ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

FINANCIAL AUDIT
December 31, 2005 and 2004

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

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FINANCIAL AUDIT
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ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

AGENCY OFFICIALS

Director	Mr. Michael M. Rumman (Effective through June 1, 2005)
	Mr. Paul J. Campbell (Effective June 2, 2005)
Deputy Director – Bureau of Benefits	Mr. Patrick Connor (Effective through January 10, 2006)
	Ms. Janice Bonneville (Effective April 16, 2006)
Deferred Compensation Plan Division Manager	Jason Musgrave (Acting)

Agency offices are located at:

201 East Madison
Suite 1C
Springfield, Illinois 62702

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying statements of plan net assets of the State of Illinois, Department of Central Management Services State Employees' Deferred Compensation Plan Fund (755) (Plan) as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended, was performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

Based on their audit, the auditors expressed unqualified opinions on the Plan's basic financial statements as noted above for the years ended December 31, 2005 and 2004.

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INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Central Management Services' management. Our responsibility is to express opinions on these financial statements based on our audits.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the State Employees' Deferred Compensation Plan Fund (755) and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Central Management Services' as of December 31, 2005 and 2004, and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services, as of December 31, 2005 and 2004, and the changes in plan net assets, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 2, 2006 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting of the State Employees' Deferred Compensation Plan Fund (755) and on our tests of the State of Illinois, Department of Central Management Services' compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Central Management Services has not presented a managements' discussion and analysis for the State Employees' Deferred Compensation Plan Fund (755) that accounting principles generally accepted in the United States of America has deemed is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information, as listed in the table of contents, has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Department management, and is not intended to be and should not be used by anyone other than these specified parties.

Sikich LLP

Springfield, Illinois
May 2, 2006

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the statements of plan net assets of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services (Department) as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years ended, and have issued our report thereon dated May 2, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting of the State Employees' Deferred Compensation Plan Fund (755) in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the State Employees' Deferred Compensation Plan Fund (755) are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Department management and is not intended to be and should not be used by anyone other than these specified parties.

Sikich LLP

Springfield, Illinois
May 2, 2006

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
STATEMENTS OF PLAN NET ASSETS
PENSION TRUST FUND
December 31, 2005 and 2004

	2005	2004
ASSETS		
Cash and Cash Equivalents		
Cash in custody of State Treasurer	$ 4,579,080	$ 3,719,037
Cash advanced to recordkeeping agent	2,554,642	1,632,655
Total cash and cash equivalents	7,133,722	5,351,692
Accounts receivable	1,081,717	882,257
Investments		
Life insurance contracts	528,638,089	498,974,804
Money market fund	12,105,094	14,475,099
Mutual funds	1,997,085,631	1,823,666,543
Annuities	2,070,903	2,310,987
Total investments	2,539,899,717	2,339,427,433
Property and Equipment		
Office equipment, net of accumulated depreciation of $119,859 and $96,026	66,186	92,204
Total Assets	2,548,181,342	2,345,753,586
LIABILITIES		
Accounts payable	339,778	295,896
Accrued compensated absences	113,159	107,459
Total Liabilities	452,937	403,355
NET ASSETS		
Invested in capital assets	66,186	92,204
Held in trust for deferred compensation benefits and other purposes	2,547,662,219	2,345,258,027
TOTAL NET ASSETS	$ 2,547,728,405	$ 2,345,350,231

The accompanying notes to financial statements are an integral part of this statement.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
Years Ended December 31, 2005 and 2004

	2005	2004
ADDITIONS		
Contributions		
Participant deferrals	$ 145,838,862	$ 138,401,648
Participant accounts transferred in from qualified retirement plans	4,102,366	3,895,068
Total Contributions	149,941,228	142,296,716
Investment Income		
Interest, dividends and other investment income	110,968,546	77,476,040
Net appreciation in fair value of investments	77,011,174	176,243,214
Total Investment Income	187,979,720	253,719,254
Less investment expense	(1,460,324)	(13,211)
Net Investment Income	186,519,396	253,706,043
Other Income		
Recordkeeping reimbursements (net)	884,447	653,830
Other operating income	958	10,378
Transfer from another State agency for accrued compensated absences	-	845
Total Other Income	885,405	665,053
Total Additions	337,346,029	396,667,812
DEDUCTIONS		
Distributions:		
Terminations	57,741,006	58,993,869
Deaths	6,034,438	5,515,554
Hardship	3,506,458	2,146,469
Participant accounts transferred out to other qualified plans	66,481,445	52,107,382
Administrative costs	1,204,508	1,215,762
Total Deductions	134,967,855	119,979,036
NET INCREASE	202,378,174	276,688,776
NET ASSETS, BEGINNING OF YEAR	2,345,350,231	2,068,661,455
NET ASSETS, END OF YEAR	$ 2,547,728,405	$ 2,345,350,231

The accompanying notes to financial statements are an integral part of this statement.

