

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

FINANCIAL AUDIT

For the years ended June 30, 2005 and 2004

AND COMPLIANCE EXAMINATION

For the year ended June 30, 2005

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

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

CONTENTS

	<u>Page</u>
TREASURER'S OFFICE OFFICIALS	3
MANAGEMENT ASSERTION LETTER	4
COMPLIANCE REPORT	
SUMMARY	6
AUDITORS' REPORTS	
INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE	7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	10
FINANCIAL STATEMENT REPORT	
SUMMARY	12
INDEPENDENT AUDITORS' REPORT	13
FINANCIAL STATEMENTS	
STATEMENTS OF ASSETS, LIABILITIES AND ACCOUNTABILITIES	15
STATEMENTS OF INVESTMENT INCOME	17
NOTES TO THE FINANCIAL STATEMENTS	18
SUPPLEMENTARY INFORMATION	
ASSETS, LIABILITIES AND ACCOUNTABILITIES	41
ASSETS DETAIL	42
LIABILITIES AND ACCOUNTABILITIES DETAIL	48
INVESTMENT INCOME	52
ADMINISTRATIVE RESPONSIBILITIES	
PROTEST TRUST FUND	60
INHERITANCE AND ESTATE TAXES	60
TOBACCO SETTLEMENT RECOVERY FUND	61
KEY PERFORMANCE MEASURES (Unaudited)	62
INVESTMENT POLICY (Unaudited)	63

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

TREASURER'S OFFICE OFFICIALS

Treasurer	Honorable Judy Baar Topinka
Chief of Staff	Ms. Nancy Kimme
Chief Fiscal Officer/ Deputy Chief of Staff for Operations	Mr. Edward Buckles
Deputy Chief of Staff for Law & Policy	Mr. Martin Noven
Director of The Illinois Funds	Mr. Rick Hackler
Assistant Director of The Illinois Funds	Mr. Randy Coffey
Portfolio Manager	Mr. Mark Polistina
Manager of Accounting	Mr. Chad Dierking
Executive Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler

The Office of the Treasurer maintains four office locations:

- Executive Office
State Capitol
219 State House
Springfield, Illinois 62702
- Operational divisions
Jefferson Terrace
300 West Jefferson Street
Springfield, Illinois 62702
- Unclaimed Property and other divisions
Myers Building
1 W. Old State Capitol Plaza
Springfield, Illinois 62701
- Chicago Office and Personnel/Legal/Programmatic
James R. Thompson Center
100 West Randolph Street
Suites 15-600 and 4-100
Chicago, Illinois 60601



JUDY BAAR TOPINKA
TREASURER OF THE STATE OF ILLINOIS

MANAGEMENT ASSERTION LETTER

October 21, 2005

Crowe Chizek and Company LLC
Certified Public Accountants
932 South Second
Springfield, IL 62704

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or 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 one-year period ended June 30, 2005. Based on this evaluation, we assert that during the year ended June 30, 2005, 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 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. The 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. The 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.

Yours very truly,

State of Illinois, Office of the Treasurer

TREASURER'S OPERATIONS

Accounting Fax

(217)524-2295

Banking/Clearing Fax

(217)782-7448

Banking/Investments Fax

(217)782-3563

Banking/Time Deposit Fax

(217)522-1217

Financial Education Fax

(217)557-5726

Fiscal Operations Fax

(217)524-3822

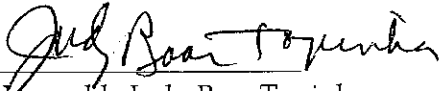
Human Resources Fax

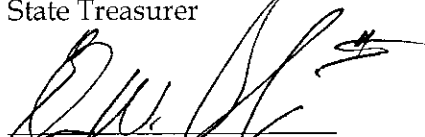
(217)785-8554

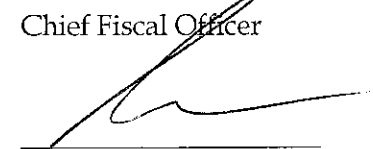
The Illinois Funds Fax

(217)524-1269

MANAGEMENT ASSERTION LETTER - CONTINUED


Honorable Judy Baar Topinka
State Treasurer


Edward W. Buckles
Chief Fiscal Officer


Martin Noven
Deputy Chief of Staff for Law and Policy

FISCAL OFFICER RESPONSIBILITIES

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.

AUDITORS' REPORTS

The Independent Accountants' 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>This Report</u>	<u>Prior Report</u>
Findings	0	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

The Office of the Treasurer did not have any current year or prior year findings.

EXIT CONFERENCE

The Office of the Treasurer declined a formal exit conference to discuss the report.



Crowe Chizek and Company LLC
Member Horwath International

Independent Accountants' Report on State Compliance and on
Internal Control Over Compliance

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities' (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, 2005. 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. The 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; and, accordingly, included examining, on a test basis, evidence about the Treasurer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides 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 aforementioned requirements during the year ended June 30, 2005. The results of our procedures disclosed no instances of noncompliance with those 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. There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

Internal Control

The management of the Treasurer is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Treasurer's internal control over compliance with the aforementioned requirements in order to determine our examination procedures 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.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined 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 internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

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

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Oak Brook, Illinois
October 21, 2005



Crowe Chizek and Company LLC
Member Horwath International

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 financial statements as listed in the table of contents of the State of Illinois Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. 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.

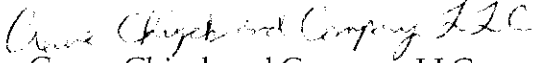
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Treasurer's internal control over financial reporting 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. We noted certain immaterial instances of internal control deficiencies, which we have reported to management of the State of Illinois, Office of the Treasurer in a separate letter dated October 21, 2005.

Compliance and Other Matters

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

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


Crowe Chizek and Company LLC

Oak Brook, Illinois
October 21, 2005

FINANCIAL STATEMENT REPORT

A tab page will replace this page.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying statement of assets, liabilities and accountabilities of the State of Illinois, Office of the Treasurer Fiscal Officer Responsibilities (Treasurer) as of June 30, 2005 and the statement of investment income for the year then ended was performed by Crowe Chizek and Company LLC.

Based on their audit, the auditors expressed an unqualified opinion on the Treasurer's financial statements. The financial statements of the Treasurer's Fiscal Officer Responsibilities have been prepared on a basis of accounting other than accounting principles generally accepted in the United States of America.

AUDITORS' REPORTS
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Crowe Chizek and Company LLC
Member Horwath International

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of assets, liabilities, and accountabilities of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer), as of June 30, 2005, and the statement of investment income for the year then ended. These financial statements are the responsibility of the Treasurer's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities as of and for the year ended June 30, 2004 were audited by other auditors whose report dated October 29, 2004, expressed an unqualified opinion on those statements.

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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

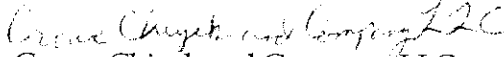
As discussed in Note B, the financial statements referred to above have been prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements referred to above have been prepared on the basis of the State of Illinois Fiscal Regulations and the reporting requirements of the Auditor General of the State of Illinois.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and accountabilities of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities, as of June 30, 2005, and the results of its investment activity for the year then ended in conformity with the basis of presentation described in the Summary of Significant Accounting Policies-Basis of Presentation footnote.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2005 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 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Fiscal Officer Responsibilities of the State of Illinois, Office of the Treasurer. The schedule of assets, liabilities and accountabilities, the assets detail, the liabilities and accountabilities detail, the investment income, the administrative responsibilities detail for the protest trust fund, inheritance and estate taxes, and the tobacco settlement recovery fund, the key performance measures, and the investment policy are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of assets, liabilities and accountabilities, the assets detail, the liabilities and accountabilities detail, the investment income, the administrative responsibilities detail for the protest trust fund, inheritance and estate taxes, and the tobacco settlement recovery fund have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The key performance measures and the investment policy have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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


Crowe Chizek and Company LLC

Oak Brook, Illinois
October 21, 2005

FINANCIAL STATEMENTS
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State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

STATEMENTS OF ASSETS, LIABILITIES AND ACCOUNTABILITIES

June 30

	<u>2005</u>	<u>2004</u>
ASSETS AND OTHER DEBITS		
ASSETS		
Cash and cash equivalents		
Demand deposits	\$ 1,749,512	\$ 2,239,900
Clearing account deposits and deposits in transit	<u>30,637,968</u>	<u>56,263,396</u>
Total cash	32,387,480	58,503,296
Time deposits	66,530,000	84,680,000
Repurchase Agreements	2,013,179,189	2,312,452,804
Commercial Paper	2,290,919,667	948,471,180
The Illinois Funds	1,185,604,294	1,134,121,494
Money Market Mutual Funds	325,219,621	310,500,915
Mortgage Reserve Fund	8,406	3,263
U.S. Agency Discount Notes	<u>141,632,905</u>	<u>-</u>
Total cash and cash equivalents	6,055,481,562	4,848,732,952
DEPOSITS AND INVESTMENTS, AT MARKET		
Short-term investments		
Time deposits	1,114,175,684	681,342,811
Commercial Paper	-	1,060,801,411
U.S. Agency Discount Notes	-	356,737,799
Federal Farm Credit Bank Bond	177,368,000	42,362,000
Federal Home Loan Mortgage Corporation	59,599,280	-
Federal National Mortgage Association	17,808,703	-
Federal Home Loan Bank	55,097,973	13,010,514
Long-term investments		
Time deposits	67,179,774	87,089,381
Federal Farm Credit Bank Bond	1,099,000	1,099,000
Federal Home Loan Mortgage Corporation	22,246,875	108,867,282
Federal National Mortgage Association	59,384,678	117,812,228
Federal Home Loan Bank	118,787,164	159,985,312
State of Illinois Secondary Pool Investment Program	2,628,176	3,690,846
Illinois Technology Development	1,728,419	-
Foreign Investments	<u>19,848,000</u>	<u>19,857,000</u>
Total deposits and investments	1,716,951,726	2,652,655,584
OTHER ASSETS		
Warrants cashed, but not canceled	156,401,300	162,940,504
Receivables from universities, agencies and retirement systems for monies advanced and securities purchased	3,215,381	4,348,127
Receivable from City of Edwardsville	324,780	343,133
Investment income earned, but not received	18,753,275	9,240,160
Illinois Insured Mortgage Pilot Program Trust	<u>7,438,544</u>	<u>7,438,544</u>
Total other assets	186,133,280	184,310,468
OTHER DEBITS		
Amount of future general revenue obligated for debt service	<u>36,584,875,278</u>	<u>37,618,856,887</u>
Total assets and other debits	<u>\$ 44,543,441,846</u>	<u>\$ 45,304,555,891</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

