

**State of Illinois  
Office of the Treasurer  
Fiscal Officer Responsibilities**

Financial Audit  
For the Years Ended June 30, 2017 and 2016

and Compliance Examination  
For the Year Ended June 30, 2017

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

**State of Illinois  
Office of the Treasurer  
Fiscal Officer Responsibilities**

**Financial Audit  
For the Years Ended June 30, 2017 and 2016**

**Compliance Examination  
For the Year Ended June 30, 2017**

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**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
For the Year Ended June 30, 2017**

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**Treasurer's Office Officials**

|   |  |
|---|--|
| Treasurer   | The Honorable Michael W. Frerichs  |
| Deputy Treasurer                                    | Mr. Jay Rowell   |
| Chief of Staff                                      | Mr. Justin Cajindos (through January 5, 2018)  |
| Chief Investment Officer/Chief<br>Financial Officer | Mr. Rodrigo Garcia   |
| General Counsel & Ethics Officer                    | Mr. Allen Mayer (December 1, 2017 to present)<br>Mr. Keith Horton (through December 8, 2017) |
| Director of State Investment and Banking            | Ms. Elizabeth Turner   |
| Inspector General                                   | Mr. Ray Watson   |
| Director of Fiscal Operations                       | Ms. Deborah Miller   |
| Chief Internal Auditor                              | Ms. Leighann Manning   |

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

Executive Office  
State Capitol  
219 State House  
Springfield, Illinois 62706

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

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

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



OFFICE OF THE ILLINOIS STATE TREASURER  
MICHAEL W. FRERICHS

February 15, 2018

Crowe Horwath LLP  
3601 W Wabash Avenue, Suite 201  
Springfield, IL 62711

Ladies and Gentlemen:

We are responsible for identification of, and compliance with, all aspects of laws, regulations, contracts, and grant agreements that could have a material effect on the operations of the State of Illinois, Office of the Treasurer (Treasurer) Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Treasurer's compliance with the following assertions during the year ended June 30, 2017. Based on this evaluation, we assert that during the year ended June 30, 2017, the Treasurer has materially complied with the assertions below.

- A. The Treasurer has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Treasurer has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligations, expenditure, receipt or use.
- C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

State Capitol  
Room 219  
Springfield, IL 62706  
Phone: (217) 782-2211  
Fax: (217) 785-2777  
TTY: (866) 877-6013

James R. Thompson Center  
100 West Randolph Street  
Suite 15-600  
Chicago, IL 60601  
Phone: (312) 814-1700  
Fax: (312) 814-5930  
TTY: (866) 877-6013

Illinois Business Center  
400 West Monroe Street  
Suite 401  
Springfield, IL 62704  
Phone: (217) 782-6540  
Fax: (217) 524-3822  
TTY: (866) 877-6013

Myers Building  
One West Old State Capitol Plaza  
Suite 400  
Springfield, IL 62701  
Phone: (217) 785-6998  
Fax: (217) 557-9365  
TTY: (866) 877-6013

Yours very truly,

State of Illinois, Office of the Treasurer

Signature on File

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The Honorable Michael W. Frerichs  
State Treasurer

Signature on File

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Rodrigo Garcia  
Chief Investment and Chief Financial Officer

Signature on File

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Allen Mayer  
General Counsel

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
For the Year Ended June 30, 2017**

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**Compliance Report Summary**

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

**Accountant's Report**

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language.

**Summary of Findings**

| <u>Number of</u>                                  | <u>Current<br/>Report</u> | <u>Prior<br/>Report</u> |
|---|---------------------------|-------------------------|
| Findings  | 1                         | 1                       |
| Repeated findings                                 | 0                         | 0                       |
| Prior recommendations implemented or not repeated | 1                         | 0                       |

**Schedule of Findings**

| <u>Item No.</u>   | <u>Page</u> | <u>Description</u>   | <u>Finding Type</u>                      |
|---|-------------|--|--|
| <b>Findings (Government Audit Standards)</b>  |             |  |  |
| 2017-001  | 11          | Internal Controls Over Financial Statement Reporting Needs Improvement | Significant Deficiency                   |
| <p>In addition, the following finding which is reported as a current finding relating to <i>Government Auditing Standards</i> also meets the reporting requirements for State Compliance.</p> |             |  |  |
| <b>Findings (State Compliance)</b>  |             |  |  |
| 2017-001  | 11          | Internal Controls Over Financial Statement Reporting Needs Improvement | Noncompliance and Significant Deficiency |
| <b>Prior Findings Not Repeated</b>  |             |  |  |
| A   | 13          | Financial Reporting Adjustments and Disclosures                        | Significant Deficiency                   |

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
For the Year Ended June 30, 2017**

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**Exit Conference**

The findings and recommendations appearing in this report were discussed with Treasurer personnel at an exit conference on February 5, 2018. Attending were:

**Treasurer:**

|                  |  |
|------------------|--|
| Jay Rowell       | Deputy Treasurer                                 |
| Rodrigo Garcia   | Chief Investment Officer/Chief Financial Officer |
| Leighann Manning | Chief Internal Auditor                           |
| Deborah Miller   | Director of Fiscal Operations                    |
| Wes Howerton     | Deputy Director of Fiscal Operations             |

**Office of the Auditor General:**

|         |               |
|---------|---------------|
| Jon Fox | Audit Manager |
|---------|---------------|

**Crowe Horwath LLP:**

|              |                |
|--------------|----------------|
| Chris Mower  | Partner        |
| Brandon Reed | Senior Manager |
| Adam Bruning | Senior Staff   |

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

## Independent Accountant's Report on State Compliance and on Internal Control Over Compliance

The Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois (State), Office of the Treasurer, Fiscal Officer Responsibilities' (the Treasurer) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2017. The management of the Treasurer is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

- A. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the Treasurer complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the Treasurer complied with the specified requirements listed above. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error.



We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasurer's compliance with specified requirements.

In our opinion, the Treasurer complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2017. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings as item 2017-001.

The Treasurer's response to the finding identified in our examination is described in the accompanying schedule of findings. The Treasurer's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purposes.

### **Internal Control**

Management of the Treasurer is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Treasurer's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The Treasurer's response to the internal control finding identified in our examination is described in the accompanying schedule of findings. The Treasurer's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Signature on File

Crowe Horwath LLP

Springfield, Illinois  
February 15, 2018

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

The Honorable Frank J. Mautino  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Illinois (State), Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), which are comprised of the Statement of Assets and Other Debits, Liabilities and Accountabilities as of June 30, 2017, the related Statement of Investment Income for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 15, 2018. As described in Note B of the financial statements, the financial statements are prepared by the Treasurer on the basis of the financial reporting provisions determined by the Office of the Illinois State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of the State of Illinois. Our opinion was not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Treasurer's internal control over financial reporting (internal control) 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 Treasurer's internal control. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control.

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

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

## **Compliance and Other Matters**

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

## **Treasurer's Response to Finding**

The Treasurer's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Treasurer's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 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 Treasurer's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Signature on File**

Crowe Horwath LLP

Springfield, Illinois  
February 15, 2018

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Schedule of Findings  
For the Year Ended June 30, 2017**

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**Current Finding (Government Auditing Standards)**

**2017 – 001 Finding (Internal Controls over Financial Statement Reporting Needs Improvement)**

The Illinois Office of the Treasurer's (Treasurer's Office) notes to the financial statements required adjustments for Government Accounting Standard Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The Treasurer's Office did not fully analyze the pricing sources and methods used to determine the fair value of investments and, as a result, reported certain investments in debt securities, totaling \$5.1 billion, as Level 1 investments. Following auditor inquiry, those investments were subsequently reported as Level 2. Level 1 investments are investments whose fair value is determined based on quoted prices in an active markets. Level 2 investments are investments whose fair value is determined based on observable inputs other than quoted prices in an active market.

In the prior year, which was when GASB 72 was first implemented, auditors accepted the Treasurer's Office's disclosure of debt securities under the GASB 72 level hierarchy as Level 1. After the auditors in the current year noted that the fair value of debt securities was determined by the Treasurer's Office's pricing service using matrix pricing models based on observable inputs, a Level 2 pricing methodology under GASB 72, the Treasurer's Office in consultation with the staff of the Government Accounting Standards Board changed its fair value disclosures for debt securities to Level 2 for both fiscal years 2017 and 2016.

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 so that revenues, expenditures and transfers of assets, resources, or other 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. Additionally, the provisions of GASB 72 include detailed requirements for the application and measurement of the fair value of investments and required note disclosures.

Treasurer's Office officials stated that investment leveling was based on their interpretation of the fair value hierarchy outlined in GASB 72 of referenced investments being actively traded and the ability to trade using the pricing source. Further, the Treasurer's Office investment leveling and subsequent level change is attributable to the complexity of GASB 72 and the standard's interpretative nature.

The failure to fully analyze pricing sources and methods resulted in an adjustment to the financial statement note disclosures to comply with GASB 72, subsequent to the notes being provided by the Treasurer's Office to the IOC and the auditors. (Finding Code No. 2017-001)

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Schedule of Findings  
For the Year Ended June 30, 2017**

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**Current Finding (*Government Auditing Standards*)**

**2017 – 001 Finding (Internal Controls over Financial Statement Reporting Needs Improvement)  
(continued)**

**Recommendation**

We recommend the Treasurer's Office more carefully research new GASB pronouncements when they are implemented to ensure the financial statements and note disclosures are properly prepared in accordance with those standards. In addition, the Treasurer's Office should fully analyze the pricing sources and methods used to value investments to ensure the financial statement note disclosures properly categorize investments within the fair value hierarchy established by GASB 72.

**Treasurer's Response**

We accept the recommendation. However, based on the analysis of investments by our staff and the agreement from the prior engagement, we believed our examination was sufficient and the leveling disclosure was in compliance with the fair value leveling hierarchy guidelines outlined in GASB 72. Moving forward, new GASB pronouncements will be fully analyzed and GASB project managers will be consulted for each standard applicable to the State Treasurer's Fiscal Officer Responsibilities' financial statements to ensure proper implementation. In addition, GASB 72 requirements and investment analysis will be reexamined to ensure future financial statement note disclosures properly categorize investments within the fair value hierarchy established by GASB 72.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Schedule of Findings  
For the Year Ended June 30, 2017**

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**Prior Findings Not Repeated**

**A. Finding – Financial Reporting Adjustments and Disclosures**

During the prior audit, the Office did not timely adopt a comprehensive policy to implement GASB 72 requiring adjustments and additional disclosures after the draft financial statements were provided to the Illinois Office of the Comptroller (IOC) and the auditors. In the prior year certain investments were reported using Level 3 or Level 2 valuation techniques in the notes to the financial statements when they should have been reported using the net asset value (NAV) exception or at cost, respectively.

In the current year, we noted that the Treasurer's Office developed a comprehensive policy to implement GASB 72 and properly disclosed those investments at NAV and at cost based on our current year sample testing. (Finding Code No. 2016-001)

## **Financial Statement Report**



**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
For the Years Ended June 30, 2017 and 2016**

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**Financial Statement Report**

**Summary**

The audit of the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer) as of and for the year ended June 30, 2017 was performed by Crowe Horwath LLP.

Based on their audit, the auditors expressed an unmodified opinion on the Treasurer's financial statements. The financial statements are special purpose framework financial statements prepared on a basis of accounting determined by the Office of the State Comptroller that is not in conformity with accounting principles generally accepted in the United States of America (GAAP) (see Note B).

**Summary of Findings**

The auditors identified a matter involving the Treasurer's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 11-12 of this report as item 2017-001, (Internal Controls over Financial Statement Reporting Needs Improvement).

**Exit Conference**

The findings and recommendations appearing in this report were discussed with Treasurer personnel at an exit conference on February 5, 2018. Attending were:

**Treasurer:**

|                  |  |
|------------------|--|
| Jay Rowell       | Deputy Treasurer                                 |
| Rodrigo Garcia   | Chief Investment Officer/Chief Financial Officer |
| Leighann Manning | Chief Internal Auditor                           |
| Deborah Miller   | Director of Fiscal Operations                    |
| Wes Howerton     | Deputy Director of Fiscal Operations             |

**Office of the Auditor General:**

|         |               |
|---------|---------------|
| Jon Fox | Audit Manager |
|---------|---------------|

**Crowe Horwath LLP:**

|              |                |
|--------------|----------------|
| Chris Mower  | Partner        |
| Brandon Reed | Senior Manager |
| Adam Bruning | Senior Staff   |

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

## **Independent Auditor's Report**

## Independent Auditor's Report

The Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), which comprise the Statement of Assets and Other Debits, Liabilities and Accountabilities as of June 30, 2017, the related statement of Investment Income for the year then ended and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions determined by the Office of the State Comptroller as described in Note B. Management is also responsible for 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 Assets and Other Debits, Liabilities and Accountabilities of the Treasurer, as of June 30, 2017, and the Investment Income for the year then ended in accordance with the financial reporting provisions determined by the Office of the State Comptroller described in Note B of the financial statements.

## **Emphasis of Matter**

### *Basis of Accounting*

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared by the Treasurer on the basis of the financial reporting provisions determined by the Office of the State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Illinois. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Prior Period Financial Statements Audited by Predecessor Auditor*

The financial statements of the Treasurer as of and for the year ended June 30, 2016, were audited by other auditors, whose report thereon dated February 15, 2017, expressed an unmodified opinion on the financial statements. The other auditor's report contained emphasis of matter paragraphs noting that the Treasurer prepared the June 30, 2016 financial statements on the basis of the financial reporting provisions determined by the Office of the State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America and noting that the Treasurer implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*.

The report of the other auditors dated February 15, 2017, stated that the Supplementary Information for the year ended June 30, 2016 consisting of the schedules of assets and other debits, liabilities and accountabilities, the detailed schedules of assets and other debits, the detailed schedules of liabilities and accountabilities, the schedules of investment income and the schedules of administrative responsibilities were subjected to the auditing procedures applied in the audit of the 2016 financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or the those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the financial statements as a whole for the year ended June 30, 2016.

### *Other Information*

Our audit for the year ended June 30, 2017 was conducted for the purpose of forming an opinion on the financial statements of the Treasurer. The accompanying Supplementary Information (pages 46-64) and the Other Information (pages 65-80) as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements.

The accompanying Supplementary Information (pages 46-64) for the year ended June 30, 2017, 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. The accompanying Supplementary Information (pages 46-64) for the year ended June 30, 2017 has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2017 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 accompanying Supplementary Information (pages 46-64) for the year ended June 30, 2017 is fairly stated, in all material respects, in relation to the financial statements as a whole for the year ended June 30, 2017.

The Other Information (pages 65-80) has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018 on our consideration of the Treasurer's internal control over financial reporting 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 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 Treasurer's internal control over financial reporting and compliance.

Signature on File

Crowe Horwath LLP

Springfield, Illinois  
February 15, 2018

## **Financial Statements**

State of Illinois  
Office of the Treasurer

**Fiscal Officer Responsibilities**  
**Statements of Assets and Other Debits, Liabilities and Accountabilities**  
**June 30, 2017 and 2016**

|   | 2017          | 2016          |
|---|---------------|---------------|
| <b>Assets and Other Debits</b>                          |               |               |
| Cash and Cash Equivalents                               |               |               |
| Demand Deposits   | \$ 7,268,532  | \$ 1,867,039  |
| Clearing Account Deposits and Deposits in Transit       | 31,548,075    | 41,478,623    |
| Total Cash  | 38,816,607    | 43,345,662    |
| Repurchase Agreements                                   | 1,954,797,989 | 1,949,702,256 |
| Commercial Paper  | 434,307,063   | 2,428,100,952 |
| Time Deposits   | -             | 15,000,000    |
| The Illinois Funds                                      | 1,393,601,529 | 1,323,452,120 |
| Federal Home Loan Bank Discount Notes                   | 99,910,070    | 169,949,100   |
| Municipal Bonds - Externally Managed                    | 289,977       | -             |
| Money Market Mutual Funds                               | 1,004,587,650 | 1,993,961,139 |
| U.S. Treasury Bills                                     | -             | 149,923,465   |
| Total Cash and Cash Equivalents                         | 4,926,310,885 | 8,073,434,694 |
| Deposits and Investments                                |               |               |
| Short-term Investments                                  |               |               |
| Time Deposits   | 119,189,278   | 101,624,300   |
| Commercial Paper  | 2,556,112,766 | 1,717,734,612 |
| U.S. Treasury Bills                                     | 694,711,612   | 1,598,263,715 |
| U.S. Treasury Notes                                     | 948,486,685   | 250,142,580   |
| Federal Home Loan Mortgage Corporation                  | 274,567,000   | 69,992,400    |
| Federal National Mortgage Association                   | 124,702,500   | -             |
| Federal Home Loan Bank                                  | 164,775,150   | 94,836,095    |
| Federal Farm Credit Banks                               | 124,707,000   | 122,628,803   |
| Federal Agriculture Mortgage Corporation                | 340,249,190   | 99,938,750    |
| Federal National Mortgage Association Discount Notes    | 99,732,847    | 249,654,722   |
| Federal Home Loan Mortgage Corporation Discount Notes   | 273,323,958   | 398,879,312   |
| Federal Home Loan Bank Discount Notes                   | 223,709,170   | -             |
| Federal Agriculture Mortgage Corporation Discount Notes | 120,016,365   | -             |
| Supranational Bonds                                     | 39,879,400    | -             |
| Municipal Bonds Externally Managed                      | 1,019,193     | -             |
| Corporate Bonds Externally Managed                      | 19,603,596    | -             |
| Foreign Investments                                     | 10,000,000    | -             |
| Long-term Investments                                   |               |               |
| Time Deposits   | 2,934,074     | 2,713,478     |
| U.S. Treasury Notes                                     | 493,449,875   | 51,011,720    |
| Federal Home Loan Mortgage Corporation                  | 952,101,900   | 375,123,000   |
| Federal Home Loan Bank                                  | 329,013,050   | 143,925,750   |
| Federal National Mortgage Association                   | 332,805,200   | 124,880,250   |
| Federal Farm Credit Banks                               | 199,562,250   | 25,043,000    |
| Federal Agriculture Mortgage Corporation                | 612,137,790   | 141,612,610   |
| Supranational Bonds                                     | 59,371,100    | 50,133,900    |
| State of Illinois Secondary Pool Investment Program     | 39,700        | 61,463        |
| Illinois Technology Development I                       | 52,360,431    | 54,191,137    |
| Illinois Technology Development II                      | 26,475,646    | 2,436,095     |
| Foreign Investments                                     | 30,000,000    | 20,000,000    |
| Municipal Bonds   | 1,884,821     | 303,108       |
| Municipal Bonds Externally Managed                      | 4,300,289     | -             |
| Corporate Bonds   | 55,321,831    | -             |
| Corporate Bonds Externally Managed                      | 30,781,207    | -             |
| Total Deposits and Investments                          | 9,317,324,874 | 5,695,130,800 |