1. ORGANIZATION

The Illinois State Employees' Deferred Compensation Plan (the Plan) is administered by the State of Illinois, Department of Central Management Services (the Department) at 201 East Madison, Suite 1C, Springfield, Illinois. The Plan consists of the State Employees' Deferred Compensation Fund (Fund 755), a pension trust fund in which is recorded all the assets and liabilities and additions and deductions of the plan. A portion of the Fund is held in the State Treasury and certain administrative costs are appropriated. Michael Rumman was the Director of the Department through June 1, 2005. The current Director of the Department is Paul Campbell effective June 2, 2005. Patrick Connor was the Deputy Director for the Bureau of Benefits through January 10, 2006. The current Deputy Director for the Bureau of Benefits is Janice Bonneville effective April 16, 2006 and the current acting division manager for the Plan is Jason Musgrave. The Plan employed 16 full and part-time employees during 2005. The Illinois State Board of Investment has oversight responsibilities for the Plan.

The Department is part of the executive branch of the State of Illinois and operates under the authority of and review by the Illinois General Assembly. Activities of the Plan are subject to the authority of the Office of the Governor, the State's chief executive office, and other departments of the executive and legislative branches of the government (such as the State Comptroller's Office) as defined by the General Assembly.

As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois (the State) is the oversight unit which includes all funds, elected offices, departments and agencies of the State, as well as boards, commissions, authorities, universities, and colleges over which the State's executive or legislative branches exercise oversight responsibility. The Department is part of the primary government of the State of Illinois' executive branch. These financial statements present the statement of net assets and statement of changes in net assets for the years ended December 31, 2005 and 2004. The statements are not intended to, and do not present the financial position of the Department or the State.

2. GENERAL DESCRIPTION OF THE PLAN

The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General

The Plan was created in accordance with Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The first contributions to the Plan were made in May 1979. Under Plan provisions, all employees of the State are eligible to voluntarily elect to contribute a portion of their compensation into the Plan through payroll deductions.

2. GENERAL DESCRIPTION OF THE PLAN – Continued

General – Continued

All amounts of compensation deferred pursuant to the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights shall be held in one or more custodial accounts for the exclusive benefit of participants and beneficiaries under the Plan. Participants' rights under the Plan are limited to an amount equal to the fair market value of the deferred account for each participant.

Effective January 1, 1999, the State of Illinois amended the Plan in accordance with the provisions of Internal Revenue Code (IRC) Section 457(g). IRC Section 457(g) requires that assets and income thereon be held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the net assets are no longer assets of the State of Illinois. However, due to the administrative involvement of the State of Illinois, this Plan is reported as a pension trust fund as required by the Governmental Accounting Standards Board (GASB).

Contributions

In compliance with IRC Section 457, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed $14,000 for 2005 and $13,000 for 2004, or $18,000 for participants age 50 or older for 2005 and $16,000 for 2004. The State does not make any contributions to the Plan.

In the Plan, the annual compensation on which the maximum is calculated is reduced by the following:

- Employee retirement system contributions, which are tax deferred under Section 414 (h) of the IRC.

- Payroll deductions for the payment of group health insurance premiums and member life insurance premiums for coverage up to $50,000, elected by the employee through state sponsored plans.

- Employee contributions made to the Dependent or Medical Care Assistance Plan which are authorized under Section 125 of the IRC.

In accordance with IRC Section 457, the Plan allows participants a limited make-up on deferrals in the three years prior to the year a participant reaches normal retirement age. For each of these three years, a participant can defer the regular limit plus an additional amount based on actual underutilized deferrals which were made in prior years, up to a maximum of $28,000 in 2005 and $26,000 in 2004.

2. GENERAL DESCRIPTION OF THE PLAN – Continued

Payment of Benefits

Participants may withdraw the current value of funds contributed upon termination of employment with the State of Illinois. Withdrawal can also be made due to financial hardship if approved by a committee established by the Plan.