STATEMENTS OF ASSETS, LIABILITIES AND ACCOUNTABILITIES - CONTINUED

June 30

	<u>2005</u>	<u>2004</u>
LIABILITIES AND ACCOUNTABILITIES		
LIABILITIES FOR BALANCES ON DEPOSIT		
Comptroller		
Protested taxes	\$ 258,612,411	\$ 211,133,434
Available for appropriation or expenditure	5,798,009,943	5,418,280,076
Agencies' deposits outside the State Treasury	571,496,295	497,660,376
Comptroller's warrants outstanding	676,507,506	943,076,928
	7,304,626,155	7,070,150,814
GENERAL OBLIGATION INDEBTEDNESS		
Principal and interest due within one year	1,643,387,914	2,437,288,789
Thereafter	35,576,247,528	35,792,521,702
	37,219,635,442	38,229,810,491
ACCOUNTABILITIES		
Receivable from City of Edwardsville	324,780	343,133
Investment income earned, but not received (net of cumulative market adjustments)	18,845,098	4,246,223
Federal Reserve Bank settlement account reserve	1,965	1,967
Mortgage Reserve Fund	8,406	3,263
	19,180,249	4,594,586
Total liabilities and accountabilities	\$ 44,543,441,846	\$ 45,304,555,891

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

STATEMENTS OF INVESTMENT INCOME

For the Years Ended June 30

	<u>2005</u>	<u>2004</u>
Investment income received and deposited into the State Treasury	\$ 173,996,921	\$ 115,997,580
Add		
Investment income earned, but not received	18,753,275	9,081,249
Deposits outside the State Treasury	3,652,521	158,911
Net increase in the fair value of investments	1,386,311	-
Deduct		
Net decrease in the fair value of investments	-	(5,461,389)
Investment income earned in the prior year, but deposited in the current year	<u>(9,240,160)</u>	<u>(12,144,594)</u>
Investment income earned	<u>\$ 188,548,868</u>	<u>\$ 107,631,757</u>

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

NOTE A - AUTHORIZING LEGISLATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Financial Reporting Entity*

The State of Illinois, Office of 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 investments and is accountable for 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.

2. *Basis of Presentation*

The accompanying statements of assets, liabilities and accountabilities and of investment income have been prepared on the basis of State of Illinois fiscal regulations and the reporting requirements of the Auditor General. These statements do not present the financial position of the Treasurer and results of investment activity in accordance with accounting principles generally accepted in the United States of America because, with three exceptions, the statements only present those assets and activities for which the Treasurer is held accountable by statute in her fiscal officer responsibilities. The exceptions are the securities, funds and other assets of The Illinois Funds and Bright Start College Savings Program and amounts receivable from inheritance tax assessments. The financial statements of The Illinois Funds and Bright Start College Savings Program are audited annually and reported upon separately.

3. *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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. 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.

5. 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 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.

6. 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. Investment income is adjusted for the change in fair value before the income is allocated to the funds. 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.

7. 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.

8. 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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

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

1. Overview

The Treasurer's investment activities are governed by the Treasurer's published investment policy that was developed in accordance with the State statute. Investments are recorded at fair market value. Short-term investments have a maturity date of less than one year. Unrealized gains and losses are accounted for in the investment in which the change in fair value occurred. In addition, the Treasurer's Office has adopted its own investment practices that supplement the statutory requirements.

Interest Rate Risk: 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 three years with the majority required to be in authorized investments with less than one-year maturity. The portion of the portfolio allocated to investments with more than a two year maturity, other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS/520), shall constitute no more than one percent of the entire state portfolio as reported on the daily accounting balance sheet of the "Treasurer's Investments and Other Fund Investments". The portfolio shall not deviate from these guidelines unless specifically authorized by the Treasurer in writing.

Credit Risk: 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). 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. 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 and savings and loan associations located in the State, credit unions whose principal office is located in Illinois, short-term obligations of corporations whose obligations (i.e. commercial paper) are rated among the three highest classifications established by at least two standard rating services, repurchase agreements or other investments approved by State law. As of June 30, 2005, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's. The Treasurer's investments in all U.S. Agency obligations, including collateral for repurchase agreements, are rated Aaa by Moody's Investors Service and AAA by Fitch Ratings. The Treasurer's investments in foreign debt securities have multiple rates. Of the \$ 19,848,000 invested, \$ 10,000,000 is

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE D - DEPOSITS AND INVESTMENTS - Continued

1. Overview - Continued

rated A2 by Moody's Investors Service and A- by Standard & Poor's and \$ 9,848,000 is rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's. The Treasurer's investments in The Illinois Funds is rated AAAM by Standard & Poor's.

Collateral equal to at least 102% of the amount of the deposit not covered by Federal deposit insurance is required for all time deposits and other interest-bearing deposits. 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.

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 Treasurer purchased investments in sixteen mutual funds. 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 market 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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE D - DEPOSITS AND INVESTMENTS - Continued

1. Overview - Continued

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 bank's assets.

Federal Farm Credit Banks Consolidated Systemwide Bonds are purchased from AgriBank, St. Paul, Minnesota. These bonds are held in book entry form in the Treasurer's account at the Federal Reserve Bank of Chicago. Bond proceeds are loaned to Illinois farmers through participating Production Credit Associations. Timely payments of interest and ultimate repayment of principal are 100% guaranteed by the AgriBank, a U.S. Government corporation.

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 Trustee for the program is JP Morgan. The primary pool assembler is Meridian Capital Markets, Inc. Dana Investment Advisors, Inc. works with Meridian to assemble the SBA pools and to establish a fair market price. The pool's investment advisor is Mesirow Advanced Strategies, Inc.

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

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE D - DEPOSITS AND INVESTMENTS - Continued

2. Deposits

The carrying amount of all the Treasurer's demand and time deposits at June 30, 2005, was \$ 32,387,480 and \$ 1,247,885,458, respectively. The carrying amount of all the Treasurer's demand and time deposits at June 30, 2004, was \$ 58,503,296 and \$ 853,112,192, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2005, was \$31,590,590 and \$ 1,247,885,458, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2004, was \$ 57,392,416 and \$ 853,112,192, respectively. The classification of the bank balances, as defined by Governmental Accounting Standards Board Statement 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements (GASB 3) is as follows:

<u>2005</u>	<u>Demand Deposits</u>	<u>Time Deposits</u>	<u>Total Deposits</u>
Amount insured by the FDIC	\$ 856,726	\$ 25,363,862	\$ 26,220,588
Amount collateralized with securities held by safekeeping institutions in the Treasurer's name	<u>30,733,864</u>	<u>1,222,521,596</u>	<u>1,253,255,460</u>
	<u>\$ 31,590,590</u>	<u>\$ 1,247,885,458</u>	<u>\$ 1,279,476,048</u>
<u>2004</u>	<u>Demand Deposits</u>	<u>Time Deposits</u>	<u>Total Deposits</u>
Amount insured by the FDIC	\$ 977,634	\$ 26,860,081	\$ 27,837,715
Amount collateralized with securities held by safekeeping institutions in the Treasurer's name	56,414,789	826,252,111	882,666,900
Overdrafts	<u>(7)</u>	<u>-</u>	<u>(7)</u>
	<u>\$ 57,392,416</u>	<u>\$ 853,122,192</u>	<u>\$ 910,504,608</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE D - DEPOSITS AND INVESTMENTS - Continued

3. Investments

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. There were no realized gains during 2005 or 2004. The Treasurer's net increase/(decrease) in the fair value of investments during 2005 and 2004 was \$ 1,386,311 and (\$ 5,461,389), respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year. The unrealized loss in investments held at June 30, 2005 and 2004, was \$ 11,323,186 and \$ 12,709,497, respectively.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE D - DEPOSITS AND INVESTMENTS - Continued

3. Investments - Continued

At June 30, 2005 and 2004 in accordance with Governmental Accounting Standards Board Statement 40, Deposit and Investment Risk Disclosures (GASB 40), there is no custodial credit risk assumed by the Treasurer because the Treasurer's investments are represented by specific identifiable investment securities which are insured or registered or are securities held by the Treasurer or her agent in the Treasurer's name. Excluding Time Deposits, the Treasurer had the following investments, stated at market value except for Federal Farm Credit Bank Bond, and maturities as of June 30. (Amounts are in thousands.)