(Continued)

State of Illinois  
Office of the Treasurer

**Fiscal Officer Responsibilities**  
**Statements of Assets and Other Debits, Liabilities and Accountabilities (Continued)**  
**June 30, 2017 and 2016**

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Securities Lending Collateral  |                   |                   |
| Invested in Repurchase Agreements  | \$ 3,522,922,500  | \$ 2,603,015,000  |
| Total Securities Lending Collateral  |                   |                   |
| Other Assets   |                   |                   |
| Warrants Cashed, but not Canceled  | -                 | 5,000             |
| Receivables from Universities and Agencies for Moneys Advanced                       | 380,007           | 4,864,268         |
| Receivable from City of Edwardsville   | 230,656           | 236,983           |
| Investment Income Earned, but not Received   | 28,144,633        | 10,995,791        |
| Total Other Assets   | 28,755,296        | 16,102,042        |
| Other Debits   |                   |                   |
| Amount of Future General Revenue Obligated for Debt Service                          | 35,620,354,797    | 38,220,779,191    |
| Total Assets and Other Debits  | \$ 53,415,668,352 | \$ 54,608,461,727 |
| <b>Liabilities and Accountabilities</b>  |                   |                   |
| Liabilities for Balances on Deposit  |                   |                   |
| Comptroller  |                   |                   |
| Protested Taxes  | \$ 87,638,527     | \$ 136,048,539    |
| Available for Appropriation or Expenditure   | 11,269,376,040    | 10,817,813,138    |
| Agencies' Deposits Outside the State Treasury  | 1,015,395,813     | 873,270,247       |
| Comptroller's Warrants Outstanding   | 638,105,706       | 602,008,740       |
| Total Liabilities for Balances on Deposit  | 13,010,516,086    | 12,429,140,664    |
| Other Liabilities  |                   |                   |
| Obligations under Securities Lending   | 3,522,922,500     | 2,603,015,000     |
| Total Other Liabilities  | 3,522,922,500     | 2,603,015,000     |
| General Obligation Indebtedness  |                   |                   |
| Principal and Interest Due Within One Year   | 3,295,497,388     | 3,357,721,444     |
| Principal and Interest Due Thereafter  | 33,544,549,746    | 36,184,127,309    |
| Total General Obligation Indebtedness  | 36,840,047,134    | 39,541,848,753    |
| Accountabilities   |                   |                   |
| Receivable from City of Edwardsville   | 230,656           | 236,983           |
| Investment Income Earned, but not Received<br>(Net of Cumulative Market Adjustments) | 41,951,976        | 34,220,327        |
| Mortgage Reserve Fund  | -                 | -                 |
| Total Accountabilities   | 42,182,632        | 34,457,310        |
| Total Liabilities and Accountabilities   | \$ 53,415,668,352 | \$ 54,608,461,727 |

See Notes to the Financial Statements.



**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Statements of Investment Income  
For the Years Ended June 30, 2017 and 2016**

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|                          | 2017                 | 2016                 |
|--------------------------|----------------------|----------------------|
| Investment Income Earned | <u>\$ 97,849,563</u> | <u>\$ 58,858,608</u> |

See Notes to the Financial Statements.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**NOTE A. AUTHORIZING LEGISLATION**

The State of Illinois, Office of the Treasurer (Treasurer), is authorized by the State Treasurer Act (15 ILCS 505/et seq.). The Treasurer shall receive the revenue and all other public monies of the State, and all monies authorized by law to be paid to him and safely keep the same.

**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Reporting Entity: The Treasurer is not a legally separate entity. It is an office of the primary government, which is the State of Illinois (the State) and is considered part of the State financial reporting entity. As such, it is included in the State of Illinois reporting entity. The Treasurer is custodian of the State's cash and investments comprised of the balances in the separate funds, which are considered to be either in the State Treasury or outside the State Treasury. Accounting control for funds outside the State Treasury is the responsibility of other State agencies. Further, the Treasurer is not responsible for determining that all cash received by State agencies is deposited in the State Treasury.

Basis of Presentation and Accounting: The basis of the presentation of the financial statements for the Treasurer is to have a set of financial statements that present the financial position of the State's assets that the Treasurer is custodian of and responsible for safeguarding and investing as well as State liabilities including general obligation indebtedness that the Treasurer is responsible for making payments.

The format of the Fiscal Officer Responsibilities financial statements was created to aid the Office of the Comptroller (Comptroller) in the preparation of the State's Comprehensive Annual Financial Report (CAFR). The Comptroller, acting as the State's accountant, designates which agencies are considered part of the primary government required to prepare financial statements (SAMS 27.10.10-B). The basis of presentation; Statements of Assets and Other Debits, Liabilities and Accountabilities and Statements of Investment Income have been determined by the Comptroller.

The Treasurer's financial statements consist of the Statements of Assets and Other Debits, Liabilities and Accountabilities and Statements of Investment Income. These financial statements are not presented in the traditional framework of Generally Accepted Accounting Principles (GAAP) because the statements only present those assets and activities for which the Treasurer is held accountable by his fiscal officer responsibilities. Exceptions to the traditional GAAP framework are the securities, funds and other assets of The Illinois Funds, College Savings Program, and the ABLE Program and amounts receivable from inheritance tax assessments are not included in the Fiscal Officer financial statements. In addition, the Fiscal Officer financial statements do not include financial statements of the various funds administered by the Fiscal Officer. The Illinois Funds, the College Saving Program, and the ABLE Program are audited annually and reported upon separately. Other exceptions to the traditional GAAP framework are that a traditional presentation of the Statement of Net Position is not included, a Statement of Revenues, Expenses and Changes in Net Position and, where applicable, a Statement of Cash Flows, are excluded entirely, some note disclosures required by GAAP are not included in the Fiscal Officer financial statements, and Management's Discussion and Analysis is not presented.

The basis of accounting is essentially a full accrual basis in that investment revenues are reported when earned, regardless of when the related cash flow takes place, subject to certain exceptions as described in the sections that follow.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

State Treasury Funds: The accounting for the State Treasury Fund group, with the exception of general obligation indebtedness and the related amount of future general revenue obligated for debt service, is presented on a basis whereby: (a) assets in the State Treasury and the related liability to the Comptroller for available balances on deposit are recognized at the time the Comptroller "orders" cash into the State Treasury; (b) the liability to the Comptroller is reduced as warrants are presented to the Treasurer for countersignature; and (c) the cash in the State Treasury is reduced as warrants are paid by the Treasurer.

Funds Outside the State Treasury: Funds outside the State Treasury consist of State assets held by the Treasurer, primarily deposits in clearing accounts, demand deposits and temporary investments, which are not under the accounting control of the Comptroller. Such funds and the related liabilities or accountabilities to the depositing State agencies are recognized when the funds are deposited in clearing accounts or certain demand deposit accounts with the Treasurer. This liability or accountability is transferred to funds available for appropriation or expenditure when the Comptroller orders the funds into the State Treasury.

General Obligation Indebtedness: The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The amount to be derived from future revenue for debt service (the "Other Debits") is the difference between the currently outstanding certificates and bonded indebtedness and available balances in the bond redemption and interest fund. The expenditures from the proceeds of the certificates and bond issues are accounted for by other State agencies. This balance represents a liability that is not in compliance with accounting principles generally accepted in the United States of America. It represents the future revenue that will be needed to provide for future debt service.

Investment Income: Investment income is recorded by the Treasurer using the accrual basis of accounting whereby income is recognized and an accountability established as income is earned. Funds participating in the investment pool are allocated income monthly based on their proportionate share of the pooled investment base. As authorized by statute, segregated funds are individually invested and specifically credited with the income earned on those investments.

Cash and Cash Equivalents: Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

Other Assets: Items reported in the Statement of Assets and Other Debits, Liabilities and Accountabilities as "Other Assets" are transactions in process and assets not available for investment. Warrants cashed but not canceled represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller. Receivables from Universities and Agencies for Monies Advanced represent unreimbursed amounts advanced for statutorily authorized imprest funds. The cash balance of the Universities and Agencies imprest funds is reclassified to "Demand Deposits" under Cash and Cash Equivalents on the Statement of Assets, Liabilities and Accountabilities. The Treasurer's imprest fund, the Federal Reserve Bank Settlement Account, is recorded as a cash account and an "Accountability."

The noninterest-bearing amount, reported as "Receivable from the City of Edwardsville," is reported as an Other Asset and is the unpaid balance of funds advanced to the City in 1967 for the planning and construction of a water main. The receivable from the City of Edwardsville is also reported as an "Accountability." Investment income earned but not received is reported as an "Other Asset" and represents accrued income on investments not yet matured or collected. Investment income earned but not received, net of cumulative market adjustments, is reported as an "Accountability."

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Protested Taxes: The fund balance of the Protest Fund is reported separately from funds available for appropriation and is recorded as a liability for balances on deposit called "Protested Taxes."

Available for Appropriation or Expenditure: This amount is the State of Illinois' balance available to be appropriated by the general assembly or expended by State agencies at June 30.

Use of Estimates: In preparing financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities during the reporting period. Actual results could differ from those estimates.

**NOTE C. COMPENSATING BANKS FOR SERVICES**

The principal method of payment for receipt and disbursement processing services provided by banks is by warrant from the Treasurer's Bank Services Trust Fund appropriation.

**NOTE D. DEPOSITS AND INVESTMENTS**

Overview: The Treasurer's investment activities are governed by the Treasurer's published investment policy that was developed in accordance with State statute. In addition, the Treasurer's Office has adopted its own investment practices that supplement the statutory requirements.

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, generally requires state and local governments to measure assets that meet the definition of an investment at fair value. GASB defines an investment asset as a security or other asset that a government holds primarily for the purpose of income or profit and its present service capacity is based solely on its ability to generate cash or to be sold to generate cash. In addition, GASB Statement No. 72 defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments exempt from fair value measurement include the following:

- Money market investments and participating interest-earning investment contracts (non-negotiable CD's) that have remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools should be measured using amortized cost.
- Qualified state and local government external investment pools should be measured at amortized cost.
- Certain short-term investments that have a maturity date of less than one year from the date of acquisition should be measured at amortized cost.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments are recorded at fair market value, with the exception of Commercial Paper, Money Market Mutual Funds, Repurchase Agreements, Illinois Funds, U.S. Agency Discount Notes, and U.S. Treasury Bills which are valued at amortized cost. Certain short-term investments have a maturity date of less than one year from the date of acquisition and are valued at amortized cost as permitted by GASB 72. The Treasurer's investments in U.S. Treasury Bills and U.S. Agency Discount Notes are short-term investments with no coupon payments. The investments in repurchase agreements have maturities less than one year from date of acquisition. The Illinois Funds meets the criteria established in GASB Statement No. 79 and, thus, reports all investments at amortized cost.

GASB statement 72 also established a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

The following tables summarize investments within the fair value hierarchy at June 30, 2017 and 2016 (expressed in thousands):

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

| <b>FY17 Investments by Fair Value Level:</b>        | <b>Fair Value</b>   | <b>Level 1</b> | <b>Level 2</b>      | <b>Level 3</b> |
|---|---------------------|----------------|---------------------|----------------|
| U.S. Treasury Notes                                 | \$ 1,441,937        | \$ -           | \$ 1,441,937        | \$ -           |
| Foreign Investments                                 | 40,000              | -              | 40,000              | -              |
| Federal Home Loan Mortgage Corporation              | 1,226,669           | -              | 1,226,669           | -              |
| Federal Home Loan Bank                              | 493,788             | -              | 493,788             | -              |
| Federal National Mortgage Association               | 457,508             | -              | 457,508             | -              |
| Federal Farm Credit Banks                           | 324,269             | -              | 324,269             | -              |
| Federal Agriculture Mortgage Corporation            | 952,387             | -              | 952,387             | -              |
| Municipal Bonds                                     | 7,494               | -              | 7,494               | -              |
| Corporate Bonds                                     | 105,707             | -              | 105,707             | -              |
| Supranational Bonds                                 | 99,250              | -              | 99,250              | -              |
| State of Illinois Secondary Pool Investment Program | 40                  | -              | 40                  | -              |
| Total Investments by Fair Value Level               | <u>\$ 5,149,049</u> | <u>\$ -</u>    | <u>\$ 5,149,049</u> | <u>\$ -</u>    |

**FY17 Investments measured at net asset value (NAV)**

**Illinois Technology Development I**

|  |          |
|--|----------|
| Apex Venture Partners                            | \$ 3,425 |
| Baird Venture Partners III, LP                   | 6,681    |
| Beecken, Petty, O'Keefe & Company, LLP           | 412      |
| Ceres Venture LP                                 | 252      |
| Illinois Emerging Technologies                   | 337      |
| Illinois Emerging Technologies Fund II           | 863      |
| Illinois Innovation Accelerator Fund LLC - I2A   | 1,777    |
| JK & B Capital V, LP                             | 3,896    |
| MK Capital LP                                    | 1,025    |
| MK Capital II, LP                                | 7,109    |
| MVC Private Equity Fund, LP                      | 4,412    |
| OCA Venture Partners II, LP                      | 5,488    |
| Open Prairie Ventures II, LP                     | 2,802    |
| Patriot Capital II LP                            | 2,757    |
| Prairie Capital V LP                             | 5,835    |
| Sterling Partners - Small Market Growth 2009, LP | 1,958    |
| Sterling Venture Partners II, LP                 | 1,947    |
| Svboda, Collins Fund II, LP                      | 1,384    |

**Illinois Technology Development II**

|   |       |
|---|-------|
| Builders VC Fund I LP                   | 1,125 |
| Bullpen Capital III LP                  | 504   |
| Chicago Ventures Fund II LP             | 5,450 |
| Corazon Capital II LP                   | 436   |
| GreatPoint Ventures Innovation Fund, LP | 5,198 |
| Hyde Park Venture Partners II LP        | 1,520 |
| KDWC Ventures                           | 3,000 |
| Listen Ventures II LP                   | 625   |
| Madison Dearborn Partners LLC           | 1,761 |
| Moderne Ventures Fund I LP              | 336   |
| New Enterprise Associates 16 LP         | 450   |
| PPC MM LP                               | 1,458 |
| Windpoint Partners VIII-A LP            | 4,613 |

Total Investments measured at net asset value (NAV) \$ 78,836

Total FY17 Investments at Fair Value \$ 5,227,885

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments. Investments classified in Level 2 of the fair value hierarchy are valued using the market approach by using either quoted prices for identical assets in markets that are not active or matrix pricing.

**State of Illinois  
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**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

| <b>FY16 Investments by Fair Value Level:</b>        | <b>Fair Value</b>   | <b>Level 1</b> | <b>Level 2</b>      | <b>Level 3</b> |
|---|---------------------|----------------|---------------------|----------------|
| U.S. Treasury Notes*                                | \$ 301,154          | \$ -           | \$ 301,154          | \$ -           |
| Foreign Investments                                 | 20,000              | -              | 20,000              | -              |
| Federal Home Loan Mortgage Corporation*             | 445,115             | -              | 445,115             | -              |
| Federal Home Loan Bank*                             | 238,762             | -              | 238,762             | -              |
| Federal National Mortgage Association*              | 124,880             | -              | 124,880             | -              |
| Federal Farm Credit Banks*                          | 147,672             | -              | 147,672             | -              |
| Federal Agriculture Mortgage Corporation*           | 241,552             | -              | 241,552             | -              |
| Municipal Bonds*                                    | 303                 | -              | 303                 | -              |
| Supranational Bonds*                                | 50,134              | -              | 50,134              | -              |
| State of Illinois Secondary Pool Investment Program | 62                  | -              | 62                  | -              |
| Total Investments by Fair Value Level               | <u>\$ 1,569,634</u> | <u>\$ -</u>    | <u>\$ 1,569,634</u> | <u>\$ -</u>    |

\*Investment reported as Level 1 in the 2016 report was subsequently re-evaluated and reclassified to Level 2.

**FY16 Investments measured at net asset value (NAV)**

**Illinois Technology Development**

|  |          |
|--|----------|
| Apex Venture Partners                            | \$ 3,569 |
| Baird Venture Partners III. LP                   | 6,063    |
| Beecken, Petty, O'Keefe & Company, LLP           | 874      |
| Ceres Venture LP                                 | 231      |
| Illinois Emerging Technologies                   | 537      |
| Illinois Emerging Technologies Fund II           | 1,247    |
| Illinois Innovation Accelerator Fund LLC - I2A   | 1,776    |
| JK & B Capital V, LP                             | 3,418    |
| MK Capital LP                                    | 1,298    |
| MK Capital II, LP                                | 6,005    |
| MVC Private Equity Fund, LP                      | 5,844    |
| OCA Venture Partners II, LP                      | 5,977    |
| Open Prairie Ventures II, LP                     | 2,418    |
| Patriot Capital II LP                            | 3,790    |
| Prarie Capital V LP                              | 6,000    |
| Sterling Partners - Small Market Growth 2009, LP | 2,019    |
| Sterling Venture Partners II, LP                 | 1,939    |
| Svboda, Collins Fund II, LP                      | 1,186    |

**Illinois Technology Development II**

|   |       |
|---|-------|
| GreatPoint Ventures Innovation Fund, LP | 2,436 |
|---|-------|

|   |                  |
|---|------------------|
| Total Investments measured at net asset value (NAV) | <u>\$ 56,627</u> |
|---|------------------|

|                                      |                     |
|--------------------------------------|---------------------|
| Total FY16 Investments at Fair Value | <u>\$ 1,626,261</u> |
|--------------------------------------|---------------------|

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments. Investments classified in Level 2 of the fair value hierarchy are valued using the market approach by using either quoted prices for identical assets in markets that are not active or matrix pricing.