Upon retirement, participants may select various payment options, including lump sum, partial lump sum, periodic payments or rollover to another qualified tax deferred retirement plan. The participants may wait to start the distribution of their account up to the tax year they turn age 70 ½. They can also stop or change their elected distribution method. Participants with accounts less than or equal to $5,000 who terminate their employment with the State of Illinois are required to take a lump sum distribution or transfer to another qualified retirement plan. Death beneficiaries may select similar payment options as retired employees. All investments of the Plan are held in custodial accounts for the exclusive benefit of the participants until such time as payments are made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

Pension Trust Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned and deductions are recorded when a liability is incurred, regardless of when the related cash flow takes place.

Cash and Cash Equivalents

Cash equivalents consist of money market mutual funds, funds maintained by the Office of the State Treasurer, and cash advanced to recordkeeping agency representatives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents - Continued

The cash advanced to recordkeeping agent represents amounts withheld from employees but not remitted to the investment carriers at December 31, and other amounts, such as reinvested income and other fees.

Investment Valuation and Income Recognition

Investments in the guaranteed investment contracts are stated at contract value as reported by the contract administrator, INVESCO (PRIMCO Capital Management). Investments in mutual funds are stated at fair value as determined by using the closing price listed on national exchanges as of December 31. Annuities are stated at their present value of future payments calculated by the Plan using information as reported by the various insurance companies.

Interest income from the investments in the guaranteed investment contracts and interest earned on temporary cash deposits in both the State Treasury and with the recordkeeping agent at the current money market rates are recorded as earned.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. The Illinois State Employees' Deferred Compensation Plan previously capitalized purchases over $100 and used the straight-line method to depreciate appropriate assets over their estimated useful lives approximating five years. Beginning in 2005, the capitalization threshold was raised to $5,000 while continuing to use the same deprecation method as in prior years.

Compensated Absences

Vested or accumulated vacation leave is recorded as a deduction and liability of the fund as the benefits accrue to employees. Until January 1, 1984, sick leave, which generally is earned one day per month with unlimited accumulation, was paid only where an employee was absent due to illness or other acceptable circumstances as outlined by personnel regulations. Effective January 1, 1984, upon death, retirement by resignation, or termination from State employment, employees are able to receive payment for one-half of accumulated sick leave earned subsequent to January 1, 1984, or full service credit for such accumulated sick leave under the State Employees' Article of the State Pension Code.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences – Continued

Effective January 1, 1998, upon death, retirement by resignation, or termination from State employment, employees are no longer able to receive payment for accumulated sick leave earned subsequent to January 1, 1998.

Changes in compensated absences are as follows:

	2005	2004
Balance January 1	$ 107,459	$ 103,364
Additions	8,322	7,554
Deletions	(2,622)	(3,459)
Balance December 31	$ 113,159	$ 107,459
Amounts due within one year	$ -	$ -

4. RETIREMENT BENEFITS

Retirement benefits for Plan employees are provided under a separate State plan and are funded by State appropriations which are invested and accounted for by other State agencies.

5. DEPOSITS AND INVESTMENTS

Deposits

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Plan does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

Investments

The Plan's investment policy allows investment options selected by the Illinois State Board of Investments (Board) after satisfactory review of such factors as the investment experience of the underlying manager, the suitability of the investment approach used, and the investment record.

5. DEPOSITS AND INVESTMENTS - Continued

Investments – Continued

The Plan assets shall be invested with care, skill and diligence that would be applied by a prudent professional investor, acting in a like capacity and knowledgeable in the investment of retirement funds and all transactions undertaken on behalf of the Plan shall be for the sole interest of Plan participants and beneficiaries.

The objective of the Board is to offer a sufficient range of investment options to allow participants to diversify their account balances and construct portfolios that reasonably span the risk/return spectrum.