<u>2005</u>	Cash Equivalents	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
Commercial Paper	\$ 2,290,920	\$ -	\$ -	\$ -	\$ -	\$ 2,290,920
Repurchase Agreements	2,013,179					2,013,179
Federal Farm Credit Bank Bonds	-	177,368	1,099	-	-	178,467*
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	-	55,098	118,787	-	-	173,885
Federal National Mortgage Association	-	59,599	22,247	-	-	81,846
Federal National Mortgage Association	-	17,809	59,385	-	-	77,194
U.S. Agency Discount Notes	141,633	-	-	-	-	141,633
State of Illinois Secondary Pool Investment Program	-	-	-	793	1,835	2,628
Foreign Investments	-	-	19,848	-	-	19,848
Subtotal	<u>\$ 4,445,732</u>	<u>\$ 309,874</u>	<u>\$ 221,366</u>	<u>\$ 793</u>	<u>\$ 1,835</u>	4,979,600
Illinois Technology Development						1,728
The Illinois Funds						1,185,604
Money Market Mutual Fund						325,220
Mortgage Reserve Fund						8
Total Investments, excluding Time Deposits						<u>\$ 6,492,160</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE D - DEPOSITS AND INVESTMENTS - Continued

3. *Investments - Continued*

<u>2004</u>	Cash Equivalents	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
Commercial Paper	\$ 948,471	\$ 1,060,801	\$ -	\$ -	\$ -	\$ 2,009,272
Repurchase Agreements	2,312,453	-	-	-	-	2,312,453
Federal Farm Credit Bank Bonds	-	42,362	1,099	-	-	43,461*
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	-	13,011	159,985	-	-	172,996
Federal National Mortgage Association	-	-	108,867	-	-	108,867
Federal National Mortgage Association	-	-	117,812	-	-	117,812
U.S. Agency Discount Notes	-	356,738	-	-	-	356,738
State of Illinois Secondary Pool Investment Program	-	-	-	896	2,795	3,691
Foreign Investments	-	-	19,857	-	-	19,857
Subtotal	<u>\$ 3,260,924</u>	<u>\$ 1,472,912</u>	<u>\$ 407,620</u>	<u>\$ 896</u>	<u>\$ 2,795</u>	5,145,147
The Illinois Funds						1,134,122
Money Market Mutual Fund						310,501
Mortgage Reserve Fund						3
Total Investments, excluding Time Deposits						<u>\$ 6,589,773</u>

*These securities are not actively traded on the open market. Furthermore, it is management's intention to hold these investments until maturity. Since these investments are not traded on the open market, establishing a market value as of June 30, at an amount other than the par value is not possible.

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, including accrued interest, was approximately \$ 2,013,179,189 and \$ 2,312,452,804, and the market value of the collateral securities to be resold based on commitments under the repurchase agreements was approximately \$ 2,204,487,193 and \$ 2,409,038,285, as of June 30, 2005 and 2004, respectively.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

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 by American National Bank and Trust Company of Chicago ("Trustee") for the purpose of providing financing to approved construction projects. The principal terms of the loans required "interest only" payments for seven years following the completion of construction with full payment of the outstanding principal balance at the end of the seventh year.

Prior to July 1, 1990, \$ 69,790,000 of loans had been repaid prior to maturity. The remaining balance of \$ 50,210,000 was loaned under seven mortgage agreements. Three mortgage agreements, originally totaling \$ 40,650,000 were secured by hotel properties. The other four mortgage agreements, originally totaling \$ 9,560,000 were secured by commercial properties.

In July 1991, Bank One, Springfield replaced American National Bank and Trust Company as trustee of the Program. On February 24, 1995, Heritage/Pullman Bank & Trust Company replaced Bank One, Springfield as trustee of the program. In 2001, Cosmopolitan Bank & Trust Company bought out Pullman Bank & Trust Company thus becoming trustee of the program.

1. Hotel Properties

The two hotel loans, totaling \$ 28,900,000, owned by the Trust, were restructured during fiscal year 1988. The restructured agreements were signed in December 1987, and January 1988. The restructured agreements extended the maturity to November 1990 for the Holiday Inn, Collinsville hotel and from December 1991 for the Renaissance, Springfield hotel to January 12, 1995, for both hotels. Monthly interest payments were required and all principal was due upon maturity. The average interest rates were reduced from 12 1/4% to 8% per annum retroactive to January 12, 1987. Annual interest rates were to increase from 2% to 14% during the 8-year period. Under the terms of the agreements, \$ 4,339,000 of past-due interest was capitalized. It was the Treasurer's position that collection of the capitalized interest was uncertain and thus, was not added to the recorded value. Additionally, portions of the loan balances, including the capitalized interest, were guaranteed by a surety bond and letters of credit.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST - Continued

1. Hotel Properties - Continued

The Renaissance, Springfield hotel, with an original loan balance of \$ 15,500,000 entered into a second restructuring agreement on April 30, 1990, retroactive to January 1, 1990. The agreement requires quarterly payments based on cash flow, as defined therein, applied first to any outstanding principal. Interest is charged at six percent per annum on the outstanding principal; however, this interest is deferred until the principal has been satisfied and no interest is charged on deferred interest. The maturity date was extended to January 1, 2010; however, if the sum of unpaid principal and interest deferrals exceeds \$ 18,000,000 at any time after January 1, 1999, the loan becomes immediately due by default. As of June 30, 2005 and 2004, respectively, the unpaid principal and interest totaled approximately \$ 27,462,342 and \$ 26,630,165.

Under the original restructured agreement effective January 12, 1987, the surety bond primarily covered 15% of the loan and accrued interest up to a maximum of \$ 2,245,000. The amended surety bond under the current restructured agreement requires the borrower, at the borrower's expense, to maintain and keep in force during the term of the loan, a surety bond guaranteeing to the lender, in the amounts set forth in Schedule 1 of the Second Mortgage Loan Restructuring Closing Book, all or a portion of the Principal Amount. The lender has 45 days upon default to notify the surety that there is a default and potential claim against the surety bond. Once the lender has obtained merchantable title, it can proceed with a claim against the surety bond. The surety can choose one of three options to determine the amount of its payment to the lender. It may pay: 1) the lesser of the percentage amount of the loss or the Maximum Amount for a claim made (as defined in Endorsement 2, Addendum A of the Agreement), or 2) the entire amount of the loss if the principal sum is in default and if the lender provides the surety with a merchantable title, or 3) the amount of the interest in default and assume the principal's obligation to pay future interest due and the principal sum provided the lender provides the surety with merchantable title. The estimated present value of the surety bond as of June 30, 2005 and 2004 is \$ 5,356,000 and \$ 4,595,000, respectively.

The Holiday Inn, Collinsville hotel, with an original loan balance of \$ 13,400,000 signed a second restructuring agreement on January 10, 1991, retroactive to January 1, 1991. The terms of this agreement are similar to those discussed in the preceding paragraph, and results in required payments based on a calculation of defined cash flow, which are applied first to outstanding principal. Accrued and unpaid interest of approximately \$ 428,000 was capitalized upon the second restructuring, but was not added to the Treasurer's recorded value. Interest is charged at six percent per annum on the outstanding principal; however, this interest is deferred until the principal has been satisfied and no interest is charged on

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST - Continued

1. Hotel Properties - Continued

deferred interest. The maturity date was extended to January 1, 2010; however, if at any time after January 1, 1999, the sum of unpaid principal and interest deferrals exceeds \$17,700,000, the loan becomes immediately due by default. The unpaid principal and interest totaled approximately \$29,357,787 and \$28,432,060 at June 30, 2005 and 2004, respectively. As additional security for the loan, the borrower, at the borrower's expense, must obtain and deliver to the Trustee, no later than the closing date, and must maintain and keep in force during the term of the loan one or more unconditional, irrevocable, letters of credit in a total amount not less than 15% of the principal amount, issued by institutions which have a net worth of no less than ten million dollars. Furthermore, as described in the agreement regarding additional collateral, the borrower must, in cases when the additional collateral is set to expire within 60 days, deliver to the lender substitute collateral no later than 30 days prior to the date of such scheduled expiration. In the event that the substitute collateral is not received within the specified time, the lender can declare an event of default and immediately draw upon the additional security. The letters of credit expire on either December 15 or December 31 of each year. Provided that the borrower is not in default under the restructured loan documents, the amount of additional collateral can be adjusted to an amount equal to the lesser of: 1) the percentage of the loss or 2) the Maximum Amount, both of which are defined in Schedule 1 of the Second Agreement to Restructure the Loan. At a default date, the borrower has the option of providing additional collateral equal to either the Maximum Amount of \$ 3,060,000 or 64% of the loss. The estimated present value of the additional collateral equals \$ 2,637,000 as of June 30, 2005 and 2004. Pursuant to the restructuring agreement, the Collinsville Mortgage is also secured by a personal guarantee in the maximum amount of \$ 1,500,000. However, personal financial statements from the guarantors are not readily available, and thus the estimated value of the guarantee is unknown.

The hotel loans are considered to be nonperforming assets and, as such, interest is recorded only if received. If the interest receivable were recorded, the accrued interest balances for the hotels at June 30, 2005 and 2004, would be as follows:

	(In thousands)		
	Springfield	Collinsville	Total
Accrued interest receivable - June 30, 2005	\$ 13,593	\$ 13,929	\$ 27,522
Accrued interest receivable - June 30, 2004	\$ 12,761	\$ 13,003	\$ 25,764

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST - Continued

1. Hotel Properties - Continued

During 1995, the Treasurer authorized the Trustee, Pullman Bank and Trust Company, to sell the mortgage notes for \$ 10 million, an amount that was greater than the most recent independent valuation available at the time. The Illinois Attorney General opined that his consent to the proposed sale was required and he refused to give it. As a consequence, the Treasurer did not proceed with the transaction.

Affiliates of the owners of the Springfield Renaissance Hotel and the Collinsville Holiday Inn (plaintiffs) filed a lawsuit December 29, 1995, against the Trustee and the Treasurer seeking specific performance of the buy-sell agreement on which the terms agreed.

