

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

Financial Audit
Years Ended June 30, 2011 and 2010

and Compliance Examination
Year Ended June 30, 2011

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

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

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**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
June 30, 2011**

Treasurer's Office Officials

Treasurer	Honorable Alexi Giannoulis (through January 10, 2011) Honorable Dan Rutherford (January 10, 2011- present)
Chief of Staff	Ms. Robin Kelly (through December 27, 2010) Mr. Kyle Ham (January 10, 2011 - present)
Executive Director of Finance Deputy Treasurer/CFO	Ms. Bridget Byron (March 23, 2012 – present) Mr. Edward Buckles (through December 31, 2011)
General Counsel	Mr. Paul Miller (through January 10, 2011) Ms. Maureen Lydon (January 10, 2011 – present)
Director of Banking	Ms. Rhonda Poeschel (through December 31, 2011) Ms. Elizabeth Turner (January 1, 2012 – present)
Inspector General Chief Internal Auditor	Mr. David Wells Ms. Barbara Ringler

The Office of the Treasurer started fiscal year 2011 with ten office locations; during the year six office locations were closed as noted below:

Executive Office
State Capitol
219 State House
Springfield, Illinois 62706

Programmatic (Closed 2/9/2011)
Effingham Office
401 Industrial Drive, Suite E
Effingham, Illinois 62401

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

Programmatic (Closed 2/9/2011)
Mt. Vernon Office
200 West Potomoc Boulevard
Mt. Vernon, Illinois 62864

Unclaimed Property & Other Divisions
Myers Building
1 W. Old State Capitol Plaza
Springfield, Illinois 62701

Programmatic (Closed 2/16/2011)
Rock Island Office
Rock Island County Office Building
1504 Third Avenue
Rock Island, Illinois 61201

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

Programmatic (Closed 2/15/2011)
Rockford Office
E.J. Zeke Giorgi Building
200 South Wyman Street
Rockford, Illinois 61101

Programmatic (Closed 2/7/2011)
Riverdale Office
13725 South Wabash Avenue
Riverdale, Illinois 60827

Programmatic (Closed 2/8/2011)
Collinsville Office
420 East Main Street
Collinsville, Illinois 62234



OFFICE OF THE ILLINOIS STATE TREASURER
DAN RUTHERFORD

April 3, 2012

McGladrey & Pullen, LLP
20 N. Martingale Road, Suite 500
Schaumburg, IL 60173-2420

Ladies and Gentlemen:

We are responsible for identification of, and compliance with, all aspects of laws, regulations, contracts, and grant agreements that could have a material effect on the operations of the State of Illinois, Office of the Treasurer (Treasurer) Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Treasurer's compliance with the following assertions during the one-year period ended June 30, 2011. Based on this evaluation, we assert that during the year ended June 30, 2011, the Treasurer has materially complied with the assertions below.

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

STATE CAPITOL
Room 219
Springfield, IL 62706
Phone: (217) 782-2211 • Fax: (217) 785-2777

JAMES R. THOMPSON CENTER
100 West Randolph Street, Suite 15-600
Chicago, IL 60601
Phone: (312) 814-1700 • Fax: (312) 814-5930

ILLINOIS BUSINESS CENTER
400 West Monroe Street, Suite 401
Springfield, IL 62704
Phone: (217) 782-6540 • Fax: (217) 524-3822

MYERS BUILDING
One West Old State Capitol Plaza, Suite 400
Springfield, IL 62701
Phone: (217) 785-6998 • Fax: (217) 557-9365

Yours very truly,

State of Illinois, Office of the Treasurer



Honorable Dan Rutherford
State Treasurer



Bridget Byron,
Executive Director of Finance



Maureen Lydon
General Counsel

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Year Ended June 30, 2011**

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.

Accountants' Report

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

Summary of Findings

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	1	6
Repeated findings	1	1
Prior recommendations implemented or not repeated	5	0

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
Finding (State Compliance)			
11-1	10	Noncompliance with Mandated Duties	Significant Deficiency and Noncompliance

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Year Ended June 30, 2011**

Compliance Report Summary (Continued)

Exit Conference

The finding and recommendation in this report were discussed with Treasurer personnel at an exit conference on March 27, 2012. Attending were:

Office of the State Treasurer

Kyle Ham	Chief of Staff
Bridget Byron	Executive Director of Finance
Maureen Lydon	General Counsel
Barb Ringler	Chief Internal Auditor
Nick Barnard	Internal Auditor
Jessica Olive	Director of Accounting
Elizabeth Turner	Director of State Portfolio and Banking
Lori Ann Mitts	Director of Human Resources
Roxanna Hollenstine	Director of Unclaimed Property
Jason Emmett	Manager of Safekeeping and Securities
Debbie Price	Director of IT
Jodi Riley	Manager of Support Services
Nadine Jakubowski	Chicago Office Manager

Office of the Auditor General

Paul Usherwood	Audit Manager
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McGladrey & Pullen, LLP

Linda Abernethy	Partner
Sean Hickey	Manager
Syril Thomas	Supervisor
Dan Sethness	Senior

The responses to the recommendations were provided by Ms. Barb Ringler in an email dated March 27, 2012.