**State of Illinois  
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**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

Additional disclosures for investments measured using the net asset value per share are listed on the pages that follow (expressed in thousands):

| <b>FY17 Investments measured at net asset value (NAV)</b>  | <b>NAV</b>       | <b>Unfunded<br/>Commitments</b> |
|--|------------------|---------------------------------|
| <b>Illinois Technology Development I</b>                   |                  |                                 |
| Apex Venture Partners                                      | \$ 3,425         | \$ -                            |
| Baird Venture Partners III. LP                             | 6,681            | -                               |
| Beecken, Petty, O'Keefe & Company, LLP                     | 412              | -                               |
| Ceres Venture LP   | 252              | 61                              |
| Illinois Emerging Technologies                             | 337              | -                               |
| Illinois Emerging Technologies Fund II                     | 863              | 367                             |
| Illinois Innovation Accelerator Fund LLC - I2A             | 1,777            | -                               |
| JK & B Capital V, LP                                       | 3,896            | 437                             |
| MK Capital LP  | 1,025            | -                               |
| MK Capital II, LP  | 7,109            | 600                             |
| MVC Private Equity Fund, LP                                | 4,412            | 1,373                           |
| OCA Venture Partners II, LP                                | 5,488            | 32                              |
| Open Prairie Ventures II, LP                               | 2,802            | -                               |
| Patriot Capital II LP                                      | 2,757            | 750                             |
| Prairie Capital V LP                                       | 5,835            | 900                             |
| Sterling Partners - Small Market Growth 2009, LP           | 1,958            | -                               |
| Sterling Venture Partners II, LP                           | 1,947            | -                               |
| Svboda, Collins Fund II, LP                                | 1,384            | 149                             |
| <b>Illinois Technology Development II</b>                  |                  |                                 |
| Builders VC Fund I LP                                      | 1,125            | 6,375                           |
| Bullpen Capital III LP                                     | 504              | 2,000                           |
| Chicago Ventures Fund II LP                                | 5,450            | 4,500                           |
| Corazon Capital II LP                                      | 436              | 4,500                           |
| GreatPoint Ventures Innovation Fund, LP                    | 5,198            | 5,117                           |
| Hyde Park Venture Partners II LP                           | 1,520            | 3,250                           |
| KDWC Ventures  | 3,000            | -                               |
| Listen Ventures II LP                                      | 625              | 1,875                           |
| Madison Dearborn Partners LLC                              | 1,761            | 5,675                           |
| Moderne Ventures Fund I LP                                 | 336              | 2,027                           |
| New Enterprise Associates 16 LP                            | 450              | 2,050                           |
| PPC MM LP  | 1,458            | 1,043                           |
| Windpoint Partners VIII-A LP                               | 4,613            | -                               |
| <b>Total Investments measured at net asset value (NAV)</b> | <b>\$ 78,836</b> | <b>\$ 43,081</b>                |



**State of Illinois  
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Notes to the Financial Statements  
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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

**FY16 Investments measured at net asset value (NAV)**

|  | <b>NAV</b>       | <b>Unfunded<br/>Commitments</b> |
|--|------------------|---------------------------------|
| <b>Illinois Technology Development I</b>                   |                  |                                 |
| Apex Venture Partners                                      | \$ 3,569         | \$ -                            |
| Baird Venture Partners III. LP                             | 6,063            | -                               |
| Beecken, Petty, O'Keefe & Company, LLP                     | 874              | -                               |
| Ceres Venture LP   | 231              | 61                              |
| Illinois Emerging Technologies                             | 537              | -                               |
| Illinois Emerging Technologies Fund II                     | 1,247            | 367                             |
| Illinois Innovation Accelerator Fund LLC - I2A             | 1,776            | -                               |
| JK & B Capital V, LP                                       | 3,418            | 733                             |
| MK Capital LP  | 1,298            | -                               |
| MK Capital II, LP  | 6,005            | 600                             |
| MVC Private Equity Fund, LP                                | 5,844            | 1,373                           |
| OCA Venture Partners II, LP                                | 5,977            | 113                             |
| Open Prairie Ventures II, LP                               | 2,418            | -                               |
| Patriot Capital II LP                                      | 3,790            | 750                             |
| Prairie Capital V LP                                       | 6,000            | 960                             |
| Sterling Partners - Small Market Growth 2009, LP           | 2,019            | -                               |
| Sterling Venture Partners II, LP                           | 1,939            | -                               |
| Svboda, Collins Fund II, LP                                | 1,186            | 149                             |
| <b>Illinois Technology Development II</b>                  |                  |                                 |
| GreatPoint Ventures Innovation Fund, LP                    | 2,436            | 7,516                           |
| <b>Total Investments measured at net asset value (NAV)</b> | <b>\$ 56,627</b> | <b>\$ 12,622</b>                |

Illinois Technology Development I and II (ITD I and ITD II) investments are privately-held limited partnership equity investment funds that invest in privately-held companies in accordance with the Technology Development Act (30 ILCS 265). The TDA Accounts invest in venture capital firms. A "venture capital" firm makes equity financings that are provided for starting up, expanding, or relocating a company, or for related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital. This includes, but is not limited to, financing classified as venture capital, mezzanine, buyout and/or growth. The firms will have a strong Illinois presence with an overall goal to attract, assist and retain quality technology businesses in Illinois.

These investments cannot be redeemed with the funds. Instead, the nature of these investments is that distributions are received through the liquidation of the underlying assets of the fund over the contractual term lives of the investments. The contractual terms of these investments generally range between 10-15 years from the original investment date depending upon whether optional extensions are exercised by the managers of the partnerships. Based on the terms of the limited partnership investments, it is anticipated that the last of the proceeds of these investments will be returned no later than February 10, 2024 for ITD I and May 11, 2027 for ITD II, with the bulk of the proceeds being received sooner. The fair values of the

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

ownership interests in the various limited partnership investments have been determined based on the most recent capital account balances provided by the respective general partners of each limited partnership. Due to the uniqueness and illiquid nature of the underlying privately-held investments, general partners use valuation techniques that rely on unobservable inputs such as estimates and appraisals derived from comparable market transactions to determine the net asset value per share for limited partner investors.

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Treasurer's investment policy limits the investment portfolio to maturities not to exceed five years with no limit to the amount allocated to investments with less than a two-year maturity. No more than 55% of the investment portfolio shall be allocated to investments with a 2 to 3 year maturity band. No more than 30% of the investment portfolio shall be allocated to investments with a 3 to 4 year maturity band (not including Foreign Government Securities). No more than 15% of the investment portfolio shall be allocated to investments with a 4 to 5 year maturity band. The portfolio shall not deviate from these guidelines unless specifically authorized by the Treasurer in writing. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk. Certain investments purchased prior to the adoption of the investment policy have maturities in excess of 5 years and are excluded from the investment policy requirements.

Investments: Excluding Time Deposits, the Treasurer had the following investments, stated at fair value except as noted below and maturities as of June 30. Unrealized gains and losses are accounted for in the investment in which the change in fair value occurred. (Amounts are in thousands.)

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

| <u>2017</u>   | Maturing in:         |                     |                 |                     | Total                |
|---|----------------------|---------------------|-----------------|---------------------|----------------------|
|   | Less than<br>1 year  | 1 - 5<br>years      | 6 - 10<br>years | NA***               |                      |
| Commercial Paper *  | \$ 2,990,420         | \$ -                | \$ -            | \$ -                | \$ 2,990,420         |
| Repurchase Agreements*  | 1,954,798            | -                   | -               | -                   | 1,954,798            |
| U.S. Treasury Bills *   | 694,712              | -                   | -               | -                   | 694,712              |
| U.S. Treasury Notes   | 948,487              | 493,450             | -               | -                   | 1,441,937            |
| Federal Home Loan Bank  | 164,775              | 329,013             | -               | -                   | 493,788              |
| Federal Farm Credit Banks   | 124,707              | 199,562             | -               | -                   | 324,269              |
| Federal Home Loan Mortgage Corporation  | 274,567              | 952,102             | -               | -                   | 1,226,669            |
| Federal National Mortgage Association   | 124,703              | 332,805             | -               | -                   | 457,508              |
| Federal Agriculture Mortgage Corporation  | 340,249              | 612,138             | -               | -                   | 952,387              |
| Federal National Mortgage Association Discount Notes*                               | 99,733               | -                   | -               | -                   | 99,733               |
| Federal Home Loan Mortgage Corporation Discount Notes*                              | 273,324              | -                   | -               | -                   | 273,324              |
| Federal Home Loan Bank Discount Notes*  | 323,619              | -                   | -               | -                   | 323,619              |
| Federal Agriculture Mortgage Association Discount Notes*                            | 120,016              | -                   | -               | -                   | 120,016              |
| State of Illinois Secondary Pool  | -                    | 9                   | 31              | -                   | 40                   |
| Supranational Bonds   | 39,879               | 59,371              | -               | -                   | 99,250               |
| Municipal Bonds   | -                    | 1,885               | -               | -                   | 1,885                |
| Municipal Bonds Externally Managed  | 1,309                | 4,300               | -               | -                   | 5,609                |
| Corporate Bonds   | -                    | 55,322              | -               | -                   | 55,322               |
| Corporate Bonds Externally Managed  | 19,604               | 30,781              | -               | -                   | 50,385               |
| Foreign Investments**   | 10,000               | 30,000              | -               | -                   | 40,000               |
| Securities Lending Collateral Invested in Repurchase Agreements*                    | 3,522,923            | -                   | -               | -                   | 3,522,923            |
| Illinois Technology Development I   | -                    | -                   | -               | 52,360              | 52,360               |
| Illinois Technology Development II  | -                    | -                   | -               | 26,476              | 26,476               |
| The Illinois Funds*   | -                    | -                   | -               | 1,393,601           | 1,393,601            |
| Money Market Mutual Funds*  | -                    | -                   | -               | 1,004,587           | 1,004,587            |
| <b>Total Investments and Securities Lending Collateral, excluding Time Deposits</b> | <b>\$ 12,027,825</b> | <b>\$ 3,100,738</b> | <b>\$ 31</b>    | <b>\$ 2,477,024</b> | <b>\$ 17,605,618</b> |

\*Reported at Amortized Cost

\*\* These securities are denominated in U.S. dollars

\*\*\* Categorization not applicable

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

| <u>2016</u>   | Maturing in:         |                   |                 |                     | NA***       | Total                |
|---|----------------------|-------------------|-----------------|---------------------|-------------|----------------------|
|   | Less than<br>1 year  | 1 - 5<br>years    | 6 - 10<br>years |                     |             |                      |
| Commercial Paper *  | \$ 4,145,836         | \$ -              | \$ -            | \$ -                | \$ -        | \$ 4,145,836         |
| Repurchase Agreements*  | 1,949,702            | -                 | -               | -                   | -           | 1,949,702            |
| U.S. Treasury Bills *   | 1,748,187            | -                 | -               | -                   | -           | 1,748,187            |
| U.S. Treasury Notes   | 250,142              | 51,012            | -               | -                   | -           | 301,154              |
| Federal Home Loan Bank  | 94,836               | 143,926           | -               | -                   | -           | 238,762              |
| Federal Farm Credit Banks   | 122,629              | 25,043            | -               | -                   | -           | 147,672              |
| Federal Home Loan Mortgage Corporation  | 69,992               | 375,123           | -               | -                   | -           | 445,115              |
| Federal National Mortgage Association   | -                    | 124,880           | -               | -                   | -           | 124,880              |
| Federal Agriculture Mortgage Corporation  | 99,939               | 141,613           | -               | -                   | -           | 241,552              |
| Federal National Mortgage Association Discount Notes*                               | 249,655              | -                 | -               | -                   | -           | 249,655              |
| Federal Home Loan Mortgage Corporation Discount Notes*                              | 398,879              | -                 | -               | -                   | -           | 398,879              |
| Federal Home Loan Bank Discount Notes*  | 169,949              | -                 | -               | -                   | -           | 169,949              |
| State of Illinois Secondary Pool Investment Program                                 | -                    | 21                | 41              | -                   | -           | 62                   |
| Supranational Bonds   | -                    | 50,134            | -               | -                   | -           | 50,134               |
| Municipal Bonds   | -                    | 303               | -               | -                   | -           | 303                  |
| Foreign Investments**   | -                    | 20,000            | -               | -                   | -           | 20,000               |
| Securities Lending Collateral Invested in Repurchase Agreements*                    | 2,603,015            | -                 | -               | -                   | -           | 2,603,015            |
| Illinois Technology Development   | -                    | -                 | -               | 54,191              | -           | 54,191               |
| Illinois Technology Development II  | -                    | -                 | -               | 2,436               | -           | 2,436                |
| The Illinois Funds*   | -                    | -                 | -               | 1,323,452           | -           | 1,323,452            |
| Money Market Mutual Funds*  | -                    | -                 | -               | 1,993,961           | -           | 1,993,961            |
| <b>Total Investments and Securities Lending Collateral, excluding Time Deposits</b> | <b>\$ 11,902,761</b> | <b>\$ 932,055</b> | <b>\$ 41</b>    | <b>\$ 3,374,040</b> | <b>\$ -</b> | <b>\$ 16,208,897</b> |

\*Reported at Amortized Cost

\*\* These securities are denominated in U.S. dollars.

\*\*\* Categorization not applicable.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Cash received by the Treasurer is initially deposited in clearing accounts maintained in banks located in Illinois that are insured by the Federal Deposit Insurance Corporation (FDIC). Surplus funds, as determined by the Treasurer, may be invested in time deposits, certificates of deposit and other interest-bearing accounts in FDIC-insured banks located in the State, credit unions whose principal office is located in Illinois, short-term obligations of corporations whose obligations (i.e., commercial paper) were rated by two or more standard rating services at a level that is at least as high as the following: A-2 by Standard & Poor's, P-2 by Moody's Investor Service, or F-2 by Fitch, repurchase agreements or other investments approved by State law.

As of June 30, 2017, excluding the securities lending program, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Apple Incorporated, Chevron Corporation, Coca-Cola Company, Pfizer Incorporated, Roche Holdings Incorporated and Toronto Dominion HDG USA which were rated A-1+ by Standard & Poor's. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service, except for Federal Agriculture Mortgage Corporation securities which were not rated. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service or AA+ by Standard & Poor's Ratings, except for Federal Agriculture Mortgage Corporation securities which were not rated. The Treasurer's short-term investment in foreign debt securities were rated A-1 by Standard & Poor's Ratings. The Treasurer's long-term investment in foreign debt securities were rated A1 by Moody's Investors Service and A+ by Standard & Poor's Ratings. The Treasurer's long-term investments in Supranational Bonds were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAM by Standard & Poor's Ratings. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service or AAAM by Standard & Poor's Ratings. The Treasurer's short-term investments in Municipal Bonds and Corporate Bonds were rated by Moody's and Standard & Poor's in the following tables:

| <b>Municipal Bonds:</b>                     | <b>S&amp;P</b> | <b>Mdy</b> |
|---|----------------|------------|
| ROBERT BAIRD - Village of Addison           | AA             | NR         |
| ROBERT BAIRD - City of Rock Falls           | AA             | NR         |
| PIPER JAFFRAY & CO - Village of Skokie      | NR             | Aa1        |
| PIPER JAFFRAY & CO - Maine Township         | NR             | Aaa        |
| MISCHLER FINANCIAL - Village of Orland Park | AA+            | Aa1        |

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NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

| <b>Municipal Bonds External Manager:</b>                 | <b>S&amp;P</b> | <b>Mdy</b> |
|--|----------------|------------|
| RAMIREZ EXTERNAL MNG - City of Chicago Waterworks        | A              | NR         |
| RAMIREZ EXTERNAL MNG - Kankakee County SD 111            | NR             | A2         |
| RAMIREZ EXTERNAL MNG - Madison County Comm SD 9          | A-             | NR         |
| RAMIREZ EXTERNAL MNG - Monroe County CUSD 3              | A+             | NR         |
| RAMIREZ EXTERNAL MNG - St. Clair County HS201 Belleville | AA             | NR         |
| RAMIREZ EXTERNAL MNG - Village of Addison                | AA             | NR         |
| RAMIREZ EXTERNAL MNG - Village of Hodgkins               | AA-            | NR         |
| RAMIREZ EXTERNAL MNG - Village of Round Lake Park        | AA             | NR         |
| RAMIREZ EXTERNAL MNG - Village of Vernon Hills           | AAA            | NR         |
| RAMIREZ EXTERNAL MNG - Williamson Jackson County         | AA             | NR         |
| <br>   |                |            |
| <b>Corporate Bonds:</b>                                  | <b>S&amp;P</b> | <b>Mdy</b> |
| CABRERA CAPITAL - Coca Cola                              | AA-            | Aa3        |
| CABRERA CAPITAL - Exxon                                  | AA+            | Aaa        |
| CABRERA CAPITAL - Microsoft                              | AAA            | Aaa        |
| CASTLEOAK - Apple  | AA+            | Aa1        |
| DREXEL HAMILTON LLC - Coca Cola                          | AA-            | Aa3        |
| DREXEL HAMILTON LLC - Microsoft                          | AAA            | Aaa        |
| LOOP CAPITAL MARKETS - Johnson and Johnson               | AAA            | Aaa        |
| MISCHLER FINANCIAL - 3M                                  | AA-            | A1         |
| MISCHLER FINANCIAL - Apple                               | AA+            | Aa1        |
| MISCHLER FINANCIAL - Coca Cola                           | AA-            | Aa3        |
| MISCHLER FINANCIAL - Johnson and Johnson                 | AAA            | Aaa        |
| MISCHLER FINANCIAL - Microsoft                           | AAA            | Aaa        |
| PIPER JAFFRAY & CO - ADP                                 | AA             | Aa3        |
| PIPER JAFFRAY & CO - Coca Cola                           | AA-            | Aa3        |
| TD SECURITIES - Microsoft                                | AAA            | Aaa        |
| WILLIAMS CAPITAL - Apple                                 | AA+            | Aa1        |