On March 13, 2000, the Circuit Court in Madison County entered a judgment order requiring the Trustee and Treasurer to sell the mortgage loans on the hotel properties to the plaintiffs. The court found that the plaintiffs were ready, willing and able to perform the buy-sell agreements at the time originally set for closing in 1995. The Trustee and the Treasurer have appealed the order. Appellate briefings were completed in February 2001 and oral arguments were heard later that year. The Illinois Appellate Court, Fifth District, affirmed the Circuit Court's decision in all material respects. An appeal of that ruling was petitioned by the Trustee to the Illinois Supreme Court and granted on October 7, 2003. As of June 3, 2005, the Illinois Supreme Court reversed the Appellate Court's decision on the basis of sovereign immunity. The plaintiffs have requested that the Illinois Supreme Court reconsider its decision. If the Illinois Supreme Court declines to do so, the case will be remanded to the Madison County Circuit Court and the stays will be vacated.

The Trustee of the Illinois Insured Mortgage Pilot Program at the direction of the Illinois State Treasurer filed two lawsuits on October 31, 1997, one against the Collinsville Hotel Venture and the other against the President Lincoln Hotel Venture, for breaching their cash flow notes by improperly deducting capital expenditures from cash flow in violation of their respective loan agreements. The loan agreements provide that capital expenditures may be deducted from cash flow only to the extent that payments pre-approved by the Trustee are made by the Ventures into a capital reserve account. The Trustee claims that these violations of the loan agreements, and the failure of the Ventures to pay upon demand money they improperly deducted from cash flow, constitute a default of the notes making them immediately due and payable.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST - Continued

1. Hotel Properties - Continued

The two lawsuits were filed in Cook County. The borrowers both asked the Court to stay the lawsuits while the Madison County action was pending, and their motions were granted.

After the final judgment was entered in the Madison County case, the Judge in Cook County who was presiding over the Collinsville case lifted his stay. Plaintiffs in the Madison County case then asked the Court to hold the Trustee and its counsel in contempt for pursuing the Cook County case. Eventually, the Trustee petitioned the Illinois Supreme Court for a supervisory order to allow it to proceed prosecuting the Cook County case without being held in contempt by the Madison County Court. The Supreme Court issued such a supervisory order in the fall of 2001, and the Cook County case is now proceeding. However, the Cook County case against the Springfield Hotel remains stayed. As a result of discovery in the Collinsville case, the Trustee has determined that there have been additional events of default, and as a result it has now filed an amended complaint. The outcome of this litigation is not presently determinable.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST - Continued

1. Hotel Properties - Continued

The following is a summary of the balances related to the restructured loans:

	(In thousands)		
	<u>Renaissance Springfield</u>	<u>Holiday Inn Collinsville</u>	<u>Total</u>
Recorded Value			
Original loan balances	\$ 15,500	\$ 13,400	\$ 28,900
Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1991	(4,086)	(564)	(4,650)
Less payments received-year ended June 30, 1992	(320)	(95)	(415)
Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1992	-	(2,000)	(2,000)
Less payments received-year ended June 30, 1993	(256)	(161)	(417)
Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1993	(3,638)	(3,580)	(7,218)
Less payments received-year ended June 30, 1994	(290)	(378)	(668)
Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1994	(3,435)	(2,312)	(5,747)
Adjustment for correction of an error	(1,305)	3,868	2,563
Less payments received-year ended June 30, 1995	(518)	(832)	(1,350)
June 30, 1995 – recorded value	1,652 [#]	7,346 ^{##}	8,998
Less payments received – year ended June 30, 1996	(458)	(394)	(852)
Less payments received – year ended June 30, 1997	(185)	(180)	(365)
Less payments received – year ended June 30, 1998	(93)	-	(93)
Less payments received – year ended June 30, 1999	-	(107)	(107)
Less payments received – year ended June 30, 2000	-	-	-
Less payments received – year ended June 30, 2001	-	-	-
Less payments received – year ended June 30, 2002	(56)	-	(56)
Less payments received – year ended June 30, 2003	(86)	-	(86)
Less payments received – year ended June 30, 2004	-	-	-
Less payments received – year ended June 30, 2005	-	-	-
June 30, 2005, - recorded value	<u>\$ 774</u>	<u>\$ 6,665</u>	<u>\$ 7,439</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST - Continued

1. Hotel Properties - Continued

	(In thousands)		
	Renaissance Springfield	Holiday Inn Collinsville	Total
Loan Balance			
Original loan balances	\$ 15,500	\$ 13,400	\$ 28,900
Interest capitalized upon first restructuring	592	3,747	4,339
Interest capitalized upon second restructuring	40	428	468
Payments received-years ended June 30, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004 and 2005	(2,262)	(2,147)	(4,409)
June 30, 2005 - loan balance	\$ 13,870	\$ 15,428	\$ 29,298

Notes:

The valuation of the mortgage position at June 30, 1995, was estimated at \$ 1,670,000.

** The valuation of the mortgage position at June 30, 1995, was estimated at \$ 8,850,000.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE F - DEFEASED DEBT

There were no General Obligation Refunding Bonds issued during fiscal year 2005.

During fiscal year 2004, the State of Illinois issued General Obligation Refunding Bonds for the purpose of defeasing certain outstanding bonds that carried a higher rate of interest. The defeasance was accomplished by depositing the proceeds from the Refunding Bonds with an escrow trustee for the purchase of U.S. government obligations. The cash from the maturity of the U.S. government obligations and interest thereon will be used to pay all the principal and interest of the defeased bonds as they become due as well as all administrative expenses of the trustee. 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 \$ 38,701,179 during fiscal year 2004, as follows:

	<u>Balances at June 30, 2004</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Balance of defeased bonds issues	\$ 624,800,000	\$ 307,477,818	\$ 932,277,818
General Obligation Refunding Bonds	<u>617,175,000</u>	<u>276,401,639</u>	<u>893,576,639</u>
Net decrease	<u>\$ 7,625,000</u>	<u>\$ 31,076,179</u>	<u>\$ 38,701,179</u>

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 \$ 29,739,274 during fiscal year 2004.

In prior 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, 2005 and 2004, \$ 761,820,000 and \$ 1,022,220,000, respectively, of bonds outstanding are considered defeased.

NOTE G - SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER

At June 30, 2005 and 2004, the Treasurer was responsible for \$ 13,082,204 and \$ 12,880,254, respectively, of securities held in safekeeping for various State departments, agencies and institutions. Therefore, these are not reflected in the statement of assets, liabilities and accountabilities.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE H - GENERAL OBLIGATION INDEBTEDNESS

A summary of the changes from June 30, 2004 to June 30, 2005, in General Obligation Bonded Indebtedness by issue type follows:

	Antipollution Interest Rates varying from 7.625% to 11.00% Series M through W, due serially to 2009	Multi-Purpose Interest Rates varying from 2.33% to 7.90%, Series 1988 through 2005, due serially to 2034	Pension Funding Interest Rates varying from 2.50% to 5.10% Series 2003, due serially to 2033
Balance at June 30, 2004			
Principal	\$ 26,000,000	\$ 7,487,820,454	\$ 10,000,000,000
Interest	<u>5,185,750</u>	<u>5,540,526,646</u>	<u>11,452,675,000</u>
Total	31,185,750	13,028,347,100	21,452,675,000
Redemptions charge to Appropriations			
Principal	7,160,000	404,075,301	-
Interest	<u>2,055,950</u>	<u>446,594,361</u>	<u>496,200,000</u>
Total	9,215,950	850,669,662	496,200,000
Certificates/Bonds issued			
Principal	-	875,000,000	-
Interest	<u>-</u>	<u>564,725,465</u>	<u>-</u>
Total	-	1,439,725,465	-
Refunding			
Principal	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total	-	-	-
Reallocations			
Principal	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total	-	-	-
Balance at June 30, 2005			
Principal	18,840,000	7,958,745,153	10,000,000,000
Interest	<u>3,129,800</u>	<u>5,658,657,750</u>	<u>10,956,475,000</u>
Total	<u>\$ 21,969,800</u>	<u>\$ 13,617,402,903</u>	<u>\$ 20,956,475,000</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE H - GENERAL OBLIGATION INDEBTEDNESS - Continued

	General Obligation Refunding Series 1995 through 2004 Interest Rates varying from 2.50% to 5.50% due serially to 2021	Total Bonded Indebtedness	General Obligation Certificates	Total General Obligation Indebtedness
Balance at June 30, 2004				
Principal	\$ 2,042,441,877	\$ 19,556,262,331	\$ 850,000,000	\$ 20,406,262,331
Interest	820,226,042	17,818,613,438	4,934,722	17,823,548,160
Total	<u>2,862,667,919</u>	<u>37,374,875,769</u>	<u>854,934,722</u>	<u>38,229,810,491</u>
Redemptions charge to Appropriations				
Principal	127,025,222	538,260,523	1,615,000,000	2,153,260,523
Interest	111,854,958	1,056,705,269	10,672,222	1,067,377,491
Total	<u>238,880,180</u>	<u>1,594,965,792</u>	<u>1,625,672,222</u>	<u>3,220,638,014</u>
Certificates/Bonds issued				
Principal	-	875,000,000	765,000,000	1,640,000,000
Interest	-	564,725,465	5,737,500	570,462,965
Total	<u>-</u>	<u>1,439,725,465</u>	<u>770,737,500</u>	<u>2,210,462,965</u>
Refunding				
Principal	-	-	-	-
Interest	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reallocations				
Principal	-	-	-	-
Interest	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at June 30, 2005				
Principal	1,915,416,655	19,893,001,808	-	19,893,001,808
Interest	708,371,084	17,326,633,634	-	17,326,633,634
Total	<u>\$ 2,623,787,739</u>	<u>\$ 37,219,635,442</u>	<u>\$ -</u>	<u>\$ 37,219,635,442</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE H - GENERAL OBLIGATION INDEBTEDNESS - Continued