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' (the Treasurer) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, for the year ended June 30, 2011. The management of the Treasurer is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

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

We conducted our examination 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 compliance requirements listed in the first paragraph of this report during the year ended June 30, 2011. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as item 11-1.

Internal Control

The management of the Treasurer is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Treasurer's internal control over compliance with the requirements listed in the first paragraph of this report 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, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as item 11-1. *A significant deficiency in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

There were no immaterial findings that have been excluded from this report.

The Treasurer's response to the finding identified in our examination is described in the accompanying schedule of findings. We did not examine the Treasurer's response and, accordingly, we express no opinion on the response.

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.

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 3, 2012



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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the year ended June 30, 2011, and have issued our report thereon dated April 3, 2012. 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

Management of the Treasurer is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Treasurer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We also conducted a State compliance examination of the Treasurer as required by the State Auditing Act. The results of that examination are reported in the accompanying schedule of findings as item 11-1.

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.

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 3, 2012

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit and Compliance Examination
Year Ended June 30, 2011**

Current Finding (State Compliance)

Finding 11 – 1 (Noncompliance with Mandated Duties)

The Illinois Office of the Treasurer (Office) did not comply with duties mandated by State statute. The following issues were noted during testing:

1. The Deposit of State Moneys Act (15 ILCS 520/22.5) sets forth the permitted investments that the State Treasurer is allowed to purchase with money in the State Treasury. Within the Deposit of State Moneys Act, specific reference is made a number of times stating, "the Treasurer may, with the approval of the Governor," invest State money in various permitted investments.

The Office could not provide documentation of approval from the Governor for certain investments required by the Deposit of State Moneys Act.

Office personnel stated the Treasurer sends a monthly report to the Governor on activities including investments of all types, as well as fund balances. In addition, the Treasurer's web site is updated weekly, and contains all information on weekly investments.

2. The Office did not comply with the Public Funds Investment Act (30 ILCS 235/2.5) specifically, the Office did not adopt an investment policy to govern all investments by State agencies including investments held outside of the State Treasurer's Office.

According to the Public Funds Investment Act, the investment of public funds by a public agency shall be governed by a written investment policy. The Public Funds Investment Act states "For purposes of the State or a county, the investment policy shall be adopted by the elected treasurer and presented to the chief executive officer and the governing body". The Public Funds Investment Act defines "public funds", to mean current operating funds, special funds, interest and sinking funds, and funds of any kind or character belonging to or in the custody of any public agency. The definition of "public agency" in the Act would encompass the governmental operations of the State of Illinois, other than certain exempted entities.

The current published investment policy of the Office indicates it only applies to investments in the State Treasury, as it states "this policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists." Therefore, the State does not have a formal policy in accordance with the Public Funds Investment Act for all State investments including those held outside the State Treasury where no other authorized investment policy would apply.

The Office's personnel attributed the issue to the Office having a different interpretation of the Act.

3. The Office did not comply with the State Officials and Employees Ethics Act (5 ILCS 430/5-45(c)).

According to the State Officials and Employees Ethics Act, the Office shall adopt a policy setting forth which positions may have the authority to participate in the award of State contracts or in regulatory or licensing decisions. The policy shall be filed with the appropriate ethics commission, which has been determined to be the Executive Ethics Commission.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit and Compliance Examination
Year Ended June 30, 2011**

Current Finding (State Compliance)

Finding 11 – 1 (Noncompliance with Mandated Duties) (Continued)

The Office did not file their revolving door policy with the Executive Ethics Commission as required by the State Officials and Employees Ethics Act.

Office management stated that it was understood that this was filed under the previous administration, until they were notified otherwise by the auditors.

Failure to comply with mandated responsibilities is noncompliance with statutory requirements and does not fulfill the legislative intent of the State Officials and Employees Ethics Act.

Failure to comply with mandated responsibilities is noncompliance with statutory requirements and does not fulfill the legislative intent of the Deposit of State Moneys Act, the Public Funds Investment Act and the State Officials and Employees Ethics Act. (Finding Code Nos. 11-1 and 10-6)

Recommendation

We recommend the Office comply with the statutory requirements or seek change to the legislation.

Treasurer's Response:

The Treasurer agrees with the finding and recommendation.

1. The language in question reads "The Treasurer may, with the approval of the Governor...". There is no requirement in the language that says it must be a "written approval" or a "formal approval" or any other specification about the type of "approval" required by the Governor. We believe that the implicit approval received by the Governor through our delivery of monthly reports, which include the financial information from our investments, is sufficient. In addition, the Treasurer's web site <http://www.treasurer.il.gov/finances/schedule-of-investments.aspx> is updated weekly, and contains all information on weekly investments. The Governor has sufficient information from these reports to voice his disapproval if he so chose. The Governor has not issued a protest from these investments. It is a tacit approval.

The Illinois Constitution, Article V, Section 18, states that the Treasurer has the duty to be responsible for the "safe-keeping and investment of monies and securities deposited with him."