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

| <b>Corporate Bonds External Manager:</b>                 | <b>S&amp;P</b> | <b>Mdy</b> |
|--|----------------|------------|
| GARCIA HAMILTON EXTERNAL MNG - General Electric Floating | AA-            | A1         |
| GARCIA HAMILTON EXTERNAL MNG - American Express Float    | A-             | A2         |
| GARCIA HAMILTON EXTERNAL MNG - Apple                     | AA+            | Aa1        |
| GARCIA HAMILTON EXTERNAL MNG - Bank of America           | A+             | A1         |
| GARCIA HAMILTON EXTERNAL MNG - Bank of New York Mellon   | A              | A1         |
| GARCIA HAMILTON EXTERNAL MNG - BB & T Floating           | A-             | A2         |
| GARCIA HAMILTON EXTERNAL MNG - Bear Stearns (JP Morgan)  | A-             | A3         |
| GARCIA HAMILTON EXTERNAL MNG - Berkshire Hathaway        | AA             | Aa2        |
| GARCIA HAMILTON EXTERNAL MNG - Chevron - Floating        | AA-            | Aa2        |
| GARCIA HAMILTON EXTERNAL MNG - CISCO Systems             | AA-            | A1         |
| GARCIA HAMILTON EXTERNAL MNG - Citibank - Floating       | A+             | A1         |
| GARCIA HAMILTON EXTERNAL MNG - Coca Cola                 | AA-            | Aa3        |
| GARCIA HAMILTON EXTERNAL MNG - Exxon                     | AA+            | Aaa        |
| GARCIA HAMILTON EXTERNAL MNG - Goldman Sachs - Floating  | BBB+           | A3         |
| GARCIA HAMILTON EXTERNAL MNG - Honeywell International   | A              | A2         |
| GARCIA HAMILTON EXTERNAL MNG - IBM                       | A+             | A1         |
| GARCIA HAMILTON EXTERNAL MNG - John Deere Cap - Floating | A              | A2         |
| GARCIA HAMILTON EXTERNAL MNG - JP Morgan - Floating      | A-             | A3         |
| GARCIA HAMILTON EXTERNAL MNG - Key Bank                  | A-             | A3         |
| GARCIA HAMILTON EXTERNAL MNG - Lowe's - Floating         | A-             | A3         |
| GARCIA HAMILTON EXTERNAL MNG - Merck & Co                | AA             | A1         |
| GARCIA HAMILTON EXTERNAL MNG - Merck Floating            | AA             | A1         |
| GARCIA HAMILTON EXTERNAL MNG - Metlife, Inc              | A-             | A3         |
| GARCIA HAMILTON EXTERNAL MNG - Microsoft                 | AAA            | Aaa        |
| GARCIA HAMILTON EXTERNAL MNG - Morgan Stanley - Floating | BBB+           | A3         |
| GARCIA HAMILTON EXTERNAL MNG - Occidental Petroleum      | A              | A3         |
| GARCIA HAMILTON EXTERNAL MNG - Oracle Corp               | AA-            | A1         |
| GARCIA HAMILTON EXTERNAL MNG - Pepsico                   | A+             | A1         |
| GARCIA HAMILTON EXTERNAL MNG - Pfizer                    | AA             | A1         |
| GARCIA HAMILTON EXTERNAL MNG - PNC Bank                  | A              | A2         |
| GARCIA HAMILTON EXTERNAL MNG - Proctor & Gamble          | AA-            | Aa3        |
| GARCIA HAMILTON EXTERNAL MNG - State Street - Floating   | A              | A1         |
| GARCIA HAMILTON EXTERNAL MNG - Walt Disney - Floating    | A+             | A2         |
| GARCIA HAMILTON EXTERNAL MNG - Wells Fargo - Floating    | A              | A2         |

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As of June 30, 2017, credit ratings of collateral for securities lending collateral invested in repurchase agreements are as follows:

| <b>Standard<br/>&amp; Poor's<br/>Rating</b> | <b>Percentage<br/>% (Percent<br/>of Total)</b> | <b>Moody's<br/>Rating</b> | <b>Percentage<br/>% (Percent<br/>of Total)</b> |
|---|--|---------------------------|--|
| AAA   | 1.20%  | Aaa                       | 8.36%  |
| AA+   | 0.37%  | Aa1                       | 0.39%  |
| AA  | 1.19%  | Aa2                       | 0.70%  |
| AA-   | 3.30%  | Aa3                       | 1.41%  |
| A-1+  | 0.04%  | A1                        | 2.29%  |
| A-1   | 0.34%  | A2                        | 0.93%  |
| A+  | 0.94%  | A3                        | 1.19%  |
| A   | 1.89%  | Baa1                      | 1.89%  |
| A-  | 1.16%  | Baa2                      | 1.35%  |
| BBB+  | 1.64%  | Baa3                      | 1.28%  |
| BBB   | 1.85%  | Ba1                       | 2.68%  |
| BBB-  | 1.71%  | Ba2                       | 1.41%  |
| BB+   | 1.88%  | Ba3                       | 4.40%  |
| BB  | 3.26%  | B1                        | 5.55%  |
| BB-   | 3.40%  | B2                        | 3.42%  |
| B+  | 5.84%  | B3                        | 7.47%  |
| B   | 6.68%  | Caa1                      | 3.96%  |
| B-  | 5.56%  | Caa2                      | 1.75%  |
| CCC+  | 3.16%  | Caa3                      | 1.78%  |
| CCC   | 0.78%  | Ca                        | 0.38%  |
| CCC-  | 1.28%  | P-1                       | 0.38%  |
| CC  | 0.47%  | Not Rated                 | 47.03%   |
| C   | 0.22%  |                           | <b>100.00%</b>                                 |
| Not Rated                                   | 51.84%   |                           |  |
|   | <b>100.00%</b>                                 |                           |  |

As of June 30, 2016, excluding the securities lending program, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Apple Incorporated, Coca-Cola Company, Exxon Mobil Corporation, Intel Corporation, Microsoft Corporation, Nestle Capital Corporation, Novartis Finance Corporation, Pfizer Incorporated and Toronto Dominion HDG USA which were rated A-1+ by Standard & Poor's. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service, except for Federal Agriculture Mortgage Corporation securities which were not rated. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service or AA+ by Standard & Poor's Ratings, except for Federal Agriculture Mortgage Corporation securities which were not rated. The Treasurer's short-term investment in foreign debt securities were rated A-1 by Standard & Poor's Ratings. The Treasurer's short-term investment in Municipal Bonds was rated



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Aa1 by Moody's but was not rated by Standard & Poor's Ratings. The Treasurer's long-term investment in foreign debt securities were rated A1 by Moody's Investors Service and A+ by Standard & Poor's Ratings. The Treasurer's long-term investments in Supranational Bonds were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAM by Standard & Poor's Ratings. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service or AAAM by Standard & Poor's Ratings.

As of June 30, 2016, credit ratings of collateral for securities lending collateral invested in repurchase agreements are as follows:

| Standard & Poor's Rating | Percentage % (Percent of Total) | Moody's Rating | Percentage % (Percent of Total) |
|--------------------------|---------------------------------|----------------|---------------------------------|
| AAA                      | 1.42%                           | Aaa            | 1.83%                           |
| AA+                      | 0.64%                           | Aa1            | 0.66%                           |
| AA                       | 1.03%                           | Aa2            | 0.95%                           |
| AA-                      | 1.37%                           | Aa3            | 1.03%                           |
| A-1                      | 0.02%                           | A1             | 2.51%                           |
| A+                       | 0.50%                           | A2             | 0.38%                           |
| A                        | 2.00%                           | A3             | 1.89%                           |
| A-                       | 1.53%                           | Baa1           | 2.16%                           |
| BBB+                     | 3.40%                           | Baa2           | 1.81%                           |
| BBB                      | 2.62%                           | Baa3           | 4.67%                           |
| BBB-                     | 3.89%                           | Ba1            | 2.67%                           |
| BB+                      | 3.33%                           | Ba2            | 2.30%                           |
| BB                       | 4.29%                           | Ba3            | 6.01%                           |
| BB-                      | 7.06%                           | B1             | 3.79%                           |
| B+                       | 3.18%                           | B2             | 3.08%                           |
| B                        | 5.54%                           | B3             | 5.06%                           |
| B-                       | 2.38%                           | Caa1           | 6.30%                           |
| CCC+                     | 4.43%                           | Caa2           | 4.15%                           |
| CCC                      | 3.70%                           | Caa3           | 1.98%                           |
| CCC-                     | 3.53%                           | Ca             | 0.26%                           |
| CC                       | 0.44%                           | C              | 0.08%                           |
| Not Rated                | 43.70%                          | P-1            | 0.02%                           |
|                          | <b>100.00%</b>                  | Not Rated      | 46.41%                          |
|                          |                                 |                | <b>100.00%</b>                  |

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

The amount of the deposit not covered by Federal deposit insurance for all time deposits is required to be collateralized. Securities pledged as collateral to secure these deposits are required to have a market value at an established percentage of the deposit based on the type of security pledged. Securities that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts, which require a market value of at least 105% of the deposit. If the obligation of the United States and its agencies is a mortgage backed security, the securities pledged as collateral are required to have a market value of at least 110% of the deposit.

Other securities that may be pledged as collateral to secure time deposits are MBIA Certificates (issued by the Municipal Bond Investors Assurance Corporation), Letters of Credit (issued by Federal Home Loan Bank (FHLB)), and Share Certificates (issued by credit unions), which require a market value of at least 102% of the deposit.

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit was made. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial bank. Prior to placing the deposit and at least monthly thereafter, the Treasurer determines that the collateral has a market value adequate to secure the deposit.

The Treasurer has established accounts with The Illinois Funds for investment of State funds. The Illinois Funds participation provides comparable yields, a source of liquidity and requires less administrative intervention than other short-term investments. The management, custodianship and operation of The Illinois Funds are under the supervision of the State of Illinois, Office of the Treasurer. The fair value of the pool position is the same as the value of pool shares.

The Treasurer purchased investments in eight and six mutual funds in 2017 and 2016, respectively. These mutual funds provide a comparable yield to other investments, particularly during times of falling interest rates and are a source of liquidity when cash is needed. Investments to the mutual funds can be made daily and interest income is received monthly.

Repurchase agreements are purchased from various financial institutions and rated brokerage firms located in the State. Securities pledged as collateral to secure these agreements are required to have a fair value of at least 102% of the agreement. The agreements require both parties to maintain an acceptable margin on underlying securities to ensure the agreements are adequately collateralized. The Treasurer accepts only obligations of the United States government or its sponsored agencies as collateral for repurchase agreements (other than within the securities lending program).

All securities pledged to secure repurchase agreements are required to be delivered to a bank other than the institution from whom the investment was acquired. A written custodial agreement with the banks that hold the Treasurer's repurchase agreement collateral requires, among other things, that the collateral securities be held separately from the assets of the bank.

Commercial paper is purchased from various brokerage firms located in the State and is held in safekeeping by a bank for the Treasurer. A written custodial agreement requires, among other things, that the safekeeping bank hold the commercial paper separately from the assets of the bank.

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**Fiscal Officer Responsibilities  
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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

The Treasurer's investment in the State of Illinois Secondary Pool Investment Program was deposited in a trust to purchase a security interest in a pool of Small Business Administration (SBA), Federal Home Loan Mortgage Corporation Adjustable Rate Mortgage (FHLMC ARM), and Federal National Mortgage Association Adjustable Rate Mortgage (FNMA ARM) loans. The securities have a floating rate indexed to the prime rate as quoted in *The Wall Street Journal* and are adjusted quarterly. The pool is guaranteed by the U.S. Government and/or the respective agency.

The Treasurer has purchased investments in Supranational Bonds, U.S. Treasury Obligations and U.S. Agency Securities. These purchases permit greater portfolio diversification, provide comparable yields to other investment options, and provide liquidity due to the active secondary market.

The Treasurer's net increase (decrease) in the fair value of investments during 2017 and 2016 was \$4,758,544 and \$10,103,381, respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year and is reported as investment income earned in the Statements of Investment Income.

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount of repurchase agreements, including accrued interest, was \$1,954,797,989 and \$1,949,702,256, and the fair value of the collateral securities under the repurchase agreements was \$1,993,367,968 and \$1,983,662,924, as of June 30, 2017 and 2016, respectively.

Investment Commitment: The Illinois Technology Development Account I and II (TDA I and II) are administered by the Treasurer in accordance with 30 ILCS 265 and have made commitments totaling approximately \$133 million as of June 30, 2017 and \$83 million as of June 30, 2016. The remaining unfunded commitment was approximately \$43.1 million as of June 30, 2017 and \$12.6 million as of June 30, 2016.

The Illinois Technology Development Account I has made commitments totaling approximately \$73 million as of June 30, 2017 and \$73 million as of June 30, 2016. The remaining unfunded commitment amount was approximately \$4.7 million as of June 30, 2017 and \$5.1 million as of June 30, 2016.

The Illinois Technology Development Account II (also known as the Illinois Growth and Innovation Fund) has made commitments totaling \$60 million as of June 30, 2017 and \$10 million as of June 30, 2016. The remaining unfunded commitment amount was approximately \$38.4 million as of June 30, 2017 and \$7.5 million as of June 30, 2016.

It is anticipated that additional commitments will be made in the coming years for TDA II up to or near to the limits established in the Act. No additional future commitments are anticipated for TDA I.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Treasurer's investment in a single issuer. The following investments exceeded 5 percent of the total investments at June 30, 2017 and 2016. (Amounts are in thousands.)

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

|                                 | <u>2017</u>           |                               | <u>2016</u>           |                               |
|---------------------------------|-----------------------|-------------------------------|-----------------------|-------------------------------|
|                                 | <u>Carrying Value</u> | <u>% of Total Investments</u> | <u>Carrying Value</u> | <u>% of Total Investments</u> |
| U.S. Agency:                    |                       |                               |                       |                               |
| Farmer Mac                      | \$ 1,072,403          | 6.09                          | \$ -                  | -                             |
| Federal Home Loan Mortgage Corp | 1,499,993             | 8.52                          | 843,995               | 5.21                          |
| Repurchase Agreements:          |                       |                               |                       |                               |
| HSBC                            | 1,000,000             | 5.68                          | 1,200,000             | 7.41                          |

Securities Lending Transactions: The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2017 and 2016, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2017 and 2016 on the amount of loans amounts of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal years 2017 and 2016 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2017 and 2016, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2017 were \$3,522,922,500 and \$3,475,790,990, respectively. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2016 were \$2,603,015,000 and \$2,587,869,617, respectively.

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**Fiscal Officer Responsibilities  
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For the Years Ended June 30, 2017 and 2016**

**NOTE E. ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST**

The Illinois Insured Mortgage Pilot Program Trust (the Trust) was created in October 1982 in order to stimulate construction activity in the State. The State purchased \$120,000,000 of investment certificates for which the underlying collateral was a pool of mortgage loans issued for the purpose of providing financing to approved construction projects. Two mortgage agreements in the pool were secured by hotel properties, the Collinsville Holiday Inn (Collinsville Hotel) and the Abraham Lincoln Hotel and Conference Center (President Lincoln Hotel). There was extensive litigation involving the hotels' default on those loans; the hotels have been sold with the proceeds deposited in the Trust account. As part of a settlement in 2010 involving the wrongful dishonor of letters of credit that were collateral for the Collinsville Hotel, the Trustee was granted title to real and personal property.

The funds of the Trust are invested in a money market account at the Trustee, US Bank. Pursuant to Public Act 96-1181, the Trust transferred \$16 million to the State Treasury on September 30, 2010. On October 31, 2011, approximately \$5 million was transferred to the State Treasury. All real property received as part of the letters of credit settlement has been sold and the proceeds deposited in the Trust account. There is ongoing litigation in Madison County regarding the Trust's interests in personal property. The Treasurer's Office, working with outside counsel and the Trustee, terminated the Trust in 2015. The Treasurer is working through outside counsel to resolve the remaining litigation in Madison County, and liquidate the remaining assets.

**NOTE F. DEFEASED DEBT**

During fiscal year 2017, the State of Illinois issued \$1,303,145,000 General Obligation Refunding Bonds which were called by April 1, 2017. During fiscal year 2016, the State of Illinois issued no General Obligation Refunding Bonds.

For financial reporting purposes, the obligations under the defeased bonds have been fully liquidated by the escrow deposit of the funds from the refunding bonds, resulting in a net reduction of General Obligation Indebtedness of \$159,385,493 during fiscal year 2017, as follows:

|                                    | Balances at June 30, 2017 |                |                  |
|------------------------------------|---------------------------|----------------|------------------|
|                                    | Principal                 | Interest       | Total            |
| Balance of Defeased Bond Issues    | \$ 1,374,170,000          | \$ 575,455,650 | \$ 1,949,625,650 |
| General Obligation Refunding Bonds | 1,303,145,000             | 487,095,157    | 1,790,240,157    |
| Net Decrease                       | \$ 71,025,000             | \$ 88,360,493  | \$ 159,385,493   |

The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$106,356,419 during fiscal year 2017.

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2017 and 2016, \$0 and \$0, respectively, of bonds outstanding were considered defeased.

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**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**NOTE G. SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER**

At June 30, 2017 and 2016, the Treasurer was responsible for \$114,641,685 and \$109,552,590, respectively, of securities held in safekeeping for various State departments, agencies and institutions. These amounts are not reflected in the Statements of Assets and Other Debits, Liabilities and Accountabilities.