A summary of the changes from June 30, 2003 to June 30, 2004, in General Obligation Bonded Indebtedness by issue type follows:

	Antipollution Interest Rates varying from 6.00% to 12.00% Series K through W, due serially to 2009	Multi-Purpose Interest Rates varying from 2.33% to 7.90%, Series 1988 through 2004, due serially to 2034	Pension Funding Interest Rates varying from 2.50% to 5.10% Series 2003, due serially to 2033
Balance at June 30, 2003			
Principal	\$ 35,960,000	\$ 7,117,795,625	\$ 10,000,000,000
Interest	7,990,950	5,152,359,475	11,933,713,333
Total	43,950,950	12,270,155,100	21,933,713,333
Redemptions charge to Appropriations			
Principal	9,960,000	337,770,171	-
Interest	2,805,200	418,155,785	481,038,333
Total	12,765,200	755,925,956	481,038,333
Certificates/Bonds issued			
Principal	-	1,175,000,000	-
Interest	-	1,099,079,072	-
Total	-	2,274,079,072	-
Refunding			
Principal	-	467,205,000	-
Interest	-	292,756,116	-
Total	-	759,961,116	-
Reallocations			
Principal	-	-	-
Interest	-	-	-
Total	-	-	-
Balance at June 30, 2004			
Principal	26,000,000	7,487,820,454	10,000,000,000
Interest	5,185,750	5,540,526,646	11,452,675,000
Total	\$ 31,185,750	\$ 13,028,347,100	\$ 21,452,675,000

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE H - GENERAL OBLIGATION INDEBTEDNESS - Continued

	General Obligation Refunding Series 1992 through 2004 Interest Rates varying from 2.50% to 5.50% due serially to 2014	Total Bonded Indebtedness	General Obligation Certificates	Total General Obligation Indebtedness
Balance at June 30, 2003				
Principal	\$ 1,658,800,363	\$ 18,812,555,988	\$ 1,500,000,000	\$ 20,312,555,988
Interest	649,515,892	17,743,579,650	22,364,583	17,765,944,233
Total	2,308,316,255	36,556,135,638	1,522,364,583	38,078,500,221
Redemptions charge to Appropriations				
Principal	75,938,486	423,668,657	1,500,000,000	1,923,668,657
Interest	90,969,787	992,969,105	22,364,583	1,015,333,688
Total	166,908,273	1,416,637,762	1,522,364,583	2,939,002,345
Certificates/Bonds issued				
Principal	617,175,000	1,792,175,000	850,000,000	2,642,175,000
Interest	276,401,639	1,375,480,711	4,934,722	1,380,415,433
Total	893,576,639	3,167,655,711	854,934,722	4,022,590,433
Refunding				
Principal	157,595,000	624,800,000	-	624,800,000
Interest	14,721,702	307,477,818	-	307,477,818
Total	172,316,702	932,277,818	-	932,277,818
Reallocations				
Principal	-	-	-	-
Interest	-	-	-	-
Total	-	-	-	-
Balance at June 30, 2004				
Principal	2,042,441,877	19,556,262,331	850,000,000	20,406,262,331
Interest	820,226,042	17,818,613,438	4,934,722	17,823,548,160
Total	<u>\$ 2,862,667,919</u>	<u>\$ 37,374,875,769</u>	<u>\$ 854,934,722</u>	<u>\$ 38,229,810,491</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE H - GENERAL OBLIGATION INDEBTEDNESS - Continued

Interest on zero coupon bonds is reflected in the above 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, 2005, are as follows:

Year ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 688,145,000	\$ 955,242,914	\$ 1,643,387,914
2007	661,775,000	933,192,141	1,594,967,141
2008	716,415,000	911,521,029	1,627,936,029
2009	705,565,000	888,630,516	1,594,195,516
2010	689,855,000	865,460,590	1,555,315,590
2011 – 2015	3,242,470,000	3,955,510,529	7,197,980,529
2016 – 2020	3,028,215,000	3,262,587,053	6,290,802,053
2021 – 2025	3,532,649,985	2,494,602,991	6,027,252,976
2026 – 2030	4,463,210,104	1,529,434,437	5,992,644,541
2031 – 2034	<u>3,345,569,911</u>	<u>349,583,242</u>	<u>3,695,153,153</u>
Total	<u>\$ 21,073,870,000</u>	<u>\$ 16,145,765,442</u>	<u>\$ 37,219,635,442</u>

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

NOTE I - ARBITRAGE REBATE LIABILITY

Section 148(f) of the Internal Revenue Code of 1986 (the "Code") generally provides that an issuer of tax-exempt bonds must pay to the United States (i) the excess of (a) the amount earned on all nonpurpose investments made with gross proceeds of an issue (as defined in the Code and the applicable regulations promulgated or proposed thereunder) of tax-exempt bonds over (b) the amount which would have been earned if such nonpurpose investments had been invested at a rate equal to the yield on the issue (the "Excess"), plus (ii) any income attributable to the Excess. The Excess that arises from earnings on nonpurpose investments held in certain funds and accounts is the arbitrage rebate liability (the "Liability"). There is no liability for future years.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the years ended June 30, 2005 and 2004

NOTE J - BRIGHT START PROGRAM

The Treasurer has established a "qualified state tuition program" under Section 529 of the Internal Revenue Code of 1986, as amended. The program is known as the Bright Start College Savings Program (Program). The Program participants may make investments in accounts established for the purpose of meeting the qualified higher education expenses of Beneficiaries designated on the Program accounts. The amounts contributed to the Program are invested in the Bright Start College Savings Trust (Trust). The Treasurer has selected Citigroup Global Markets, Inc. (Citigroup) to advise the Treasurer on the investment of Trust assets, to administer the Trust assets, and to provide other services relating to the Program. As such, Citigroup will be acting as agent of the Treasurer, as trustee of the Trust. The Treasurer retains ultimate authority to manage the investments of the Trust.

NOTE K - RECLASSIFICATIONS

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

OTHER SUPPLEMENTARY INFORMATION

A tab page will replace this page

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ASSETS, LIABILITIES AND ACCOUNTABILITIES

June 30, 2005 and 2004

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

	June 30	
	2005	2004
Assets		
Cash and cash equivalents	\$ 6,055,481,562	\$ 4,848,732,952
Deposits and investments, at market	1,716,951,726	2,652,655,584
Other assets	186,133,280	184,310,468
Amount of future general revenue obligated for debt service	36,584,875,278	37,618,856,887
Total assets	\$ 44,543,441,846	\$ 45,304,555,891
Liabilities for balances on deposit		
Comptroller		
Protested taxes	\$ 258,612,411	\$ 211,133,434
Available for appropriation or expenditure	5,798,009,943	5,418,280,076
Agencies' deposits outside the State Treasury	571,496,295	497,660,376
Comptroller's warrants outstanding	676,507,506	943,076,928
	7,304,626,155	7,070,150,814
General obligation indebtedness	37,219,635,442	38,229,810,491
Total liabilities	44,524,261,597	45,299,961,305
Accountabilities		
Receivable from City of Edwardsville	324,780	343,133
Investment income earned, but not received	18,845,098	4,246,223
Federal Reserve Bank settlement account reserve	1,965	1,967
Mortgage Reserve Fund	8,406	3,263
Total accountabilities	19,180,249	4,594,586
Total liabilities and accountabilities	\$ 44,543,441,846	\$ 45,304,555,891

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ASSETS - DETAIL

June 30, 2005 and 2004

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

	June 30	
	2005	2004
Cash and cash equivalents		
Demand deposits	\$ 1,749,512	\$ 2,239,900
Clearing account deposits and deposits in transit	30,637,968	56,263,396
Time deposits	66,530,000	84,680,000
Repurchase agreements	2,013,179,189	2,312,452,804
Commercial paper	2,290,919,667	948,471,180
The Illinois Funds	1,185,604,294	1,134,121,494
Money Market Mutual Fund	325,219,621	310,500,915
Mortgage Reserve Fund	8,406	3,263
U.S. Agency discount notes	141,632,905	-
	\$ 6,055,481,562	\$ 4,848,732,952
Total cash and cash equivalents	\$ 6,055,481,562	\$ 4,848,732,952

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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ASSETS - DETAIL - CONTINUED

	June 30, 2005 Bank Balances			June 30, 2004 Bank Balances		
	<u>Collected</u>	<u>Float</u>	<u>Total</u>	<u>Collected</u>	<u>Float</u>	<u>Total</u>
Demand deposits						
Associated Bank of Commerce	\$ 3,268	\$ -	\$ 3,268	\$ 26,695	\$ -	\$ 26,695
Fifth Third Bank of Aurora	5,335	-	5,335	24,033	-	24,033
JP Morgan (formerly Bank One)	86,395	-	86,395	85,911	-	85,911
Cole Taylor Bank of Chicago	250,144	-	250,144	370,366	-	370,366
Illinois National Bank	146,992	-	146,992	1,711	-	1,711
National City	70,588	415,003	485,591	66,545	266,820	333,365
LaSalle National Bank, Chicago	-	-	-	26,906	-	26,906
Northern Trust Bank, Chicago	193,035	-	193,035	305,392	-	305,392
	<u>755,757</u>	<u>415,003</u>	1,170,760	<u>907,559</u>	<u>266,820</u>	1,174,379
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			<u>578,752</u>			<u>1,065,521</u>
Total demand deposits			<u>\$ 1,749,512</u>			<u>\$ 2,239,900</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
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ASSETS - DETAIL - CONTINUED

