes in Fiduciary Net Position due to the improper inclusion of seed money. With the exception of assets, all financial statement account categories were misstated by varying amounts due to the inclusion of seed money and related earnings/expenses. The Office updated the financial statements to adjust for these misstatements.

The Office did include a note to the financial statements indicating seed money and earnings of \$10,445 were included in total assets on the Statement of Fiduciary Net Position by Portfolio as of June 30, 2019, but the note did not specifically disclose the inclusion of seed money and earnings within Net Position Held in Trust for Participants, Program Contributions, and Program Withdrawals on the financial statements. The note also did not disclose the exclusion of seed money and related earnings from liabilities. The Office revised the seed money footnote when the financial statements were revised for the misstatements. The seed money does not represent eligible participant funds related to retirement savings for Illinois workers who do not have access to an employer-sponsored retirement plan and thus does not qualify for reporting within the Statement of Fiduciary Net Position, as restricted for participants, nor for reporting within the Statement of Changes in Fiduciary Net Position as Program Contributions and Withdrawals.

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. The Illinois Secure Choice Savings Program Act (Act) (820 ILCS 80/30(q)) requires the Board to facilitate compliance with all applicable requirements for the program under the Internal Revenue Code, including tax qualification requirements, as well as other applicable laws and accounting requirements. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* paragraph 69 states "Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs". GASB Statement No. 34, paragraph 72 states private-purpose trust funds "should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments". Lastly, I.R.C. Section 408(a) states, "...individual retirement account" means a trust created or organized in the United

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States for the exclusive benefit of an individual or his beneficiaries...”. These references are related to how the seed money was presented in the financial statements and not noncompliance with the I.R.C.

The Office did not remove the seed money from the various accounts identified within the finding due to the Office’s determination of materiality.

An inadequate financial statement preparation and review process led to the misstatement of all financial statement account categories, with the exception of assets, and inadequate note disclosures. In addition, the Office did not comply with State statute (Finding No. 2019-001).

**Recommendation**

We recommend the Office strengthen its financial reporting internal controls to ensure new activity is properly analyzed and researched prior to the submission of financial statements to properly report the activity within the financial statements and notes. The Office should also perform a detailed review of applicable statutes to ensure compliance.

**Office Response**

The Office accepts the finding. The Office did not view the inclusion of the seed money to have a material effect on the financial statements and determined that the elimination of the seed money was unnecessary based on the Office’s materiality threshold. Despite the lack of materiality, the Office noted the inclusion of the seed money in the financial statement footnotes to allow for full disclosure to any users.