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For the Years Ended June 30, 2017 and 2016**

**NOTE H. GENERAL OBLIGATION INDEBTEDNESS**

A summary of the changes from June 30, 2016 to June 30, 2017, in General Obligation Bonded Indebtedness by issue type follows:

|   | Multi-Purpose -<br>Interest Rates<br>varying from 2.690%<br>to 7.600% Series<br>2001 through 2016,<br>due serially to 2041 | Pension Funding -<br>Interest Rates<br>varying from 4.350%<br>to 5.877% Series<br>2003 and 2011, due<br>serially to 2033 | General Obligation<br>Refunding Series<br>2003 through 2016<br>- Interest Rates<br>varying from<br>3.000% to 7.600%<br>due serially to<br>2032 | Total General<br>Obligation<br>Indebtedness |
|---|--|--|--|---|
| Balance at June 30, 2016                |  |  |  |   |
| Principal                               | \$ 11,755,570,311  | \$ 12,000,000,000  | \$ 2,489,226,799   | \$ 26,244,797,110                           |
| Interest                                | 6,876,819,555  | 5,884,284,000  | 535,948,088  | 13,297,051,643                              |
| Total                                   | <u>18,632,389,866</u>  | <u>17,884,284,000</u>  | <u>3,025,174,887</u>   | <u>39,541,848,753</u>                       |
| Redemptions charge<br>to Appropriations |  |  |  |   |
| Principal                               | 580,730,167  | 1,025,000,000  | 362,361,174  | 1,968,091,341                               |
| Interest                                | 619,451,272  | 622,338,000  | 136,139,078  | 1,377,928,350                               |
| Total                                   | <u>1,200,181,439</u>   | <u>1,647,338,000</u>   | <u>498,500,252</u>   | <u>3,346,019,691</u>                        |
| Certificates/Bonds issued               |  |  |  |   |
| Principal                               | 480,000,000  | -  | 1,303,145,000  | 1,783,145,000                               |
| Interest                                | 323,603,565  | -  | 487,095,157  | 810,698,722                                 |
| Total                                   | <u>803,603,565</u>   | <u>-</u>   | <u>1,790,240,157</u>   | <u>2,593,843,722</u>                        |
| Refunding                               |  |  |  |   |
| Principal                               | 1,338,674,375  | -  | 35,495,625   | 1,374,170,000                               |
| Interest                                | 572,164,529  | -  | 3,291,121  | 575,455,650                                 |
| Total                                   | <u>1,910,838,904</u>   | <u>-</u>   | <u>38,786,746</u>  | <u>1,949,625,650</u>                        |
| Balance at June 30, 2017                |  |  |  |   |
| Principal                               | 10,316,165,769   | 10,975,000,000   | 3,394,515,000  | 24,685,680,769                              |
| Interest                                | 6,008,807,319  | 5,261,946,000  | 883,613,046  | 12,154,366,365                              |
| Total                                   | <u>\$ 16,324,973,088</u>   | <u>\$ 16,236,946,000</u>   | <u>\$ 4,278,128,046</u>  | <u>\$ 36,840,047,134</u>                    |
|   |  | Amounts due within one year  |  |   |
|   |  | Principal  | \$ 2,007,050,000   |   |
|   |  | Interest   | 1,288,447,388  |   |
|   |  | Total  | <u>\$ 3,295,497,388</u>  |   |

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**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

**NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)**

A summary of the changes from June 30, 2015 to June 30, 2016, in General Obligation Bonded Indebtedness by issue type follows:

|   | Multi-Purpose -<br>Interest Rates<br>varying from 1.84%<br>to 7.35% Series<br>1994 through 2016,<br>due serially to<br>2041 | Pension Funding -<br>Interest Rates<br>varying from 4.95%<br>to 5.88% Series<br>2003 and 2011,<br>due serially to 2033 | General Obligation<br>Refunding Series<br>2003 through 2012<br>- Interest Rates<br>varying from 2.0%<br>to 7.3% due<br>serially to 2033 | Total General<br>Obligation<br>Indebtedness |
|---|---|--|---|---|
| Balance at June 30, 2015                |   |  |   |   |
| Principal                               | \$ 11,241,686,395   | \$ 12,700,000,000  | \$ 2,903,217,055  | \$ 26,844,903,450                           |
| Interest                                | 6,922,906,203   | 6,540,738,000  | 676,836,426   | 14,140,480,629                              |
| Total                                   | <u>18,164,592,598</u>   | <u>19,240,738,000</u>  | <u>3,580,053,481</u>  | <u>40,985,384,079</u>                       |
| Redemptions charge<br>to Appropriations |   |  |   |   |
| Principal                               | 516,116,084 *   | 700,000,000 *  | 413,990,256   | 1,630,106,340                               |
| Interest                                | 630,397,203   | 656,454,000  | 140,888,338   | 1,427,739,541                               |
| Total                                   | <u>1,146,513,287</u>  | <u>1,356,454,000</u>   | <u>554,878,594</u>  | <u>3,057,845,881</u>                        |
| Certificates/Bonds issued               |   |  |   |   |
| Principal                               | 1,030,000,000   | -  | -   | 1,030,000,000                               |
| Interest                                | 584,310,555   | -  | -   | 584,310,555                                 |
| Total                                   | <u>1,614,310,555</u>  | <u>-</u>   | <u>-</u>  | <u>1,614,310,555</u>                        |
| Refunding                               |   |  |   |   |
| Principal                               | -   | -  | -   | -   |
| Interest                                | -   | -  | -   | -   |
| Total                                   | <u>-</u>  | <u>-</u>   | <u>-</u>  | <u>-</u>                                    |
| Balance at June 30, 2016                |   |  |   |   |
| Principal                               | 11,755,570,311  | 12,000,000,000   | 2,489,226,799   | 26,244,797,110                              |
| Interest                                | 6,876,819,555   | 5,884,284,000  | 535,948,088   | 13,297,051,643                              |
| Total                                   | <u>\$ 18,632,389,866</u>  | <u>\$ 17,884,284,000</u>   | <u>\$ 3,025,174,887</u>   | <u>\$ 39,541,848,753</u>                    |

Amounts due within one year

|           |                         |
|-----------|-------------------------|
| Principal | \$ 1,997,145,000        |
| Interest  | 1,360,576,444           |
| Total     | <u>\$ 3,357,721,444</u> |

\*An adjustment was made subsequent to release of the fiscal year 2016 financial statements. Principal redemptions of \$100,000,000 reported under Multi-Purpose in the 2016 report are now reported under Pension Funding.



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Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

**NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)**

Interest on zero coupon bonds is reflected in the previous schedules as interest to agree to the charge to appropriations. Interest on such bonds is reflected as principal in the debt service requirement schedule below.

Future general obligation debt service requirements at June 30, 2017, are as follows:

| Year ending June 30 | Principal                | Interest                 | Total                    |
|---------------------|--------------------------|--------------------------|--------------------------|
| 2018                | \$ 2,007,050,000         | \$ 1,288,447,388         | \$ 3,295,497,388         |
| 2019                | 1,995,985,000            | 1,185,964,873            | 3,181,949,873            |
| 2020                | 1,122,630,000            | 1,080,833,884            | 2,203,463,884            |
| 2021                | 1,150,090,000            | 1,024,476,697            | 2,174,566,697            |
| 2022                | 1,168,029,945            | 965,005,075              | 2,133,035,020            |
| 2023-2027           | 6,289,325,113            | 3,875,956,021            | 10,165,281,134           |
| 2028-2032           | 7,313,374,991            | 2,126,009,603            | 9,439,384,594            |
| 2033-2037           | 3,129,919,951            | 479,523,993              | 3,609,443,944            |
| 2038-2042           | 586,800,000              | 50,624,600               | 637,424,600              |
| Total               | <u>\$ 24,763,205,000</u> | <u>\$ 12,076,842,134</u> | <u>\$ 36,840,047,134</u> |

The principal amounts reflected above include accretion to date on zero-coupon bonds.

Additional information and disclosures related to the State's General Obligation Indebtedness are presented in the State of Illinois Comprehensive Annual Financial Report. This report may be obtained online at [www.illinoiscomptroller.gov](http://www.illinoiscomptroller.gov) or by writing to the Illinois Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858.

**NOTE I. CONTINGENCIES**

The State of Illinois, Office of the Treasurer (Treasurer) is involved in certain lawsuits and other legal proceedings. While the range of potential losses as a result of these lawsuits and other proceedings against the Treasurer are unknown at this time, the Office believes the potential losses would be immaterial to the Fiscal Officer Responsibilities financial statements.

**NOTE J. SUBSEQUENT EVENTS**

On July 6, 2017 the State of Illinois adopted an operating budget for General Revenue Funds for expenditures from January 1, 2017 through June 30, 2017. The Illinois State Treasurer's Office (Treasurer's Office) is a constitutional office of the State of Illinois and operates under an approved budget. The Treasurer's Office processed payments from General Revenue Funds for expenditures incurred from January 1, 2017 through June 30, 2017 during the fiscal year 2017 lapse period. The salaries of Treasurer's Office employees during fiscal year 2017 were made pursuant to a July 2015 court order.

**State of Illinois  
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**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

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**NOTE J. SUBSEQUENT EVENTS (CONTINUED)**

Subsequent to June 30, 2017, the State of Illinois issued \$6,000,000,000 in General Obligation Bonds, Series of November 2017. The bonds were issued November 8, 2017 in four series including \$500,000,000 series of November 2017A maturing November 2018, \$500,000,000 series of November 2017B maturing November 2019, \$500,000,000 series of November 2017C maturing November 2029, and \$4,500,000,000 series of November 2017D with annual maturities of \$500,000,000 from November 2020 to November 2028. The interest rate for the bonds is 5% except for the bonds maturing November 2026 that have an interest rate of 3.25%.

Subsequent to June 30, 2017, the State of Illinois issued \$750,000,000 in General Obligation Bonds, Series of December 2017. The bonds were issued on December 13, 2017 in two series including \$655,000,000 series of December 2017A with maturities on December 1<sup>st</sup> each subsequent year through 2042 and \$95,000,000 series of December 2017B with maturities on December 1<sup>st</sup> each subsequent year through 2027. The interest rates for the series of December 2017A range from 4.00% - 5.25% with a final maturity in 2042. The interest rate for the series of December 2017B is 5.00% with a final maturity in 2027.

## **Supplementary Information**

**State of Illinois  
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**Fiscal Officer Responsibilities  
Assets and Other Debits, Liabilities and Accountabilities  
June 30, 2017 and 2016**

The following summary compares the assets and other debits, liabilities and accountabilities of the Treasurer's Fiscal Officer accounts:

|   | June 30,          |                   |
|---|-------------------|-------------------|
|   | 2017              | 2016              |
| <b>Assets and Other Debits</b>                |                   |                   |
| Cash and Cash Equivalents                     | \$ 4,926,310,885  | \$ 8,073,434,694  |
| Deposits and Investments                      | 9,317,324,874     | 5,695,130,800     |
| Securities Lending Collateral                 | 3,522,922,500     | 2,603,015,000     |
| Other Assets                                  | 28,755,296        | 16,102,042        |
| Other Debits                                  | 35,620,354,797    | 38,220,779,191    |
| Total Assets and Other Debits                 | \$ 53,415,668,352 | \$ 54,608,461,727 |
| <b>Liabilities for Balances on Deposit</b>    |                   |                   |
| Comptroller                                   |                   |                   |
| Protested Taxes                               | \$ 87,638,527     | \$ 136,048,539    |
| Available for Appropriation or Expenditure    | 11,269,376,040    | 10,817,813,138    |
| Agencies' Deposits Outside the State Treasury | 1,015,395,813     | 873,270,247       |
| Comptroller's Warrants Outstanding            | 638,105,706       | 602,008,740       |
| Total Liabilities for Balances on Deposit     | 13,010,516,086    | 12,429,140,664    |
| Other Liabilities                             | 3,522,922,500     | 2,603,015,000     |
| General Obligation Indebtedness               | 36,840,047,134    | 39,541,848,753    |
| Total Liabilities                             | 53,373,485,720    | 54,574,004,417    |
| <b>Accountabilities</b>                       |                   |                   |
| Receivable from City of Edwardsville          | 230,656           | 236,983           |
| Investment Income Earned, but not Received    | 41,951,976        | 34,220,327        |
| Total Accountabilities                        | 42,182,632        | 34,457,310        |
| Total Liabilities and Accountabilities        | \$ 53,415,668,352 | \$ 54,608,461,727 |

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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail  
June 30, 2017 and 2016**

Cash on hand, deposits and cash equivalents are summarized below:

|   | June 30,                |                         |
|---|-------------------------|-------------------------|
|   | 2017                    | 2016                    |
| Cash and Cash Equivalents                         |                         |                         |
| Demand Deposits                                   | \$ 7,268,532            | \$ 1,867,039            |
| Clearing Account Deposits and Deposits in Transit | 31,548,075              | 41,478,623              |
| Repurchase Agreements                             | 1,954,797,989           | 1,949,702,256           |
| Commercial Paper                                  | 434,307,063             | 2,428,100,952           |
| Time Deposits                                     | -                       | 15,000,000              |
| The Illinois Funds                                | 1,393,601,529           | 1,323,452,120           |
| Federal Home Loan Bank Discount Notes             | 99,910,070              | 169,949,100             |
| Money Market Mutual Funds                         | 1,004,587,650           | 1,993,961,139           |
| Municipal Bonds - Externally Managed              | 289,977                 | -                       |
| U.S. Treasury Bills                               | -                       | 149,923,465             |
|   | <u>\$ 4,926,310,885</u> | <u>\$ 8,073,434,694</u> |
| Total Cash and Cash Equivalents                   |                         |                         |

Demand deposit accounts are the principal accounts used to process cash and investment transactions within the State Treasury. The clearing accounts are used to process collected receipts and to identify nonsufficient fund checks. Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

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**Fiscal Officer Responsibilities  
Assets and Other Debits - Detail (Continued)  
June 30, 2017 and 2016**

|  | June 30, 2017     |                 | June 30, 2016       |                     |
|--|-------------------|-----------------|---------------------|---------------------|
|  | Collected         | Float           | Collected           | Float               |
| Demand Deposits  |                   |                 |                     |                     |
| Bank of America  | \$ 598,798        | \$ -            | \$ 1,027,318        | \$ -                |
| JP Morgan Chase  | 217,512           | -               | 46,400              | -                   |
| Wells Fargo Bank   | 14,499            | 1,052           | 17,402              | 21,032              |
|  | <u>\$ 830,809</u> | <u>\$ 1,052</u> | <u>\$ 1,091,120</u> | <u>\$ 21,032</u>    |
| Net Reconciling Items (e.g., Deposits-in-Transit and Outstanding Drafts) |                   |                 |                     |                     |
|  |                   |                 |                     | <u>754,887</u>      |
|  |                   |                 |                     | <u>\$ 1,867,039</u> |

Note - The total bank balances represent all funds recorded by the financial institution. This balance includes the float and collected amounts. The float balance represents funds credited to the ledger balance which were unavailable, subject to the clearing process. The collected balance represents available funds which have completed the clearing process.

**State of Illinois  
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**Fiscal Officer Responsibilities  
Assets and Other Debits - Detail (Continued)  
June 30, 2017 and 2016**

|   | June 30, 2017       |                      | June 30, 2016       |                      |
|---|---------------------|----------------------|---------------------|----------------------|
|   | Collected           | Bank Balances        | Collected           | Bank Balances        |
|   |                     | Float                |                     | Float                |
|   |                     | Total                |                     | Total                |
| Clearing Account Deposits and Deposits in Transit |                     |                      |                     |                      |
| Bank of America                                   | \$ 239,677          | \$ 249,962           | \$ 163,064          | \$ 1,266,196         |
| DuQuoin State Bank                                | 39,647              | -                    | 40,001              | -                    |
| JP Morgan   | 258,600             | 13,468               | 206,919             | 8,551                |
| Fifth Third                                       | 16,578              | 25,793,691           | 9,887               | 30,477,111           |
| Illinois National Bank                            | 200,002             | 345,178              | 175,001             | 1,047,218            |
| US Bank-Springfield                               | 1,438,809           | 2,947,124            | 4,956,427           | 3,123,118            |
| Wells Fargo Bank                                  | 5,339               | -                    | 5,130               | -                    |
|   | <u>\$ 2,198,652</u> | <u>\$ 29,349,423</u> | <u>\$ 5,556,429</u> | <u>\$ 35,922,194</u> |
|   |                     | 31,548,075           |                     | 41,478,623           |

Net reconciling items (e.g., deposits-in-transit and outstanding drafts)

|                                 |                      |
|---------------------------------|----------------------|
|                                 | -                    |
| Total clearing account deposits | <u>\$ 31,548,075</u> |
|                                 | <u>\$ 41,478,623</u> |

Note - The total bank balances represent all funds recorded by the financial institution. This balance includes the float and collected amounts. The float balance represents funds credited to the ledger balance which were unavailable, subject to the clearing process. The collected balance represents available funds which have completed the clearing process.

**State of Illinois  
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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2017 and 2016**

**Deposits and Investments**

Most of the Treasurer's investments at June 30, 2017 and 2016 are short-term due to the responsibility to keep funds "liquid" to reimburse banks for warrants paid.