	June 30, 2005			June 30, 2004		
	<u>Collected</u>	<u>Float</u>	<u>Total</u>	<u>Collected</u>	<u>Float</u>	<u>Total</u>
Clearing account deposits and deposits in transit						
Cole Taylor Bank	\$ 1,063,072	\$ 61,366	\$ 1,124,438	\$ 624,786	\$ 22,083	\$ 646,869
National City-Springfield	304	-	304	700	-	700
DuQuoin State Bank	25,713	-	25,713	(7)	-	(7)
JP Morgan (formerly Bank One)	59,769	26,490,223	26,549,992	74,826	38,568,568	38,643,394
Illinois National Bank	-	368,465	368,465	-	10,066,000	10,066,000
US Bank-Springfield	91,547	-	91,547	105,759	-	105,759
Northern Trust Company	379,078	63,883	442,961	4,199,581	788,940	4,988,521
International Bank of Chicago	30,863	-	30,863	189,811	-	189,811
Oakbrook Bank	44,651	1,740,896	1,785,547	1,136,223	440,767	1,576,990
	<u>\$ 1,694,997</u>	<u>\$ 28,724,833</u>	30,419,830	<u>\$ 6,331,679</u>	<u>\$ 49,886,358</u>	56,218,037
Net reconciling items (e.g., deposits-in- transit and outstanding drafts)			<u>218,138</u>			<u>45,359</u>
Total clearing account deposits			<u>\$ 30,637,968</u>			<u>\$ 56,263,396</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
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ASSETS - DETAIL - CONTINUED

June 30, 2005 and 2004

Deposits and Investments

Most of the Treasurer's investments at June 30, 2005 and 2004 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	
	2005	2004
Short-term investments		
Time Deposits	\$ 1,114,175,684	\$ 681,342,811
Commercial Paper	-	1,060,801,411
U.S. Agency Discount Notes	-	356,737,799
Federal Farm Credit Bank Bond	177,368,000	42,362,000
Federal Home Loan Mortgage Corporation	59,599,280	-
Federal Home Loan Bank	55,097,973	13,010,514
Federal National Mortgage Association	17,808,703	-
	1,424,049,640	2,154,254,535
Long-term investments		
Time Deposits	67,179,774	87,089,381
Federal Farm Credit Bank Bond	1,099,000	1,099,000
Federal Home Loan Mortgage Corporation	22,246,875	108,867,282
Federal Home Loan Bank	118,787,164	159,985,312
Federal National Mortgage Association	59,384,678	117,812,228
State of Illinois Secondary Pool Investment Program	2,628,176	3,690,846
Illinois Technology Development	1,728,419	-
Foreign Investments	19,848,000	19,857,000
	292,902,086	498,401,049
	\$ 1,716,951,726	\$ 2,652,655,584

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ASSETS - DETAIL - CONTINUED

June 30, 2005 and 2004

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 during fiscal 2005 and 2004 was 2.25% and 1.15%, respectively.

Other Assets

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

	<u>2005</u>	<u>2004</u>
Warrants cashed, but not canceled	\$ 156,401,300	\$ 162,940,504
Receivables from universities, agencies and retirement systems for monies advanced and securities purchased	3,215,381	4,348,127
Receivable from City of Edwardsville	324,780	343,133
Investment income earned, but not received	18,753,275	9,240,160
Illinois Insured Mortgage Pilot Program Trust	7,438,544	7,438,544
	\$ 186,133,280	\$ 184,310,468

The account balances of warrants cashed but not canceled and the receivable from universities, agencies and retirement systems represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2005 and 2004. 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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ASSETS - DETAIL - CONTINUED

June 30, 2005 and 2004

Other Assets - Continued

Repayments received for the years ended June 30, 2005 and 2004, were \$ 18,353 and \$ 0, respectively.

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

As discussed in the notes to the financial statements, two hotel investments are presented as other assets because they are considered to be nonperforming assets.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

LIABILITIES AND ACCOUNTABILITIES - DETAIL

June 30, 2005 and 2004

Amount of Future General Revenue Obligated for Debt Service

The following summary reflects the general revenue obligated for debt service during fiscal 2005 and thereafter:

	<u>General Obligation Bonds</u>
Certificates, bond and coupons maturing in fiscal year 2006	\$ 1,643,387,914
Less - balance on deposit in State Treasury at June 30, 2005, for certificate and bond redemption and interest	<u>(634,760,164)</u>
Amount obligated from future general revenue	
Fiscal year 2006 general revenue	1,008,627,750
After June 30, 2006	<u>35,576,247,528</u>
Amount of future general revenue obligated for debt service at June 30, 2005	<u>\$ 36,584,875,278</u>

A summary of the changes during the period July 1, 2004 through June 30, 2005, in the amount of future general revenue obligated for debt service is as follows:

	<u>General Obligation Bonds</u>
Balance at June 30, 2004	\$ 37,618,856,887
Issuance of certificates and bonds	2,210,462,965
Bonds and coupons redeemed and bonds refunded	(3,220,638,014)
Bonds and coupons refunded	-
Net decreases in balances on deposits in State Treasury	<u>(23,806,560)</u>
Balance at June 30, 2005	<u>\$ 36,584,875,278</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

LIABILITIES AND ACCOUNTABILITIES - DETAIL - CONTINUED

June 30, 2005 and 2004

Amount of Future General Revenue Obligated for Debt Service - Continued

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

<u>General Obligation Bonds</u>	<u>2005</u>	<u>2004</u>
Amount of future general revenue obligated for debt service	\$ 36,584,875,278	\$ 37,618,856,887
Balance in deposit in the State Treasury at June 30 for bond redemption and interest	<u>634,760,164</u>	<u>610,953,604</u>
Total indebtedness at June 30	<u>\$ 37,219,635,442</u>	<u>\$ 38,229,810,491</u>

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 statement of assets, 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.

General Obligation Certificates issued under the Short Term Borrowing Act during fiscal year 2005 included one issue. The issue of General Obligation Certificates occurred on March 3, 2005, for principal of \$ 765,000,000 and premium of \$ 1,675,350. Of this amount, \$ 765,000,000 was deposited into the General Revenue Fund, and \$ 1,675,350 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on May 24, 2005.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

LIABILITIES AND ACCOUNTABILITIES - DETAIL - CONTINUED

June 30, 2005 and 2004

Amount of Future General Revenue Obligated for Debt Service - Continued

General Obligation Certificates issued under the Short Term Borrowing Act during fiscal year 2004 included one issue. The issue of General Obligation Certificates occurred on June 23, 2004, for principal of \$ 850,000,000 and premium of \$ 2,868,750. Of this amount, \$ 850,000,000 was deposited into the Medicaid Provider Relief Fund, and \$ 2,868,750 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on October 20, 2004.

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.

Liabilities for Balances on Deposit

Protested Taxes

Substantially all of the \$ 258,612,411 and \$ 211,133,434 at June 30, 2005 and 2004, 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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

LIABILITIES AND ACCOUNTABILITIES - DETAIL - CONTINUED

June 30, 2005 and 2004

Agencies' Deposits Outside the State Treasury

The liability for agencies' deposits not under the statutory recordkeeping control of the Comptroller consists of:

	<u>2005</u>	<u>2004</u>
Treasurer's clearing account balances	\$ 157,344,428	\$ 161,551,722
Treasurer's clearing account drafts in process of being ordered into the State Treasury	93,535,884	107,793,742
Deposits in process of being ordered into the Treasurer's clearing accounts	175,389,807	135,498,665
Deposits in demand accounts in process of being ordered into the State Treasury	<u>145,226,176</u>	<u>92,816,247</u>
Total agency deposits outside the State Treasury	<u>\$ 571,496,295</u>	<u>\$ 497,660,376</u>

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.

General Obligation Indebtedness

Reference is made to the Amount of Future General Revenue Obligated for Debt Service footnote for information relating to outstanding general obligation indebtedness.

Accountabilities

These captions present the balance of certain funds outside the State Treasury. Reference is made to the Supplementary Information - Other Assets for information relating to these accountabilities.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME

For the years ended June 30, 2005 and 2004

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

	<u>2005</u>	<u>2004</u>
General revenue fund	\$ 114,758,837	\$ 70,477,025
Other State funds	61,948,805	32,317,196
Segregated State trust funds	<u>11,841,226</u>	<u>4,837,536</u>
	<u>\$ 188,548,868</u>	<u>\$ 107,631,757</u>

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

	<u>2005</u>	<u>2004</u>
Fund participating in pooled investments		
General Revenue Fund	\$ 114,758,837	\$ 70,477,025
Aggregated Operations Regulatory Fund	3,172	1,835
Airport Land Loan Revolving Fund	37,155	17,256
Alternative Compliance Market Account Fund	3,186	-
AML Reclamation Set Aside Fund	169,504	77,966
Assisted Living and Shared Housing Regulatory Fund	2,127	1,255
Auction Recovery Fund	4,713	1,786
Auction Reg. Administration Fund	8,473	4,180
Bank & Trust Company Fund	213,147	58,723
Brownfields Redevelopment Fund	222,099	143,687
Build Illinois Bond Retirement and Interest Fund	75,455	48,533
Build Illinois Capital Revolving Loan Fund	285,372	151,514
Build Illinois Fund	402,632	191,543
Capital Litigation Fund	151,360	109,002
Care Provide Per W Dev. Dis.	128,492	67,339
Cemetery Consumer Protection Fund	15,654	10,058
Child Abuse Prevention Fund	10,882	5,969
Clean Air Act (CAA) Permit Fund	173,335	64,371
Coal Mining Regulatory Fund	9,626	5,339
Common School Fund	573,590	244,065
Community College Health Insurance Security Fund	356,348	217,423
Community Mental Health Medical Trust Fund	119,114	45,313
Community MH/DD Service Provider Fee Fund	1,031	523
Community Water Supply Laboratory Fund	42,737	26,729
County Automobile Renting Tax Fund	1,783	626
County Hospital Services Fund	353,649	307,434
County Option Motor Fuel Tax Fund	93,019	49,292