In accordance with governmental accounting standards, the net assets held in trust for deferred compensation benefits includes $2,070,903 at December 31, 2005 of annuities due to retired participants who are receiving monthly benefits. The accounts of those participants electing annuity payments have been liquidated and closed by the Plan recordkeeper on the scheduled accounting date and the proceeds were used to purchase the participant's annuity. The carrying and fair market value of investments and annuities are summarized as follows:

	2005	2004
Stable Return Fund:		
Guaranteed investment contracts:		
All State Life Ins. Co.	$ -	$ 3,713,593
ING Life Insurance & Annuity Co.	93,660,386	91,030,982
JP Morgan Chase Co.	65,965,104	77,710,266
JP Morgan Chase Co.	15,084,539	-
John Hancock Mutual Life	-	12,232,789
Monumental Life Insurance Co.	108,271,988	79,440,378
Rabobank Nederland	82,102,991	78,872,506
State Street Bank & Trust	95,520,690	91,034,003
UBS AG	68,032,391	64,940,287
Total Life Insurance Contracts	528,638,089	498,974,804
Money Market Fund:		
State Street Bank & Trust Fund	12,105,094	14,475,099
Total Stable Return Fund	540,743,183	513,449,903
Mutual Funds:		
Columbia Acorn Fund	894,317,065*	788,428,518*
Ariel Fund	144,207,614*	132,544,916*
Fidelity Fund	-	262,181,566*
Fidelity Puritan Fund	219,950,570*	214,083,922*

5. INVESTMENTS - Continued

		2005	2004
	Mutual Funds – Continued:		
	Legg Mason Value Trust	$ 233,876,099*	$ -
	LSV Value Equity	10,692,985	-
	T. Rowe Price International Stock Fund	77,643,574	60,139,418
#	T. Rowe Price New Income Fund	66,560,153	60,741,375
	T. Rowe Price Retirement Income Fund	2,326,749	-
	T. Rowe Price Retirement 2005 Fund	2,161,102	-
	T. Rowe Price Retirement 2010 Fund	8,836,740	-
	T. Rowe Price Retirement 2015 Fund	4,547,665	-
	T. Rowe Price Retirement 2020 Fund	4,553,217	-
	T. Rowe Price Retirement 2025 Fund	1,334,177	-
	T. Rowe Price Retirement 2030 Fund	1,352,751	-
	T. Rowe Price Retirement 2035 Fund	377,754	-
	T. Rowe Price Retirement 2040 Fund	313,730	-
	T. Rowe Price Retirement 2045 Fund	140,471	-
#	Vanguard Total Bond Market Index Fund - Institutional Shares	45,853,519	40,391,233
	Vanguard Institutional Index Fund	214,575,759*	205,844,957*
#	Vanguard Money Market Reserves Prime Portfolio - Institutional Shares	42,134,088	40,556,295
	Wells Fargo Large Capital Growth Fund - Institutional Shares	12,425,398	10,018,994
	PIC Small Capital Growth Fund - Institutional Shares	8,904,451	8,735,349
	Total Mutual Funds	1,997,085,631	1,823,666,543
	Annuities:		
	AIG Life Insurance Co.	5,900	17,304
	Confederation Life Insurance Co.	46,498	67,181
	Equitable Life Assurance Society	57,148	60,281
	First Colony Life Insurance Co.	58,532	82,934
	Hartford Life Insurance Co.	64,859	69,947
	IDS Financial Services, Inc.	61,459	83,671
	Jackson National Life Insurance Co.	68,021	77,368
	Keyport Life Insurance Co.	12,507	13,898
	Lincoln National Life	65,409	68,078
	Massachusetts Mutual Life Insurance Co.	27,017	29,672
	Metropolitan Life Insurance Co.	511,473	570,405
	New York Life Insurance Co.	40,469	42,295
	Northwestern Mutual Life Insurance Co.	73,505	89,242

5. DEPOSITS AND INVESTMENTS – Continued

	2005	2004
Annuities – Continued		
Prudential Insurance Co.	$ 73,612	$ 79,584
State Farm Life Insurance Co.	215,991	238,083
Transamerica	83,814	90,967
The Travelers Insurance Co.	572,085	591,517
USAA Life Insurance Co.	32,604	38,560
Total annuities	2,070,903	2,310,987
Total investments	$ 2,539,899,717	$ 2,339,427,433

* Investment amount is greater than five percent of total investments.
# Debt mutual funds

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Plan will not be able to recover the value of its investments that are in possession of an outside party. The Plan maintains investments with various insurance companies and other financial institutions, which are located in many different states throughout the United States. The Plan's periodic evaluations of the relative credit standing of these insurance companies and other financial institutions are considered in the Plan's investment strategy.