Investments in the Treasurer's pooled accounts are authorized by statute. Certain investments are held in segregated accounts and are purchased at the request of the agency administering the segregated trust fund.

|   | June 30,         |                  |
|---|------------------|------------------|
|   | 2017             | 2016             |
| <b>Short-Term Deposits and Investments</b>              |                  |                  |
| Time Deposits   | \$ 119,189,278   | \$ 101,624,300   |
| Commercial Paper  | 2,556,112,766    | 1,717,734,612    |
| U.S. Treasury Bills                                     | 694,711,612      | 1,598,263,715    |
| U.S. Treasury Notes                                     | 948,486,685      | 250,142,580      |
| Federal Home Loan Mortgage Corporation                  | 274,567,000      | 69,992,400       |
| Federal National Mortgage Association                   | 124,702,500      | -                |
| Federal Home Loan Bank                                  | 164,775,150      | 94,836,095       |
| Federal Farm Credit Banks                               | 124,707,000      | 122,628,803      |
| Federal Agriculture Mortgage Corporation                | 340,249,190      | 99,938,750       |
| Federal National Mortgage Association Discount Notes    | 99,732,847       | 249,654,722      |
| Federal Home Loan Mortgage Corporation Discount Notes   | 273,323,958      | 398,879,312      |
| Federal Home Loan Bank Discount Notes                   | 223,709,170      | -                |
| Federal Agriculture Mortgage Corporation Discount Notes | 120,016,365      | -                |
| Supranational Bonds                                     | 39,879,400       | -                |
| Municipal Bonds - Externally Managed                    | 1,019,193        | -                |
| Corporate Bonds - Externally Managed                    | 19,603,596       | -                |
| Foreign Investments                                     | 10,000,000       | -                |
| Total Short-Term Deposits and Investments               | 6,134,785,710    | 4,703,695,289    |
| <b>Long-Term Deposits and Investments</b>               |                  |                  |
| Time Deposits   | 2,934,074        | 2,713,478        |
| U.S. Treasury Notes                                     | 493,449,875      | 51,011,720       |
| Federal Home Loan Mortgage Corporation                  | 952,101,900      | 375,123,000      |
| Federal Home Loan Bank                                  | 329,013,050      | 143,925,750      |
| Federal National Mortgage Association                   | 332,805,200      | 124,880,250      |
| Federal Farm Credit Banks                               | 199,562,250      | 25,043,000       |
| Federal Agriculture Mortgage Coporation                 | 612,137,790      | 141,612,610      |
| Supranational Bonds                                     | 59,371,100       | 50,133,900       |
| State of Illinois Secondary Pool Investment Program     | 39,700           | 61,463           |
| Illinois Technology Development                         | 52,360,431       | 54,191,137       |
| Illinois Technology Development II                      | 26,475,646       | 2,436,095        |
| Foreign Investments                                     | 30,000,000       | 20,000,000       |
| Municipal Bonds   | 1,884,821        | 303,108          |
| Municipal Bonds - Externally Managed                    | 4,300,289        | -                |
| Corporate Bonds   | 55,321,831       | -                |
| Corporate Bonds - Externally Managed                    | 30,781,207       | -                |
| Total Long-Term Deposits and Investments                | 3,182,539,164    | 991,435,511      |
| Total Deposits and Investments                          | \$ 9,317,324,874 | \$ 5,695,130,800 |



**State of Illinois  
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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2017 and 2016**

**Deposits and Investments (Continued)**

In allocating funds for short-term investment, the portions allocated to time deposits (certificates of deposit) commercial paper, mutual funds, and bank notes are based on forecasts of anticipated receipts and disbursements to determine funds not needed for at least 30 days from date of investment. Substantially all remaining available funds are invested in repurchase agreements with banks and brokerage firms.

The average yield for investments including amounts listed as cash equivalents on the 2017 and 2016 financial statements was .79% and .45%, respectively.

**Securities Lending Collateral**

The securities lending collateral represents investments made with cash collateral received for U.S. Agency Securities, U.S. Treasury Bills, U.S. Treasury Notes and U.S. Agency Discount Notes lent and any remaining cash collateral received but not yet invested. The cash collateral received on each loan will be returned for the same securities in the future.

|                                   | June 30          |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2017             | 2016             |
| Securities Lending Collateral     |                  |                  |
| Invested in Repurchase Agreements | \$ 3,522,922,500 | \$ 2,603,015,000 |

**Other Assets**

This classification includes other assets not available for investment and transactions in process. Details at June 30 follow:

|   | June 30       |               |
|---|---------------|---------------|
|   | 2017          | 2016          |
| Warrants Cashed, but Not Canceled                                 | \$ -          | \$ 5,000      |
| Receivables from Universities and Agencies<br>for Monies Advanced | 380,007       | 4,864,268     |
| Receivable from City of Edwardsville                              | 230,656       | 236,983       |
| Investment Income Earned, but Not Received                        | 28,144,633    | 10,995,791    |
| Total Other Assets  | \$ 28,755,296 | \$ 16,102,042 |

**State of Illinois  
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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2017 and 2016**

**Other Assets (Continued)**

The account balances of warrants cashed but not canceled and the receivable from universities and agencies represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2017 and 2016. The balances in these accounts will vary significantly from day to day, depending on the availability of investable funds and the timing of warrant presentation for payment.

The noninterest-bearing amount receivable from the City of Edwardsville (City) is stated as the unpaid balance of funds advanced to the City in 1967 for the planning and construction of a water main. The repayment terms require the City to pay into the State Treasury ten cents per one thousand gallons of water sold by the City to users receiving water from this main.

Repayments received for the years ended June 30, 2017 and 2016, were \$6,326 and \$5,998, respectively.

Investment income earned but not received represents accrued income on investments not yet matured or collected. The balance fluctuates based on market adjustments, total investments and investment maturity dates.

**Amount of Future General Revenue Obligated for Debt Service**

The following summary reflects the general revenue obligated for debt service:

|  | June 30               |                       |
|--|-----------------------|-----------------------|
|  | 2017                  | 2016                  |
| Certificates, Bonds and Coupons Maturing in Next Fiscal Year   | \$ 3,295,497,388      | \$ 3,357,721,444      |
| Less - Balance on Deposit in State Treasury at Year End, for<br>Certificate and Bond Redemption and Interest | (1,219,692,337)       | (1,321,069,562)       |
| Amount Obligated from Future General Revenue   |                       |                       |
| General Revenue - Next Fiscal Year   | 2,075,805,051         | 2,036,651,882         |
| General Revenue - Thereafter   | 33,544,549,746        | 36,184,127,309        |
| <br>Amount of Future General Revenue Obligated for<br>Debt Service at Fiscal Year End                        | <br>\$ 35,620,354,797 | <br>\$ 38,220,779,191 |

**State of Illinois  
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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2017 and 2016**

**Amount of Future General Revenue Obligated for Debt Service (Continued)**

A summary of the changes during fiscal years 2017 and 2016, in the amount of future general revenue obligated for debt service is as follows:

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| Balance at Beginning of Fiscal Year                 | \$ 38,220,779,191 | \$ 39,772,804,089 |
| Issuance of Certificates and Bonds                  | 2,593,843,722     | 1,614,310,555     |
| Bonds and Coupons Redeemed                          | (3,346,019,691)   | (3,057,845,881)   |
| Bonds and Coupons Refunded                          | (1,949,625,650)   | -                 |
| Net Change in Balances on Deposit in State Treasury | 101,377,225       | (108,489,572)     |
| Balance at End of Fiscal Year                       | \$ 35,620,354,797 | \$ 38,220,779,191 |

The amount of future general revenue obligated for debt service reconciled with total indebtedness at June 30 is as follows:

|   | June 30           |                   |
|---|-------------------|-------------------|
|   | 2017              | 2016              |
| <u>General Obligation Bonds</u>   |                   |                   |
| Amount of Future General Revenue Obligated for Debt Service                             | \$ 35,620,354,797 | \$ 38,220,779,191 |
| Balance on Deposit in the State Treasury at June 30 for<br>Bond Redemption and Interest | 1,219,692,337     | 1,321,069,562     |
| Total Indebtedness at June 30   | \$ 36,840,047,134 | \$ 39,541,848,753 |

The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The balancing amount included in assets in the statements of assets and other debits, liabilities and accountabilities of the Treasurer is equivalent to the amount to be derived from future general revenue for debt service. The proceeds of these certificate and bond issues are accounted for by other State agencies.

Under the Short Term Borrowing Act whenever casual deficits or failures in revenue of the State occur, monies borrowed are applied to the purpose for which they were obtained, or to pay the debts thus created, and to no other purpose. The interest and principal are paid by the Treasurer out of the General Obligation Bond Retirement and Interest Fund. All monies borrowed shall be borrowed for no longer than one year.

**State of Illinois  
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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2017 and 2016**

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**Amount of Future General Revenue Obligated for Debt Service (Continued)**

There were no General Obligation Certificates issued under the Short Term Borrowing Act during fiscal years 2017 or 2016.

The General Obligation Bond Act (Act) was passed by the General Assembly in December 1984. Under this Act, effective December 1, 1984, the balance of, and monies directed to be included in the Capital Development Bond Retirement and Interest Fund, Anti-Pollution Bond Retirement and Interest Fund, Transportation Bond Series A Retirement and Interest Fund, Transportation Bond Series B Retirement and Interest Fund, Coal and Energy Development Bond Retirement and Interest Fund, and School Construction Bond Retirement and Interest Fund were transferred to and deposited in the General Obligation Bond Retirement and Interest Fund. This fund is used to make debt service payments on the State's general obligation bonds, which are payable from the funds listed above, as well as the bonds issued under the Act.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Liabilities and Accountabilities – Detail  
June 30, 2017 and 2016**

**Liabilities for Balances on Deposit**

Protested Taxes: Substantially all of the \$87,638,527 and \$136,048,539 at June 30, 2017 and 2016, respectively, in the Protest Trust Fund has been enjoined by the courts pending the outcome of cases in process. By statute, a taxpayer making a tax payment "under protest" has 30 days to initiate a court suit and obtain an injunction. If not enjoined, the tax payments are transferred to the fund in the State Treasury that would have received the original deposit.

Available for Appropriation or Expenditure: This amount is the State of Illinois' balance at June 30 available to be appropriated by the general assembly or expended by State agencies.

Agencies' Deposits Outside the State Treasury: The liability for agencies' deposits not under the statutory recordkeeping control of the Comptroller consists of:

|   | 2017             | 2016           |
|---|------------------|----------------|
| Treasurer's Clearing Account Balances   | \$ 210,595,314   | \$ 245,180,203 |
| Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury | 101,781,948      | 8,617,130      |
| Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts             | 528,494,911      | 422,217,898    |
| Deposits in Demand Accounts in Process of Being Ordered into the State Treasury         | 174,523,640      | 197,255,016    |
| Total Agency Deposits Outside the State Treasury  | \$ 1,015,395,813 | \$ 873,270,247 |

The Treasurer's liability for agencies' deposits outside the State Treasury is composed principally of deposits of county and municipal retailers' occupation taxes and State income taxes awaiting designation of account distribution before being deposited in the State Treasury. Agencies' deposits outside the State Treasury consist principally of cash and short-term investments.

Comptroller's Warrants Outstanding: Warrants prepared by the Comptroller are recorded as outstanding upon countersignature by the Treasurer. Warrants outstanding are reduced when paid warrants are returned to the Comptroller.

**Other Liabilities**

Obligations under securities lending: This amount represents cash collateral received and invested in Repurchase Agreements for U.S. Treasury Bills, U.S. Treasury Notes, U.S. Agency Securities, and U.S. Agency Discount Notes lent that will be returned for the same securities in the future.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Liabilities and Accountabilities – Detail  
June 30, 2017 and 2016**

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**Liabilities for Balances on Deposit (Continued)**

**General Obligation Indebtedness**

Refer to the “Amount of Future General Revenue Obligated for Debt Service” section of the “Supplementary Information – Assets and Other Debits – Detail” part of the report for information relating to outstanding general obligation indebtedness.

**Accountabilities**

Refer to the “Other Assets” section of the “Supplementary Information – Assets and Other Debits – Detail” part of the report for information relating to these accountabilities.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income  
For the Years Ended June 30, 2017 and 2016**

Investment income earned by the Treasurer is summarized by fund as follows:

|                              | 2017          | 2016          |
|------------------------------|---------------|---------------|
| General Revenue Fund         | \$ 53,379,240 | \$ 29,552,833 |
| Other State funds            | 37,577,064    | 26,680,489    |
| Segregated State trust funds | 6,893,259     | 2,625,286     |
|                              | \$ 97,849,563 | \$ 58,858,608 |

An analysis of investment income earned, classified by fund, is shown below:

| Funds Participating in Pooled Investments            |               |               |
|--|---------------|---------------|
| General Revenue Fund                                 | \$ 53,379,240 | \$ 29,552,833 |
| Aggregated Operations Regulatory Fund                | 4,175         | 2,685         |
| Airport Land Loan Revolving Fund                     | 675           | 494           |
| Alternative Compliance Market Account Fund           | 1,943         | 315           |
| Ambulance Revolving Loan Fund                        | 37            | 37            |
| AML Reclamation Set Aside Fund                       | 287,959       | 209,716       |
| Appraisal Administration Fund                        | 9,759         | 10,177        |
| Assisted Living and Shared Housing Regulatory Fund   | 6,621         | 2,280         |
| Autism Research Checkoff Fund                        | 29            | 32            |
| Autoimmune Disease Research Fund                     | 327           | 238           |
| Bank & Trust Company Fund                            | 74,213        | 43,924        |
| Brownfields Redevelopment Fund                       | 15,741        | 12,705        |
| Budget Stabilization Fund                            | 471,651       | 918,646       |
| Build Illinois Bond Retirement and Interest Fund     | 74,284        | 47,691        |
| Build Illinois Capital Revolving Loan Fund           | 22,549        | 21,210        |
| Build Illinois Fund                                  | 135,271       | 111,985       |
| Capital Project Fund                                 | 439,089       | 209,818       |
| Care Provide Persons with Developmental Disabilities | 21,901        | 13,139        |
| Cemetery Consumer Protection Fund                    | 414           | 983           |
| Cemetery Relief                                      | 1,328         | 680           |
| Charitable Trust Stabilization Fund                  | 26,077        | 17,534        |
| Chicago State University Education Improvement Fund  | 9,742         | 8,505         |
| Child Abuse Prevention Fund                          | 721           | 916           |
| Clean Air Act (CAA) Permit Fund                      | 47,938        | 33,696        |
| Coal Mining Regulatory Fund                          | 1,280         | 1,864         |
| Common School Fund                                   | 889,603       | 853,070       |
| Community College Health Insurance Security Fund     | 17,040        | 8,867         |
| Community DD Services Medicaid Trust Fund            | 345,263       | 135,087       |
| Community Mental Health Medical Trust Fund           | 172,281       | 128,730       |
| Community Water Supply Laboratory Fund               | 6,315         | 5,723         |
| Compassionate Use of Medical Cannabis Fund           | 50,285        | 37,451        |
| Conservation Police Operations Assistance Fund       | 14,730        | 7,677         |

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Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2017 and 2016**

|  | 2017      | 2016      |
|--|-----------|-----------|
| Funds Participating in Pooled Investments (Continued)        |           |           |
| County Automobile Renting Tax Fund                           | \$ 217    | \$ 188    |
| County Hospital Services Fund                                | 139,123   | 57,899    |
| County Option Motor Fuel Tax Fund                            | 30,547    | 23,817    |
| County Water Commission Tax Fund                             | 5,930     | 26,536    |
| Credit Union Fund  | 15,793    | 11,701    |
| Criminal Justice Trust Fund                                  | 137,618   | 114,286   |
| Debt Settlement Consumer Protection Fund                     | 2,655     | 1,947     |
| Design Professionals Administration and Investigation Fund   | 4,789     | 3,813     |
| DHS Community Services Fund                                  | 119,070   | 68,395    |
| DHS Technology Initiative Fund                               | 58,117    | 27,778    |
| Diabetes Research Checkoff Fund                              | 622       | 270       |
| Digital Divide Elimination Infrastructure Fund               | -         | 31        |
| Drug Rebate Fund   | 243,369   | 267,269   |
| Drycleaner Environmental Response Trust Fund                 | 14,977    | 11,608    |
| Early Intervention Services Fund                             | 26,919    | 26,825    |
| Electronics Recycling Fund                                   | 5,992     | 4,409     |
| Environmental Laboratory Certification Fund                  | 2,373     | 942       |
| EPA Court Ordered Trust Fund                                 | 44        | 34        |
| Explosive Regulatory Fund                                    | 2,394     | 1,652     |
| Facilities Management Fund                                   | 334,518   | 120,807   |
| Fair Share Trust   | 896       | 659       |
| Family Care Fund   | 9,814     | 36,323    |
| Federal Asset Forfeiture Fund                                | 4,673     | 4,751     |
| Federal Home Investment Trust Fund                           | 3,861     | 14,486    |
| Federal Student Loan Fund                                    | 271,622   | 195,196   |
| Federal Workforce Training Fund                              | 475       | 502       |
| Fire Truck Revolving Loan Fund                               | 1,642     | 1,043     |
| Fish and Wildlife Endowment Fund                             | 16,450    | 11,757    |
| Food and Drug Safety Fund                                    | 7,808     | 2,235     |
| Gaining Early Awareness Fund                                 | 23,838    | 21,242    |
| General Assembly Retirement Excess Benefits Fund             | 383       | 207       |
| General Assembly Retirement Fund                             | 39,257    | 23,681    |
| General Obligation Bond Retirement and Interest Fund         | 8,795,441 | 5,925,405 |
| General Professions Dedicated Fund                           | 71,792    | 39,801    |
| Group Home Loan Revolving Fund                               | 378       | 259       |
| Group Insurance Premium                                      | 132,599   | 77,494    |
| Group Workers Compensation Pool                              | 15,487    | 10,832    |
| Hansen-Therkelsen Memorial Deaf Student College Fund         | 7,418     | 5,412     |
| Health and Human Services Medicaid Trust Fund                | 56,572    | 94,708    |
| Health Information Exchange Fund                             | 3,076     | 4,505     |
| Health Insurance Reserve Fund                                | 1,519,296 | 1,153,362 |
| Healthcare Providers Relief Fund                             | 345,917   | 268,215   |
| Hearing Instrument Dispenser Examining and Disciplinary Fund | 170       | 167       |
| Help Illinois Vote Fund                                      | 15,837    | 15,447    |