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Fund participating in pooled investments		
County Water Commission Tax Fund	\$ 188,441	\$ 81,913
Credit Union Fund	109,122	40,653
Design Professionals Administration and Investigation Fund	14,131	16,653
Drug Rebate Fund	924,839	335,804
Drycleaner Environmental Response Trust Fund	133,130	75,604
DuQuoin State Fair Harness Racing Trust Fund	200	382
Early Intervention Services Fund	134,215	167,952
Environmental Laboratory Certification Fund	7,942	4,414
EPA Court Ordered Trust Fund	21,772	11,187
Explosive Regulatory Fund	1,045	423
Fair Share Trust	3,178	1,561
Family Care Fund	12,735	13,916
Federal Asset Forfeiture Fund	25,318	38,671
Federal Home Investment Trust Fund	16,253	6,949
Federal Reserve Recall Fund	-	6,044
Federal Student Loan Fund	1,138,952	634,187
Federal Workforce Training Fund	3,702	2,369
Fire Truck Revolving Loan Fund	34,860	-
Fish and Wildlife Endowment Fund	24,607	11,380
Food and Drug Safety Fund	24,150	17,177
General Assembly Retirement Excess Benefits Fund	235	86
General Assembly Retirement Fund	57,107	24,095
General Obligation Bond Retirement and Interest Fund	14,525,291	10,032,524
General Professions Dedicated Fund	232,188	126,831
Group Home Loan Revolving Fund	371	1,803
Group Insurance Premium	251,442	91,625
Group Workers Compensation Pool	11,522	3,042
Hansen-Therkelsen Memorial Deaf Student College Fund	17,823	9,140
Health Insurance Reserve Fund	1,255,799	669,650
Hearing Instrument Dispenser Examining and Disciplinary Fund	6,575	3,617
Help Illinois Vote Fund	1,625,683	409,117
Home Inspector Administration Fund	24,211	4,720
Home Rule City Retailers' Occupation Tax Fund	381,495	185,262
Home Rule Municipal Retailers' Occupation Tax Fund	697,228	380,396
Hospital Provider Fund	55,276	-
Illinois Affordable Housing Trust Fund	942,847	329,598
Illinois Beach Marina Fund	13,970	8,005

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Fund participating in pooled investments		
Illinois Building Commission Revenue Fund	\$ 31	\$ 14
Illinois Century Network Special Purposes	87	3,812
Illinois Clean Water Act	336,607	143,342
Illinois Equity Fund	55,879	21,133
Illinois Farmer and Agri-Business Loan Guarantee Fund	163,410	91,613
Illinois Habitat Fund	29,701	21,530
Illinois Rural Bond Bank Trust Fund	-	95
Illinois State Dental Disciplinary Fund	43,859	8,796
Illinois State Medical Disciplinary Fund	115,343	112,200
Illinois State Pharmacy Disciplinary Fund	119,461	46,743
Illinois State Podiatric Disciplinary Fund	14,648	5,997
Industrial Commission Surcharge Escrow Fund	150,933	-
Innovations in Long-Term Care Quality Demonstration Grants	39,233	5,036
Judges Retirement Excess Benefits Fund	1,917	571
Judges Retirement Fund	269,972	135,825
Juvenile Accountability Incentive Block Grant Fund	287,124	125,529
Kaskaskia Commons Permanent School Fund	5,168	2,696
Large Business Attraction Fund	67,922	40,479
Local Government Health Insurance Reserve Fund	238,985	131,842
Long-Term Care Provider Fund	449,100	934,298
Medicaid Buy-In Program Revolving Fund	16,951	4,062
Medicaid Provider Relief Fund	39,169	-
Metro East Mass Transit District Tax Fund	74,784	36,497
Metropolitan Pier and Exposition Authority Trust Fund	118,958	85,368
Motor Vehicle Theft Prevention Fund	90,312	32,848
Municipal Automobile Renting Tax Fund	13,838	7,157
Municipal Economic Development Fund	1,145	608
New Technology Recovery Fund	1,147	33,307
Non-Home Rule Municipal Retailer's Occupation Tax Fund	35,033	6,201
Nuclear Safety Emergency Preparedness Fund	168,413	69,068
Nursing Dedicated and Professional Fund	139,735	27,557
Nursing Home Grant Assistance Fund	-	2,472
Off-highway Vehicle Trails Fund	170,196	-
Optometric Licensing and Disciplinary Committee Fund	10,275	12,602
Personal Property Tax Replacement Fund	1,311,757	516,428
Petroleum Resources Revolving Fund	12,813	7,158
Petroleum Violation Fund	170,896	120,478

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Fund participating in pooled investments		
Plugging and Restoration Fund	\$ 9,872	\$ 17,239
Post Trans Main and Retention	4,819	2,477
Professions Indirect Cost Fund	23,513	18,071
Public Agriculture Loan Guarantee	222,994	115,138
Public Health Services Revolving Fund	8,246	12,034
Public Infrastructure Construction Loan Revolving Fund	26,550	30,902
Public Pension Regulation Fund	25,581	11,304
Radiation Protection Fund	17,352	19,542
Radioactive Waste Facility Closure and Compensation Fund	16,918	70,541
Radioactive Waste Facility Development and Operation Fund	11,678	32,689
Rail Freight Loan Repayment Fund	100,506	47,901
Rate Adjustment Fund	5,036	2,294
Real Estate Audit Fund	3,579	1,841
Real Estate License Administration Fund	149,872	35,889
Real Estate Recovery Fund	22,107	10,608
Real Estate Research and Education Fund	11,246	4,361
Regional Transit Authority Public Transportation Tax Fund	25	12
Regional Transit Authority Sales Tax Trust Fund	539,228	249,383
Registered CPA Administration and Disciplinary Fund	12,017	13,932
Replacement Vehicle Tax-Municipal Trust Fund	12	8
Response Contractor's Indemnification Fund	305	10,681
Road Fund	3,139,014	2,650,822
Road Transportation A Fund	1,255,341	826,540
Salmon Fund	2,908	1,959
Savings and Residential Finance Regulatory Fund	257,620	48,498
School Technology Revolving Loan Fund	296,241	493,308
Second Injury Fund	11,724	5,089
Securities Audit and Enforcement Fund	263,977	185,587
Self-Insurers Administration Fund	16,380	8,284
Self-Insurers Security Fund	620,133	161,594
Self-Sufficiency Trust Fund	5	-
Sheffield February 1982 Agreed Order Fund	88,127	46,270
Special Tax Inc.	46,848	46,979
State Assets Forfeiture Fund	31,852	52,043
State Construction Account Fund	7,078,202	2,178,611
State Employees Retirement Excess Benefits Fund	286	317
State Employees Retirement System Fund	4,300,052	823,569

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Fund participating in pooled investments		
State Employees' Deferred Compensation Plan Fund	\$ 80,568	\$ 52,607
State Furbearer Fund	3,807	1,951
State Migratory Waterfowl Stamp Fund	54,289	31,092
State Pheasant Fund	17,941	10,151
State Rail Freight Loan Repayment Fund	231,368	170,847
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	15,445	7,937
Student Loan Operating Fund	600,603	289,378
Teachers' Health Insurance Security Fund	1,126,096	458,104
Teachers' Retirement Excess Benefits Fund	84,234	28,131
Teachers' Retirement System Fund	1,238,887	743,522
Toxic Pollution Prevention Fund	2,642	1,473
Underground Resource Conservation Enforcement Trust Fund	20,396	8,807
Violent Crime Victims Assistance Fund	82,382	42,941
Water Pollution Control Revolving Fund	8,102,779	3,641,848
Wildlife and Fish Fund	521,345	196,450
Wildlife and Prairie Park Fund	1,322	1,497
Worker's Compensation Benefit Trust Fund	4,423	2,270
	<hr/>	<hr/>
Total pooled investment income	176,707,642	102,794,221

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Segregated Investments		
Agrichemical Incident Response Trust Fund	\$ 24,759	\$ 11,333
College Savings Pool Administration Fund	5,636	2,699
Deferred Lottery Prize Winners Trust Fund	205,986	64,805
Employment Security Administration Fund	6	178
Illinois Habitat Endowment Trust Fund	211,981	93,542
Illinois Municipal Retirement Fund	263,048	62,401
Illinois Prepaid Tuition Trust Fund	132,630	54,200
Illinois Rural Rehabilitation Fund	1,089	336
Illinois State Toll Highway Revenue Fund	9,141,432	3,983,483
National Heritage Endowment Trust Fund	32,526	14,569
Radioactive Waste Facility Closure and Compensation Fund	2,662	-
State Employees Unemployment Benefit Fund	36,694	18,511
Title III Social Security and Employment Service	580,872	123,911
Tobacco IPTIP	1,008,717	319,516
Unemployment Compensation Special Administration Fund	193,188	88,052
Total segregated investment income	11,841,226	4,837,536
Total investment income	\$ 188,548,868	\$ 107,631,757

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the years ended June 30, 2005 and 2004

Reconciliation of investment income deposited with investment income earned is as follows:

	<u>2005</u>	<u>2004</u>
Receipts deposited in the State Treasury	\$ 173,996,921	\$ 115,997,580
Add		
Investment income earned, but not deposited at end of year in process of being ordered into the State Treasury	6,768,875	1,192,854
Accrued	15,636,921	8,047,306
Net increase in the fair value of investments	1,386,311	-
Deduct		
Investment income earned in the prior year, but deposited in current year	(9,240,160)	(12,144,594)
Net decrease in the fair value of investments	-	(5,461,389)
	<u> </u>	<u> </u>
Total investment income earned	<u>\$ 188,548,868</u>	<u>\$ 107,631,757</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the years ended June 30, 2005 and 2004