Interest Rate Risk

The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Plan does not have a formal investment plan that limits investment choices. At December 31, 2005, T. Rowe Price New Income and Vanguard Total Market Index funds were rated AAA by Standard and Poor's with a weighted average maturity of 7.2 years. Vanguard Money Market Reserves Prime Portfolio fund was rated Aa1 by Moody's with a weighted average maturity of 40 days at December 31, 2005.

6. PLAN ADMINISTRATION

By statute, the Department administers the Plan. The Department has entered into a contract for recordkeeping services with T. Rowe Price Retirement Plan Services, Inc.

A. Asset charges intended to cover the costs of administration, including recordkeeping, are computed monthly, withdrawn from participants' accounts and recorded as revenue as of December 31, 2003. Effective November 1, 1997, the annual fee was .15 percent on the total account value. Effective January 1, 1999, the annual fee charged to participants was limited to a maximum of $75. Effective January 1, 2001, the annual fee charged to participants was limited to a maximum of $45 per participant. Effective January 1, 2003, the Department declared a fee holiday and there were no annual fees charged to the participants during 2003 or 2004. The fee holiday is reviewed annually. Consequently, these fees were reinstated for 2005 limited to a maximum $45 per participant. Exchange fees for certain reallocations as provided by the Plan may be incurred by Participants.

B. For the Stable Return Fund, the investment management fee assessed by INVESCO (PRIMCO Capital Management) is calculated daily, based on values during the quarter, in accordance with an annual fee rate applied to billable assets value. The fees are paid on a quarterly basis.

   The billable assets value is determined at the end of each preceding calendar month based on 100 percent of total guaranteed investment contract assets. The annual fee rate schedule is as follows:

   .15 Percent of the first $50 million of billable assets,
   .10 Percent of the next $250 million of billable assets, and
   .05 Percent of billable assets in excess of $300 million.

C. The twenty-two mutual funds take their fund expenses, including investment management fees, before any dividends and/or capital gains are declared. Their fees and expenses are amortized and charged to the funds on an ongoing basis and shared equally by all other shareholders of the mutual funds.

D. T. Rowe Price Retirement Plan Services, Inc. receives a fee for maintaining the detail records of the participants. The fees are based upon a contract awarded by the Department. Marketing fees for quarterly newsletters are also paid to T. Rowe Price.

6. PLAN ADMINISTRATION – Continued

The contract, as amended, awarded by the Department was for a contract fee as follows:

$129,167 per month from July 2000 through June 2001
$134,333 per month from July 2001 through June 2002
$140,000 per month from June 2002 through December 2002
$140,000 per month from January 2003 through December 2003
$145,600 per month from January 2004 through December 2004
$151,424 per month from January 2005 through December 2005
$151,424 per month from January 2006 through December 2006

This fee will be reduced by quarterly reimbursements of recordkeeping expenses from the participating investment funds.

Reimbursements of $2,762,328 for the year ended December 31, 2005 exceeded fees to T. Rowe Price of $1,877,881 by $884,447 and earned interest of $59,149. For the year ended December 31, 2004, reimbursements of $2,416,256 exceeded fees of $1,762,426 by $653,830 and earned interest of $10,592.

7. TAX STATUS

The Plan constitutes an eligible deferred compensation plan under Section 457 of the Internal Revenue Code and, therefore, the amounts of compensation (and earnings thereon) deferred by employees participating in the Plan are not subject to federal income tax withholding nor are they includable in taxable income until actually paid or otherwise made available to the participant, a beneficiary, or an estate.

For Illinois Income Tax Act purposes, per private letter ruling issued by the Illinois Department of Revenue on February 18, 1977, compensation deferred under the Plan will be treated the same as for federal income tax. On December 19, 1988, the Illinois Department of Revenue ruled that distributions from Internal Revenue Code Section 457 plans are not taxable under the Illinois Income Tax Act. Distributions qualify as Illinois income tax subtraction modifications and are not subject to withholding.

Amounts deferred are subject to social security taxes in the year deferred. Benefit payments under the Plan do not constitute earnings and thus are not subject to social security taxes in the year received as clarified by Social Security Act Amendments of 1983, P.L. 98-21.

7. TAX STATUS – Continued

The Plan obtained its latest determination letters on October 7, 1976 and February 18, 1977 for federal and state rulings, respectively. The Plan has been amended since receiving the determination letters. However, the Plan Administration (the Department) believes that the Plan is currently designed and being operated in compliance with applicable requirements of the Internal Revenue Code.