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**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2017 and 2016**

|  | 2017     | 2016     |
|--|----------|----------|
| Funds Participating in Pooled Investments (Continued)      |          |          |
| Home Inspector Administration Fund                         | \$ 7,157 | \$ 2,694 |
| Home Rule City Retailers' Occupation Tax Fund              | 652,106  | 382,310  |
| Home Rule Municipal Retailers' Occupation Tax Fund         | 475,611  | 390,376  |
| Home Services Medicaid Trust Fund                          | 141,269  | 157,696  |
| Hospital Licensure Fund                                    | 25,483   | 10,402   |
| Hospital Provider Fund                                     | 989,648  | 725,399  |
| Human Service Priority Cap Program Fund                    | 23       | 14       |
| Illinois Affordable Housing Trust Fund                     | 202,482  | 166,229  |
| Illinois Beach Marina Fund                                 | 417      | 1,499    |
| Illinois Clean Water Act                                   | 102,305  | 66,187   |
| Illinois Equity Fund                                       | 5,729    | 2,715    |
| Illinois Farmer and Agri-Business Loan Guarantee Fund      | 56,888   | 41,737   |
| Illinois Habitat Fund                                      | 47,106   | 29,738   |
| Illinois Power Agency Trust Fund                           | -        | 90       |
| Illinois State Dental Disciplinary Fund                    | 27,841   | 22,129   |
| Illinois State Medical Disciplinary Fund                   | 105,019  | 68,928   |
| Illinois State Pharmacy Disciplinary Fund                  | 28,147   | 12,292   |
| Illinois State Podiatric Disciplinary Fund                 | 4,728    | 2,388    |
| Illinois State Police Federal Projects Fund                | 2,021    | 1,643    |
| Illinois State Police Operations Assistance Fund           | 124,141  | 63,791   |
| Illinois Veteran's Assistance Fund                         | 5,829    | 5,041    |
| Injured Workers Benefit Fund                               | 22,679   | 12,013   |
| Innovations in Long-Term Care Quality Demonstration Grants | 12,220   | 4,495    |
| Intercity Passenger Rail Fund                              | 2,155    | 1,170    |
| Interpreters for the Deaf Fund                             | 2,922    | 1,591    |
| Judges Retirement Excess Benefits Fund                     | 6,276    | 3,717    |
| Judges Retirement Fund                                     | 274,869  | 162,851  |
| Juvenile Accountability Incentive Block Grant Fund         | 1,330    | 4,996    |
| Kaskaskia Commons Permanent School Fund                    | 1,655    | 1,219    |
| Large Business Attraction Fund                             | 13,144   | 9,196    |
| Law Enforcement Camera Grant Fund                          | 12,679   | 9,406    |
| Local Government Health Insurance Reserve Fund             | 44,059   | 22,498   |
| Long-Term Care Ombudsman Fund                              | 13,998   | 7,474    |
| Long-Term Care Provider Fund                               | 310,563  | 135,730  |
| Medicaid Buy-In Program Revolving Fund                     | 6,123    | 3,751    |
| Mental Health Reporting Fund                               | 27,317   | 13,308   |
| Metro East Mass Transit District Tax Fund                  | 26,666   | 22,231   |
| Metropolitan Pier and Exposition Authority Trust Fund      | 93,677   | 115,002  |
| Money Follows the Person Budget Fund                       | 36,646   | 18,809   |
| Motor Vehicle Theft Prevention Fund                        | 72,596   | 20,764   |
| Multiple Sclerosis Research Fund                           | 2,684    | 8,368    |
| Municipal Automobile Renting Tax Fund                      | 6,064    | 4,885    |
| Non-Home Rule Municipal Retailer's Occupation Tax Fund     | 128,000  | 104,938  |
| Nuclear Safety Emergency Preparedness Fund                 | 70,320   | 46,515   |
| Nursing Dedicated and Professional Fund                    | 95,725   | 30,263   |
| Off-highway Vehicle Trails Fund                            | 9,554    | 5,038    |

**State of Illinois  
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**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2017 and 2016**

|   | 2017      | 2016      |
|---|-----------|-----------|
| Funds Participating in Pooled Investments (Continued)           |           |           |
| Oil Spill Response Fund   | \$ 574    | \$ 403    |
| Optometric Licensing and Disciplinary Committee Fund            | 4,914     | 2,529     |
| Personal Property Tax Replacement Fund                          | 652,314   | 561,886   |
| Plugging and Restoration Fund                                   | 18,530    | 9,581     |
| Prescription Pill and Drug Disposal Fund                        | 1,529     | 776       |
| Private Sewage Disposal Program                                 | 1,327     | 931       |
| Professional Services Fund                                      | 67,801    | 47,841    |
| Professions Indirect Cost Fund                                  | 102,053   | 99,905    |
| Public Agriculture Loan Guarantee                               | 72,541    | 53,925    |
| Public Health Services Revolving Fund                           | 20,716    | 28,080    |
| Public Infrastructure Construction Loan Revolving Fund          | 16,847    | 12,378    |
| Public Pension Regulation Fund                                  | 21,739    | 14,844    |
| Quality of Life Endowment Fund                                  | 7,715     | 3,911     |
| Radiation Protection Fund                                       | 45,737    | 24,318    |
| Radioactive Waste Facility Development and Operation Fund       | 11,190    | 7,216     |
| Rail Freight Loan Repayment Fund                                | 28,295    | 19,568    |
| Rate Adjustment Fund  | 33,980    | 22,207    |
| Real Estate Audit Fund  | 1,449     | 552       |
| Real Estate License Administration Fund                         | 50,753    | 31,223    |
| Real Estate Recovery Fund                                       | 10,447    | 6,527     |
| Real Estate Research and Education Fund                         | 3,587     | 2,868     |
| Regional Transit Authority Sales Tax Trust Fund                 | 431,494   | 304,397   |
| Registered CPA Administration and Disciplinary Fund             | 27,487    | 18,910    |
| Road Fund   | 7,818,541 | 4,755,325 |
| Road Transportation A Fund                                      | 217,076   | 153,353   |
| Salmon Fund   | 1,277     | 493       |
| Savings and Residential Finance Regulatory Fund                 | 32,309    | 18,785    |
| Savings Institution Regulatory Fund                             | 4,831     | 2,759     |
| School Technology Revolving Loan Fund                           | 14,480    | 8,763     |
| Second Injury Fund  | 4,834     | 3,324     |
| Securities Audit and Enforcement Fund                           | 98,549    | 42,009    |
| Self-Insurers Administration Fund                               | 2,490     | 2,546     |
| Self-Insurers Security Fund                                     | 143,564   | 105,465   |
| Sexual Assault Service & Prevention Fund                        | 3,061     | 3,491     |
| Sheffield February 1982 Agreed Order Fund                       | 21,141    | 16,423    |
| Special Olympics Illinois and Special Children's Charities Fund | 1,401     | 4,004     |
| St. Jude Children Research Fund                                 | 23        | 15        |
| State Assets Forfeiture Fund                                    | 24,967    | 11,581    |
| State Construction Account Fund                                 | 2,565,561 | 1,933,815 |
| State Employees Retirement Excess Benefits Fund                 | 2,055     | 1,593     |
| State Employees Retirement System Fund                          | 1,079,247 | 844,787   |
| State Employees' Deferred Compensation Plan Fund                | 21,680    | 16,592    |
| State Furbearer Fund  | 1,749     | 772       |
| State Migratory Waterfowl Stamp Fund                            | 35,404    | 21,340    |
| State Pheasant Fund   | 18,117    | 10,743    |

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2017 and 2016**

|   | 2017          | 2016          |
|---|---------------|---------------|
| Funds Participating in Pooled Investments (Continued)           |               |               |
| State Police Firearm Service Fund                               | \$ 58,025     | \$ 38,540     |
| State Police Merit Board Public Safety Fund                     | 30,325        | 15,483        |
| State Police Motor Vehicle Theft Prevention Fund                | -             | -             |
| State Rail Freight Loan Repayment Fund                          | 45,890        | 28,316        |
| State Small Business Credit Initiative Fund                     | 211,877       | 175,423       |
| State Treasurer Admin Fund                                      | 193           | 30            |
| State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund | 4,100         | 3,007         |
| Student Loan Operating Fund                                     | 391,142       | 263,459       |
| Supreme Court Historic Preservation Fund                        | 1,618         | 4,161         |
| Tax Compliance and Admin Fund                                   | 45,407        | 18,416        |
| Teachers' Health Insurance Security Fund                        | 275,694       | 172,015       |
| Teachers' Retirement Excess Benefits Fund                       | 225,305       | 165,664       |
| Teachers' Retirement System Fund                                | 1,057,174     | 640,916       |
| Ticket for the Cure Fund  | 10,515        | 9,233         |
| TOMA Consumer Protection  | 2,263         | 1,408         |
| Underground Resource Conservation Enforcement Trust Fund        | 14,116        | 7,093         |
| Underground Storage Tank Fund                                   | 450,415       | 234,627       |
| University of Illinois Hospital Services Fund                   | 152,563       | 74,689        |
| Violent Crime Victims Assistance Fund                           | 52,454        | 42,843        |
| Water Pollution Control Revolving Fund                          | 563,741       | 960,988       |
| Wildlife and Fish Fund  | 110,549       | 75,013        |
| Wildlife and Prairie Park Fund                                  | 439           | 265           |
| Worker's Compensation Revolving Fund                            | 188,743       | 67,321        |
| Working Capital Revolving Loan Fund                             | 2,259         | 1,528         |
|   | <hr/>         | <hr/>         |
| Total pooled investment income                                  | \$ 90,956,304 | \$ 56,233,322 |

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2017 and 2016**

|  | 2017          | 2016          |
|--|---------------|---------------|
| <b>Segregated Investments</b>                            |               |               |
| Agrichemical Incident Response Trust Fund                | \$ 19         | \$ 5          |
| College Savings Pool Administration Fund                 | 24,536        | 5,941         |
| Deferred Lottery Prize Winners Trust Fund                | 16,350        | 5,463         |
| Eric Operations Trust Fund                               | 377           | -             |
| Homeland Security Emergency Preparedness Trust Fund      | 21,691        | 4,636         |
| Illinois Habitat Endowment Trust Fund                    | 68,364        | 19,621        |
| Illinois Prepaid Tuition Trust Fund                      | 37,764        | 11,932        |
| Illinois State Toll Highway Revenue Fund                 | 6,252,738     | 2,457,348     |
| Kanerva vs State Trust Fund                              | 20            | (22)          |
| Municipal Wireless Service Emergency Trust Fund          | 8,193         | 643           |
| National Heritage Endowment Trust Fund                   | 2,404         | 690           |
| Radioactive Waste Facility Closure and Compensation Fund | 10            | 3             |
| Regulatory Trust Fund                                    | 2,355         | 622           |
| Title III Social Security and Employment Service         | 257,476       | 65,998        |
| Tobacco IPTIP  | 166,255       | 49,368        |
| Unemployment Compensation Special Administration Fund    | 34,707        | 3,038         |
|  | <hr/>         | <hr/>         |
| Total segregated investment income                       | 6,893,259     | 2,625,286     |
|  | <hr/>         | <hr/>         |
| Total investment income                                  | \$ 97,849,563 | \$ 58,858,608 |

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2017 and 2016**

An analysis of investment income earned by funds participating in pooled investments is shown below by type of investment:

|   | 2017                 | 2016                 |
|---|----------------------|----------------------|
| The Illinois Funds                                  | \$ 6,484,067         | \$ 1,165,957         |
| Time Deposits                                       | 622,242              | 338,023              |
| Money Market Mutual Fund                            | 4,003,855            | 2,421,258            |
| Repurchase Agreements                               | 7,517,304            | 2,629,269            |
| Commercial Paper                                    | 27,506,696           | 9,639,750            |
| Federal Farm Credit Bank Notes                      | 1,034,556            | 2,117,042            |
| State of Illinois Secondary Pool Investment Program | 1,590                | (29)                 |
| Federal National Mortgage Association               | 2,508,212            | 4,871,114            |
| Foreign Investments                                 | 618,228              | 388,765              |
| Federal Home Loan Mortgage Corporation              | 4,914,008            | 6,042,952            |
| Federal Home Loan Bank Notes                        | 2,929,066            | 5,904,245            |
| Supranational Bonds                                 | 72,736               | 693,597              |
| U.S. Treasury Bills                                 | 11,953,596           | 9,074,091            |
| U.S. Treasury Notes                                 | 5,479,535            | 3,568,054            |
| Illinois Technology Development                     | 9,630,108            | 5,361,972            |
| Federal Agriculture Mortgage Corporation            | 5,231,077            | 1,989,048            |
| Municipal Bonds                                     | 7,191                | 3,562                |
| Corporate Bonds                                     | 409,514              | -                    |
| IIMPP   | 32,723               | 24,652               |
|   | <u>\$ 90,956,304</u> | <u>\$ 56,233,322</u> |
| Total pooled investment income                      | <u>\$ 90,956,304</u> | <u>\$ 56,233,322</u> |

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Administrative Responsibilities  
For the Years Ended June 30, 2017 and 2016**

**Protest Trust Fund**

|   | 2017           | 2016           |
|---|----------------|----------------|
| Liability at Beginning of Year  | \$ 136,048,539 | \$ 90,456,742  |
| Add   |                |                |
| Trust Receipts Collected by Other State Agencies                          | 4,839,771      | 86,565,185     |
|   | 140,888,310    | 177,021,927    |
| Deduct  |                |                |
| Trust Disbursements for Refunds of Successfully<br>Protested Tax Payments | 48,590,181     | 21,859,228     |
| Transfers to Other Funds  | 4,659,602      | 19,114,160     |
|   | 53,249,783     | 40,973,388     |
| Liability at End of Year  | \$ 87,638,527  | \$ 136,048,539 |

## **OTHER INFORMATION**

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Key Performance Measures and Other Information  
For the Years Ended June 30, 2017 and 2016  
(Unaudited)**

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**Key Performance Measures:**

- The Illinois Funds' net asset base (net position) at 6/30/17 was \$4,657,930,012.
- The Illinois Funds' earned net investment income of \$38.1 million during FY17.
  
- Funded 652 Cultivate IL Annual Agriculture Invest deposits totaling \$107,446,650.
- Funded 19 Cultivate IL Annual Agriculture Long Term Invest deposits totaling \$1,132,102.
- Funded 1 Cultivate IL Alternative Agriculture Invest deposit totaling \$100,000.
  
- Total number of warrants successfully issued, countersigned and recorded: 3,066,080.
- Total number of warrants successfully canceled, paid and recorded: 2,978,191.
- Total amount of warrants successfully issued, countersigned and recorded: \$80,604,058,662.
  
- Total amount of estate tax collections: \$268,012,085
- Total amount of estate tax refunds: \$6,617,706
  
- The investment portfolio earned \$97,849,563 during fiscal year 2017.
- Investments yielded approximately .79% throughout the current year.
- The average investment base increased approximately \$1,545,174,129 from the prior year.
  
- The value of the Illinois Technology Development I account at cost as of 6/30/17 was \$36,776,235.
- The value of the Illinois Technology Development I account at estimated fair value as of 6/30/17 was \$52,360,431. Fair values were estimated by the individual technology development accounts' fund managers not the State Treasurer's Office or an independent third party.
- The value of the Illinois Technology Development II account at cost as of 6/30/17 was \$25,221,836.
- The value of the Illinois Technology Development II account at estimated fair value as of June 30, 2017 was \$26,475,646. Fair values were estimated by the individual technology development accounts' fund managers not the State Treasurer's Office or an independent third party.

**Other Information:**

**Inheritance and Estate Taxes**

The Treasurer's Fiscal Officer Responsibilities include joint responsibility with the Attorney General of the State of Illinois (Attorney General) for the collection of inheritance and estate taxes assessed by the circuit courts and the Attorney General, respectively.

Public Act 97-732 went into effect July 1, 2012. As a result, all Illinois Estate and Inheritance taxes are paid directly to the State Treasurer's Office by the estate rather than flowing through the county treasurers. Additionally, county treasurers no longer receive a monthly six percent estate tax distribution for collection services. Instead, six percent of all estate tax collections is deposited in the Estate Tax Refund Fund to be used exclusively for paying estate tax refunds.

Gross inheritance and estate tax receipts for the fiscal years ended June 30, 2017 and 2016, were \$268,012,085 and \$323,719,717, respectively.



**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Key Performance Measures and Other Information  
For the Years Ended June 30, 2017 and 2016  
(Unaudited)**

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**Other Information (Continued):**

**Inheritance and Estate Taxes (Continued)**

The State Treasurer's Office did not receive any new monies to fund its new collection responsibilities.

**Tobacco Settlement Recovery Fund**

Pursuant to Public Act 91-0646, the State Treasurer shall make deposits into the Tobacco Settlement Recovery Fund that shall contain deposits of all monies paid to the State for settlement proceeds and investment income. Pursuant to Public Act (Act) 96-0958, the Railsplitter Tobacco Settlement Authority (Authority) was established. The Act transferred the State's right to tobacco settlement proceeds to the Authority in exchange for the net proceeds of bonds and a right to the residual interest in tobacco settlement proceeds. On December 8, 2010, the Authority issued \$1.5 billion in bonds at an interest rate of 5.599%, with a maturity date of June 1, 2028. The following is a detail of the deposits into Fund Number 733:

|                                      | <u>2017</u>           | <u>2016</u>          |
|--------------------------------------|-----------------------|----------------------|
| Tobacco Settlement Proceeds          | \$ 101,771,964        | \$ 81,028,410        |
| Interest and Other Investment Income | <u>166,927</u>        | <u>26,268</u>        |
| Total Receipts and Deposits          | <u>\$ 101,938,891</u> | <u>\$ 81,054,678</u> |

**Investment Policy**  
**June 30, 2017 (Unaudited)**

**The Illinois State Treasurer's Office**  
**Investment Policy Statement for the State Investment Portfolio**  
**(effective October 2016 through July 2017)**  
**(Unaudited)**

**1.0 POLICY:**

Under this instrument, the Illinois State Treasurer's Investment Policy ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all funds under its control in a manner that provides the highest investment return using authorized instruments and supports community development efforts while meeting the State's daily cash flow demands in conformance with all state statutes governing the investment of public funds.

This Policy applies to all investments entered into on or after the adoption of this instrument. Until the expiration of investments made prior to the adoption of this Policy, such investments will continue to be governed by the policies in effect at the time such investments were made.

This Policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

**2.0 OBJECTIVE:**

The primary objective in the investment of state funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations of the State, and providing the highest investment return using authorized instruments.

**2.1 SAFETY:**

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risks.

**2.2 LIQUIDITY:**

The investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements that might be reasonably projected.

**2.3 RETURN ON INVESTMENT:**

The safety of principal and the availability of sufficient liquidity are the foremost objectives of the investment program. The investment portfolio shall be designed to obtain the highest available return given the foremost objectives. The Director of the State Portfolio and Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee (see Section 2.5 of this Policy), to determine the effectiveness of investment decisions in meeting investment goals. Benchmarks shall be reviewed at a minimum of every two years to ensure accuracy and relevance.

**2.4 SOCIALLY RESPONSIBLE INVESTING**

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

This Policy shall be implemented within a framework predicated on:

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

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

The portfolio's investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer's criteria for socially responsible investing and are within the framework of the investment objectives.

## **2.5 INVESTMENT POLICY COMMITTEE:**

The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Deputy Treasurer, Chief of Staff, Chief Investment Officer, Chief Policy and Programs Officer, General Counsel, Director of the Division of Accounting/Budget/Warrant, Director of the Division of State Portfolio and Banking, Portfolio Manager and Director of Portfolio Operations – Illinois Funds, Director of the Division of Illinois Funds and E-Pay Operations, Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer.

The Chief Investment Officer, who bears responsibility for the administration, planning, development and implementation of all financial and investment strategies per the direction of the Treasurer, shall assist the Treasurer in executing the duties and activities of the Investment Policy Committee.

## **3.0 ETHICS AND CONFLICTS OF INTEREST:**

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could conflict, or give the appearance of a conflict, with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

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

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers. No state funds may be deposited in any financial institution until receipt of a current satisfactory or outstanding rating under the Community Reinvestment Act of 1977 and investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services, unless the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed \$250,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 8.0 of this Policy. Furthermore, the financial institution's record and current level of financial commitment to its local community will be considered when deciding whether to deposit state funds in that financial institution. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/et seq.).

In addition, a list shall be maintained of approved security brokers/dealers selected according to their creditworthiness, and their financial significance in the state, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an

economic presence in the state. The list may include “primary” dealers or regional dealers who qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers that wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer’s credit review staff the following, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned or –managed broker/dealer status;
- c) A signed copy of the Treasurer’s trading authorization;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
- g) Certification of notice and knowledge of this Policy; and
- h) Any other documentation determined necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, it is the policy of the Treasurer to remove any barriers to the full participation in investment transactions afforded via the investment program by actively identifying and considering for hire brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status. The Treasurer’s Office shall establish a process by which said specially claimed statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

The Treasurer’s Office shall seek to accord preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. In doing so, the Treasurer’s Office shall establish a process to verify the location of broker/dealers’ corporate headquarters, and a review shall be conducted at fixed intervals to ensure that the Illinois-based location continues to apply.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer’s authorized investment officer(s). More frequent reviews may be conducted if warranted.

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the procurement rules at 44 Ill. Adm. Code 1400.

## 5.0 AUTHORIZED AND SUITABLE INVESTMENTS:

The Treasurer has authorized the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- a) Securities that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities; For purposes of this Section, the term "agencies and instrumentalities of the United States" includes: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971, and Acts amendatory thereto; the federal home loan banks and the federal home loan mortgage corporation; and any other agency created by Act of Congress and issues dollar-denominated debt;
- c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);
- d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;
- e) Interest-bearing accounts for the deposit of funds in support of local community development efforts;
- f) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States, which maintains its principal office in the State of Illinois;
- g) Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding \$500,000,000 and is rated at the time of purchase at one of the two highest classifications established by at least two standard rating services;
- h) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C.A. § 80a-1 et seq.) and rated at the highest classification of at least one standard rating service;
- i) The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- j) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5);
- k) Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated, at the time of purchase, within four intermediate credit ratings of the United States' sovereign credit rating by at least one accredited rating agency with nationally recognized expertise in rating bonds of states and their political subdivisions, but not less than an A- rating, or equivalent rating. The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the State of Illinois has a put option to tender the bonds within 10 years from the date of purchase;
- l) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations;
- m) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.);
- n) The Treasurer may lend any securities acquired under this policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent; and

- o) Obligations of either corporations or limited liability companies organized in the United States, that have a significant presence in the State of Illinois, with assets exceeding \$500,000,000 and is rated at the time of purchase at one of the three highest classifications established by at least two standard rating services. At the time of purchase, the maturity or pre-refunded date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five years.

## **6.0 INVESTMENTS RESTRICTIONS:**

- a) Any investments not authorized by this or any other investment policy or applicable law of the office are prohibited.
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers meeting the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
- c) All qualified repurchase agreement dealers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- d) All qualified commercial paper issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- e) All qualified corporate bond issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- f) Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5).
- g) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.
- h) Asset-backed commercial paper is prohibited.
- i) Commercial paper with a credit rating or evaluation that is derived from any factor other than the full faith and credit of the issuing institution and/or the guarantee of the parent company.
- j) Obligations may not be purchased from a corporation or limited liability company that has been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-110.16 of the Illinois Pension Code.
- k) The authorization of the Treasurer to invest in new obligations under Section 5.0(o) of this Policy shall expire on June 30, 2019.

## **7.0 COLLATERALIZATION:**

- a) All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.
- b) Securities lending cash or securities collateral shall have the meaning as set forth in the Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The Treasurer's Agent may reinvest cash collateral as indicated in the Securities Lending Agreement. The Treasurer or Treasurer's Agent may take possession and title to any cash or securities held as collateral and hold such securities according to the Securities Lending Agreement.

## **8.0 DIVERSIFICATION:**

The investment portfolio shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In order to properly manage any risk attendant to the investment of state assets, the portfolio shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

**a)** The Treasurer shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.

**b)** The investment portfolio shall not hold time deposits and/or term repurchase agreements that constitute more than 15% of any single financial institution's total deposits. Any deposits and/or repurchase agreements that constitute more than 10% of an institution's total deposits must qualify as community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

**c)** No financial institution shall at any time hold more than \$100,000,000 of time deposits and/or term repurchase agreements other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that:

**i.** Financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.

**d)** The investment portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the portfolio at the time of the origination or purchase. As maturities and or calls of instruments occur these limits will be monitored and adjusted accordingly:

**i.** With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 55% of the portfolio shall be invested in other investment categories;

**ii.** No more than one-third of the investment portfolio shall be invested in commercial paper;

**iii.** As much as 40% of the portfolio may be invested in time deposits when required by the cash flow of the State;

**iv.** No more than ½ of 1% of the investment portfolio shall be invested in Foreign Government Securities, not to exceed a five year maturity, as defined in Section 5.0(k) of this Policy;

**v.** No more than 55% of the investment portfolio shall be allocated to investments greater than 2 years and less than or equal to 3 years;

**vi.** No more than 30% of the investment portfolio shall be allocated to investments greater than 3 years and less than or equal to 4 years (not including Foreign Government Securities).

**vii.** No more than 15% of the investment portfolio shall be allocated to investments greater than 4 years and less than or equal to 5 years;

**viii.** There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band; and

**ix.** No more than 5% of the investment portfolio shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(o) of this Policy.

**e)** The investment portfolio shall not hold obligations of corporations or limited liability companies that exceed 10% of the corporation's or the limited liability company's outstanding obligations.

## **9.0 CUSTODY AND SAFEKEEPING:**

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the Treasurer's office procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer's office to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the General Counsel.

All security transactions entered into by the Treasurer shall be conducted on a delivery-versus- payment (DVP) or receipt-versus-payment (RVP) basis. Securities shall be held by a safekeeping agent designated by the Treasurer, and evidenced by safekeeping receipts or a statement of holdings.



## **10.0 INTERNAL CONTROLS:**

The Treasurer and the Chief Investment Officer, with the assistance of the Investment Policy Committee, shall establish a system of internal controls and written operational procedures that shall be documented and filed with Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by authorized investment officers.

**a) Asset Allocation:** The allocation of assets within investment categories authorized under Section 5.0 of this Policy shall be approved by the Treasurer in writing.

**b) Competitive Bidding:** Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments and investments of a new issue at issue are exempt from this provision.

Certificates of deposit shall be purchased by authorized investment officers on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established on a daily basis. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

## **11.0 LIMITATION OF LIABILITY:**

The standard of prudence to be used by authorized investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Authorized investment officers acting in accordance with written procedures and this Policy and exercising due diligence will be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and necessary action is taken to control adverse developments.

## **12.0 REPORTING:**

Monthly reports are presented by the Chief Investment Officer to the Investment Policy Committee, chaired by the Treasurer, for its review. The monthly report shall contain sufficient information to enable the Investment Policy Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer's office for safety, liquidity, rate of return, and diversification, and the general performance of the portfolio. The following information shall be included in the monthly reports:

- a)** The total amount of funds held by the State Treasurer;
- b)** The asset allocation for the investments made by the State Treasurer;
- c)** The benchmarks established by the State Treasurer;
- d)** A report detailing and summarizing deposits of funds in support of local community development efforts including the intended benefits of the deposit(s), the rate of interest on the deposit(s), the rate of interest on the loan or extension of credit to borrower(s), and the overall rate of return including a quantifiable measure related to the benefits;
- e)** Current and historic return information;
- f)** Any circumstances resulting in a deviation from the standards established in Section 8.0 of this Policy; and
- g)** Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Investment Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

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

### **13.0 EXTERNAL ADVISORY COMMITTEE**

The Investment Policy Committee may convene an External Advisory Committee at the direction of the Treasurer to provide independent advice and counsel to the Treasurer and the Internal Committee on investment policy, investments and investment related issues for the benefit of all Illinois citizens.

### **14.0 EMERGENCY POWERS**

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

**a)** The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of state monies including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;

**b)** The Treasurer reasonably believes that deviating from the Investment Policy is in the best interest of the taxpayers;

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

**i.** The date and time that the emergency powers were invoked;

**ii.** The date and time that emergency powers were repealed;

**iii.** The section or sections of the Investment Policy that were affected by the emergency or use of emergency powers; and

**iv.** The reason for invoking emergency powers resulting in the deviation from the written investment policy.

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

**The Illinois State Treasurer Office's Investment Policy**  
**(effective May 2015 through October 2016)**  
**(Unaudited)**

**1.0 POLICY:**

Under this instrument, the Illinois State Treasurer's Investment Policy ("Policy"), it is the policy of the Treasurer of the State of Illinois ("Treasurer") to invest all funds under his control in a manner that provides the highest investment return using authorized instruments and supports community development efforts while meeting the State's daily cash flow demands in conformance with all state statutes governing the investment of public funds.

This Policy applies to all investments entered into on or after the adoption of this instrument. Until the expiration of investments made prior to the adoption of this Policy, such investments will continue to be governed by the policies in effect at the time such investments were made.

This policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

**2.0 OBJECTIVE:**

The primary objective in the investment of state funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations of the State, and providing the highest investment return using authorized instruments.

**2.1 SAFETY:**

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risks.

**2.2 LIQUIDITY:**

The investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements that might be reasonably projected.

**2.3 RETURN ON INVESTMENT:**

The safety of principal and the availability of sufficient liquidity are the foremost objectives of the investment program. The investment portfolio shall be designed to obtain the highest available return given the foremost objectives. The Director of the State Portfolio and Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee (see Section 2.4 of this Policy), to determine the effectiveness of investment decisions in meeting investment goals. Benchmarks shall be reviewed at a minimum of every two years to ensure accuracy and relevance.

## **2.4 INVESTMENT POLICY COMMITTEE:**

The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Deputy Treasurer, Chief Investment Officer, General Counsel, Director of Accounting/Budget/Warrant, Director of State Portfolio and Banking, Portfolio Manager & Director of Portfolio Operations, Director of Illinois Funds & E-Pay, the Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer.

The Chief Investment Officer, who bears responsibility for the administration, planning, development and implementation of all financial and investment strategies per the direction of the Treasurer, shall assist the Treasurer in executing the duties and activities of the Investment Policy Committee.

## **3.0 ETHICS AND CONFLICTS OF INTEREST:**

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could conflict, or give the appearance of a conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

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

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers. No state funds may be deposited in any financial institution until receipt of a current satisfactory or outstanding rating under the Community Reinvestment Act of 1977 and investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services, unless the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed \$250,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 8.0 of this Policy. Furthermore, the financial institution's record and current level of financial commitment to its local community will be considered when deciding whether to deposit state funds in that financial institution. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/et seq.).

In addition, a list shall be maintained of approved security brokers/dealers selected according to their creditworthiness, and their financial significance in the state, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the state. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers who wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's credit review staff the following, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned broker/dealer status;
- c) A signed copy of the Treasurer's trading authorization;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer Questionnaire;
- g) Certification of notice and knowledge of this Policy; and
- h) Any other documentation determined necessary by the Treasurer.

The Treasurer's Office shall seek to accord preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned status. The Treasurer's Office shall establish a process by which said specially designated statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer's authorized investment officer(s). More frequent reviews may be conducted if warranted.

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the procurement rules at 44 Ill. Adm. Code 1400.

## **5.0 AUTHORIZED AND SUITABLE INVESTMENTS:**

The Treasurer has authorized the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- a) Securities that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities; For purposes of this Section, the term "agencies and instrumentalities of the United States" includes: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971, and Acts amendatory thereto; the federal home loan banks and the federal home loan mortgage corporation; and any other agency created by Act of Congress and issues dollar-denominated debt;
- c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);
- d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;
- e) Interest-bearing accounts for the deposit of funds in support of local community development efforts;
- f) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States, which maintains its principal office in the State of Illinois;
- g) Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding \$500,000,000 and is rated at the time of purchase at one of the two highest classifications established by at least two standard rating services;
- h) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C.A. § 80a-1 et seq.) and rated at the highest classification of at least one standard rating service;
- i) The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- j) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5);
- k) Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated, at the time of purchase, within four intermediate credit ratings of the United States' sovereign credit rating by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions, but not less than an A- rating, or equivalent rating. The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the State of Illinois has a put option to tender the bonds within 10 years from the date of purchase;
- l) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations;
- m) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.); and
- n) The Treasurer may lend any securities acquired under this policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and

11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent.

#### **6.0 INVESTMENTS RESTRICTIONS:**

- a) Any investments not authorized by this or any other investment policy or applicable law of the office are prohibited.
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers meeting the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
- c) Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5).
- d) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

#### **7.0 COLLATERALIZATION:**

- a) All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.
- b) Securities lending cash or securities collateral shall have the meaning as set forth in the Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The Treasurer's Agent may reinvest cash collateral as indicated in the Securities Lending Agreement. The Treasurer or Treasurer's Agent may take possession and title to any cash or securities held as collateral and hold such securities according to the Securities Lending Agreement.

#### **8.0 DIVERSIFICATION:**

The investment portfolio shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In order to properly manage any risk attendant to the investment of state assets, the portfolio shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

- a) The Treasurer shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.
- b) The investment portfolio shall not hold time deposits and/or term repurchase agreements that constitute more than 15% of any single financial institution's total deposits. Any deposits and/or repurchase agreements that constitute more than 10% of an institution's total deposits must qualify as community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).
- c) No financial institution shall at any time hold more than \$100,000,000 of time deposits and/or term repurchase agreements other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that:
  - i. Financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.
- d) The investment portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the portfolio at the time of the origination or purchase. As maturities and or calls of instruments occur these limits will be monitored and adjusted accordingly:
  - i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 55% of the portfolio shall be invested in other investment categories;
  - ii. No more than one-third of the investment portfolio shall be invested in commercial paper;

- iii. As much as 40% of the portfolio may be invested in time deposits when required by the cash flow of the State;
- iv. No more than ½ of 1% of the investment portfolio shall be invested in Foreign Government Securities, not to exceed a five year maturity, as defined in Section 5.0(k) of this Policy;
- v. No more than 55% of the investment portfolio shall be allocated to investments greater than 2 years and less than or equal to 3 years;
- vi. No more than 30 % of the investment portfolio shall be allocated to investments greater than 3 years and less than or equal to 4 years (not including Foreign Government Securities).
- vii. No more than 15% of the investment portfolio shall be allocated to investments greater than 4 years and less than or equal to 5 years; and
- viii. There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band.

### **9.0 CUSTODY AND SAFEKEEPING:**

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**b) Competitive Bidding:** Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments and investments of a new issue at issue are exempt from this provision.

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### **11.0 LIMITATION OF LIABILITY:**

The standard of prudence to be used by authorized investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Authorized investment officers acting in accordance with written procedures and this Policy and exercising due diligence will be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and necessary action is taken to control adverse developments.

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Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer's office for safety, liquidity, rate of return, and diversification, and the general performance of the portfolio. The following information shall be included in the monthly reports:

- a) The total amount of funds held by the State Treasurer;
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- c) The benchmarks established by the State Treasurer;
- d) A report detailing and summarizing deposits of funds in support of local community development efforts including the intended benefits of the deposit(s), the rate of interest on the deposit(s), the rate of interest on the loan or extension of credit to borrower(s), and the overall rate of return including a quantifiable measure related to the benefits;
- e) Current and historic return information;
- f) Any circumstances resulting in a deviation from the standards established in Section 8.0 of this Policy; and
- g) Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Investment Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

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

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The Investment Policy Committee may convene an External Advisory Committee at the direction of the Treasurer to provide independent advice and counsel to the Treasurer and the Internal Committee on investment policy, investments and investment related issues for the benefit of all Illinois citizens.

### **14.0 EMERGENCY POWERS**

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

- a) The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of state monies including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;
- b) The Treasurer reasonably believes that deviating from the Investment Policy is in the best interest of the taxpayers;
- c) Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a copy of which shall be posted on the Treasurer's website that includes:
  - i) The date and time that the emergency powers were invoked;
  - ii) The date and time that emergency powers were repealed;
  - iii) The section or sections of the Investment Policy that were affected by the emergency or use of emergency powers; and
  - iv) The reason for deviating from the written investment policy.

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