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

	<u>2005</u>	<u>2004</u>
The Illinois Funds	\$ 15,861,721	\$ 5,556,307
Time Deposits	61,948,331	32,316,973
Money Market Mutual Fund	5,944,658	7,308,338
Repurchase Agreements	39,030,596	19,734,445
Commercial Paper	42,153,396	22,488,747
Federal Farm Credit Bank Bond Private Placement	2,061,222	3,033,823
Illinois Development Finance Authority Industrial Revenue Bonds	-	746
State of Illinois Secondary Pool Investment Program	-	103,908
Federal National Mortgage Association	1,993,716	2,283,264
U.S. Treasury Obligations	-	82,488
Foreign Investments	668,600	513,303
Federal Home Loan Mortgage Corporation	1,686,007	2,157,967
Federal Home Loan Bank Notes	2,798,360	3,185,897
U.S. Agency Discount Notes	2,494,565	4,024,591
Clearing account	66,470	3,424
	<u>66,470</u>	<u>3,424</u>
Total pooled investment income	<u>\$ 176,707,642</u>	<u>\$ 102,794,221</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ADMINISTRATIVE RESPONSIBILITIES

For the years ended June 30, 2005 and 2004

PROTEST TRUST FUND

	<u>2005</u>	<u>2004</u>
Liability at beginning of year	\$ 211,133,434	\$ 205,890,629
Add		
Trust receipts collected by other State agencies	78,307,852	150,949,175
	289,441,286	356,839,804
Deduct		
Trust disbursements for refunds of successfully protested tax payments	19,137,402	29,692,814
Transfers to other funds	11,691,473	116,013,556
	30,828,875	145,706,370
Liability at end of year	\$ 258,612,411	\$ 211,133,434

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, and collected by the 102 county treasurers.

Gross inheritance and estate tax receipts for the fiscal years ended June 30, 2005 and 2004, were \$ 314,294,210 and \$ 235,506,548, respectively. These amounts do not reflect refunds and fees distributed to county treasurers.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

ADMINISTRATIVE RESPONSIBILITIES

For the years ended June 30, 2005 and 2004

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 and investment income. The following is a detail of the deposits into Fund Number 733:

	<u>2005</u>	<u>2004</u>
Tobacco Settlement proceeds	\$ 274,124,000	\$ 269,756,000
Interest and other investment income	<u>1,009,000</u>	<u>320,000</u>
Total receipts and deposits	<u>\$ 275,133,000</u>	<u>\$ 270,076,000</u>

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

KEY PERFORMANCE MEASURES

June 30, 2005

(Unaudited)

- Increased average Illinois Funds' asset base to \$ 5,332,641,726
- Earned interest income of \$ 100.5 million during FY05 for The Illinois Funds.
- Funded 1 Targeted Initiative Projects in the amount of \$ 600,490.
- Funded 1 Daycare Projects totaling \$ 100,000.
- Funded 7 State Treasurer's Economic Program Projects totaling \$ 3,934,633.
These 7 projects created 196 jobs and retained 153 jobs.
- Funded 2 Experience IL Tourism projects in the amount of \$ 5,620,800.
- Funded 2 Experience IL Community Development Projects in the amount of \$870,000.
- Funded 1 Lights Cameras Illinois! project in the amount of \$ 300,000.
- Funded 35 Operation Protect & Provide projects in the amount of \$ 600,490.
- Funded 7 Local Government Short-Term Loans in the amount of \$ 6,546,861.
- Funded 1 Ready Access Project in the amount of \$25,000.
- Funded 457 Annual Agriculture deposits in the amount of \$386,668,472.
- Funded 3 Annual Alternative Agriculture deposits in the amount of \$305,000.
- Funded 217 Five Year Agriculture deposits in the amount of \$8,023,791.
- Funded 6 Five Year Alternative Agriculture deposits in the amount of \$617,200.
- Funded 6 Small Business State Treasurer's Economic Program Projects in the amount of \$1,217,000. These 6 projects created 24 jobs and retained 8 jobs.

- Total number of warrants successfully issued, countersigned, and recorded: 8,460,917
- Total number of warrants successfully canceled, paid, and recorded: 8,399,938
- Total amount of warrants successfully issued, countersigned, and recorded: \$54,844,665,929

- Total amount of estate tax collections: \$314,294,210
- Total amount of estate tax distributions: \$18,194,198
- Total amount of estate tax refunds: \$8,998,967

- The Bank at School Program increased by approximately 30,000 students to a total of approximately 504,171 students statewide.

- The investment portfolio earned approximately \$ 153,804,000 during fiscal year 2005.
- Investments yielded approximately 2.25% throughout the current year.
- The average investment base decreased approximately \$ 1,000,000,000 from the prior year.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY

June 30, 2005 and 2004

(Unaudited)

The State of Illinois, Office of the Treasurer, utilized the following investment policy during FY 2005 and FY 2004:

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 her control in a manner that provides the highest investment return using authorized instruments 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.

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 attain 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 risk.

2.2 Liquidity

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

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

2.0 OBJECTIVE - Continued

2.3 Return On Investment

The investment portfolio shall be designed to obtain the highest available return, taking into account the Treasurer's investment risk constraints and cash flow needs. The Portfolio Manager shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. 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 Portfolio Manager, with the advice and consent of the Investment Policy Committee, to determine the effectiveness of investment decisions in meeting investment goals.

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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

4.0 AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers selecting institutions to provide investment services. No state funds may be deposited in any financial institution until investment officers have conducted a safety and soundness review of the financial institution by consulting IDC, Sheshunoff, and/or Veribanc 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 \$ 100,000. 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. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520).

In addition, a list shall be maintained of approved security broker/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 240.15c3-1 (Net Capital Requirements For Brokers Or Dealers).

All financial institutions and broker/dealers who want to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's authorized investment officers the following, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority/female/disabled broker status;
- c) A trading resolution;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

4.0 AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS - Continued

- f) Completed Broker/Dealer Questionnaire;
- g) Certification of notice and knowledge of this Policy;
- h) Published reports for brokers from rating agencies with investment grade ratings;
- i) Proof of emerging broker status; and
- j) Balance sheets from Consolidated Reports of Condition and Income (or the entire report when requested), Statements of Financial Condition, or Office of Thrift Supervision Financial Reports.

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

To the extent that the Investment Policy Committee deems it advisable to hire external investment advisors, 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 as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities;

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

5.0 AUTHORIZED AND SUITABLE INVESTMENTS - Continued

- 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) 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;
- f) Commercial paper of a corporation that is organized in the United States with assets exceeding \$ 500,000,000 and is rated by two or more standard rating services at a level that is at least as high as the following: A-1 by Standard & Poor's, P-1 by Moody's, F-1 by Fitch, D-1 by Duff & Phelps Credit Rating Company, A1 by IBCA, and TBW-1 by Thompson Bank Watch;
- g) 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;
- h) The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- i) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5); and
- j) Obligations of the National Mortgage Associations established by or under the National Housing Act (1201 U.S.C. 1701 et seq.).

Suitable securities in the Treasurer's portfolio may be lent in accordance with Federal Financial Institution Examination Council guidelines.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES
INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

6.0 INVESTMENT RESTRICTIONS

- a) The following investments are prohibited:
 - i. Investments in derivative products;
 - ii. Leveraging of assets through reverse repurchase agreements;
 - iii. Direct investments in tri-party repurchase agreements.
- 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).

7.0 COLLATERALIZATION

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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

8.0 DIVERSIFICATION

The investment portfolio shall be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. 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 holding deposits that exceed \$ 100,000,000 on the date that this Policy is adopted shall continue to be eligible to hold deposits that do not exceed the amount of deposits held on that date.
 - ii. Financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$ 100,000,000 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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

8.0 DIVERSIFICATION - Continued

- d) The investment portfolio shall not contain investments that exceed the following diversification limits that apply to the total assets in the portfolio at the time of the origination or purchase, as monitored on a daily basis and as maturity of instruments occur, and as adjusted as appropriate:
 - i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 35% 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.
- e) The Treasurer shall invest the majority of state funds in authorized investments of less than one-year maturity. No investment shall exceed a three-year maturity. The portion of the portfolio allocated to investments with more than a two year maturity, other than community development deposits described in Section 7 of the Deposit of State Moneys Act, shall constitute no more than one percent of the entire state portfolio as reported on the daily accounting balance sheet total of the "Treasurer's Investments and Other Fund Investments".

9.0 CUSTODY AND SAFEKEEPING

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected pursuant to a competitive selection process 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 Chief Legal 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.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

10.0 INTERNAL CONTROLS

The Treasurer, as the Chief Investment Officer and 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 the Treasurer's Inspector General 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.

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 exceptions are reported in a timely manner and necessary action is taken to control adverse developments.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT POLICY - CONTINUED

June 30, 2005 and 2004

(Unaudited)

12.0 REPORTING:

Quarterly reports are presented by the Chief Financial Officer to the Investment Policy Committee, chaired by the Treasurer, for its review. The quarterly 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 quarterly reports:

- a) Performance as compared to established benchmarks;
- b) Asset allocation;
- c) Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy;
- d) Impact of any material change in investment policy adopted during the quarter;
- e) The average days to maturity;
- f) A listing of all investments in the portfolio by class or type marked to market value; and
- g) The income earned from the investments as of the report date.

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 upon the advice and consent of the Investment Policy Committee.