SUPPLEMENTARY INFORMATION

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
COMBINED SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Years Ended December 31, 2005 and 2004

	2005	2004
RECEIPTS		
Participant deferrals	$ 145,890,995	$ 138,457,835
Participant accounts transferred in from other qualified retirement plans	4,102,366	3,895,068
Asset charges received	1,447,983	-
Interest received:		
Prime Reserve Fund - purchase and exchange	1,395	727
State Treasury	107,766	56,180
Other	11,985	12,600
Total receipts	151,562,490	142,422,410
DISBURSEMENTS		
Transfers to service agent for investment	149,497,703	142,534,173
Administrative costs	1,152,611	1,206,284
Refunds	52,133	56,187
Equipment	-	56,925
Total disbursements	150,702,447	143,853,569
EXCESS OF RECEIPTS OVER DISBURSEMENTS	860,043	(1,431,159)
CASH BALANCE, BEGINNING OF YEAR	3,719,037	5,150,196
CASH BALANCE, END OF YEAR	$ 4,579,080	$ 3,719,037

Note: The above schedule presents the combined cash transactions, and summarizes cash receipts and cash disbursements in the State Employees' Deferred Compensation Plan Fund in the State Treasury. The ending cash balance has been reconciled to the balance reported by the State Comptroller.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
SUMMARY SCHEDULES OF INVESTMENT INCREASES,
DEDUCTIONS, AND BALANCES
Years Ended December 31, 2005 and 2004

	2005	2004
INVESTMENT INCREASES		
Deferral contributions	$ 145,349,700	$ 138,888,611
Participant accounts transferred in from other qualified retirement plans	4,102,366	3,895,068
Reinvested income	110,693,039	77,359,995
Net (depreciation)	75,568,818	176,243,170
Total increases	335,713,923	396,386,844
INVESTMENT DEDUCTIONS		
Distributions:		
Terminations	57,741,006	58,993,869
Deaths	6,034,438	5,515,554
Hardship	3,506,458	2,146,469
Total distributions	67,281,902	66,655,892
PARTICIPANT ACCOUNTS TRANSFERRED OUT TO OTHER QUALIFIED RETIREMENT PLANS	66,481,445	52,107,382
Total deductions in response to distribution qualifying events	133,763,347	118,763,274
ASSET AND EXCHANGE FEE CHARGES	1,478,292	13,167
Total deductions	135,241,639	118,776,441
NET INCREASE IN INVESTMENTS DURING THE YEAR	200,472,284	277,610,403
INVESTMENT BALANCE, BEGINNING OF YEAR	2,339,427,433	2,061,817,030
INVESTMENT BALANCE, END OF YEAR	$ 2,539,899,717	$ 2,339,427,433
NUMBER OF PARTICIPANTS	51,651	51,781
AVERAGE ACCOUNT VALUE	$ 49,174	$ 45,179
LARGEST ACCOUNT VALUE	$ 1,309,402	$ 1,145,114
SMALLEST ACCOUNT VALUE	$ 10	$ 10

Note: This schedule summarizes amounts withheld from State employees under the deferred compensation program and which were invested in the various investment vehicles of the Plan. Due to timing differences relating to the deposit of funds into the various investment vehicles, certain amounts may be included in the cash balance at year-end and balances reflected on this schedule will not agree with balances reported on the Statement of Plan Net Assets.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
SCHEDULES OF ADMINISTRATIVE COSTS
Years Ended December 31, 2005 and 2004

	2005	2004
Salaries	$ 636,650	$ 646,233
Fringe benefits	324,636	340,001
Telecommunication services	9,716	21,246
Statistical services	66,470	24,223
Travel	1,950	4,059
Contractual services	128,695	146,552
Printing	6,331	6,089
Commodities	468	-
Depreciation	26,018	23,172
Other	986	-
Office supplies	2,588	4,187
TOTAL ADMINISTRATIVE COSTS	$ 1,204,508	$ 1,215,762

Note: The above schedule summarizes the administrative costs incurred by the Department of Central Management Services in connection with the Deferred Compensation Plan. These costs are stated on an accrual basis and have been paid from the State Employees' Deferred Compensation Plan Fund. Annual appropriations are made to the Department from the Plan for these administrative expenses. Purchases of investments in the various funds and payments of benefits to participants are made under continuing appropriations provided under Public Act 80-1181, effective January 30, 1978.