The State Treasurer is an independent officer of the Executive branch of Illinois Government. The Constitution created six distinct offices with six separate sets of responsibilities. This sets up a clear set of checks and balances within the Executive Branch, as well as the checks and balances inherent in the three distinct branches of Government, also created by the Constitution, Executive, Legislative and Judicial.

State law cannot simply restrict or put limitations on a duty that is granted by the Constitution. It also cannot subject one duly elected Official, the Treasurer, to asking another elected Official, the Governor, for permission to do what is constitutionally his duty.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit and Compliance Examination
Year Ended June 30, 2011**

Current Finding (State Compliance)

Finding 11 – 1 (Noncompliance with Mandated Duties) (Continued)

2. We will place an investment policy template on our website for other state agencies to use as their investment policy, and we will assist them upon request. The Treasurer will notify the state agencies that the investment policy will be online at the Treasurer's website at www.treasurer.il.gov.
3. Treasurer Rutherford took office on January 10, 2011. At that time we were under the impression that the previous administration, under Treasurer Giannoulis, had filed the Revolving Door Policy with the Executive Ethics Commission. This requirement became law on August 18, 2009, well before Treasurer Rutherford took office. As soon as this came to our attention, we developed the policy and have now fully complied.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Financial Audit and Compliance Examination
Year Ended June 30, 2011**

Prior Findings Not Repeated

A. (Weaknesses Identified in the Financial Statement Process)

During the prior period, the Office of the Treasurer's (Office) internal control over the preparation of the Fiscal Officer Responsibilities' financial statements and related notes did not identify errors in the preparation of the financial statements.

During the current period, auditors did not identify such errors during their audit of the financial statement draft and related notes provided by Office personnel. (Finding Code No.10-1)

B. (Weaknesses in Control Over General Ledger Journal Entries)

During the prior period, the Office did not document the reason for gaps in the sequential numbering of general ledger journal entries processed.

During the current period, it was noted that the Office improved its internal control over general ledger journal entries and maintained documentation for the entire population of general ledger journal entries. (Finding Code No.10-2)

C. (Weaknesses Identified in the Securities Lending Program)

During the prior period, it was reported that the Office did not have adequate controls over its securities lending program.

During the current period, it was noted that controls over securities lending were improved and no exceptions were noted. (Finding Code No. 10-3)

D. (Unrealized Gains and Losses Included in the Investment Income Allocation Process)

During the prior period, it was reported that the Office was including unrealized gains and losses incurred in its investment portfolio to calculate the yield used to allocate and distribute investment income to the State of Illinois' pooled funds that are statutorily required to receive interest from investments.

During the current period, it was noted that the Office properly excluded the unrealized gains and losses when allocating interest. (Finding Code No. 10-4)

E. (Inadequate Controls over Information Technology)

During the prior period audit, it was reported the Office did not have adequate controls over information technology (IT). The auditors identified IT employees that were not prohibited from creating or editing financial transactions and could potentially execute unauthorized transactions. Further, policies and procedures relating to system changes and acquisitions were not documented.

During the current period, it was determined the IT employees that were the subject of the prior finding no longer have access to initiate transactions within the accounting system. It was also noted the Office has implemented a formal change management system. In addition, policies and procedures over the Office's information technology were updated. (Finding Code No.10-5)

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
June 30, 2011**

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, 2011 and the Statements of Investment Income for the year then ended was performed by McGladrey & Pullen, LLP.

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.



Independent Auditors' Report

The 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 and Statement of Investment Income of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the Treasurer. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Treasurer as of June 30, 2010, were audited by other auditors whose report dated April 11, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note B, the Treasurer has prepared these financial statements using accounting practices prescribed by joint agreement of the Illinois Office of the State Comptroller and the Illinois Office of the State Treasurer, which practices differ from accounting principles generally accepted in the United States of America.

Also as discussed in Note B, the financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities are intended to present the Assets and Other Debits, Liabilities and Accountabilities, and Investment Income of only that portion of the State that is attributable to the transactions of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2011, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Other Debits, Liabilities and Accountabilities, and Investment Income of the Treasurer as of and for the year ended June 30, 2011, on the basis of accounting described in Note B.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2012, on our consideration of the Treasurer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Office of the Treasurer has not presented a management's discussion and analysis for the Fiscal Officer Responsibilities that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the Statement of Assets, Liabilities and Accountabilities and Statement of Investment Income (financial statements). The schedules and other information listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The June 30, 2011 supplementary information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the financial statements as of and for the year ended June 30, 2011, taken as a whole. The supplementary information for the year ended June 30, 2010 was audited by other auditors. Their report on the June 30, 2010 supplementary information, dated April 11, 2011, stated that, in their opinion, except for the portion marked "unaudited," on which they expressed no opinion, such information was fairly stated in all material respects in relation to the financial statements for the year ended June 30, 2010, taken as a whole.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 3, 2012

Financial Statements

State of Illinois
Office of the Treasurer
Fiscal Officer Responsibilities
Statements of Assets, Liabilities and Accountabilities
June 30, 2011 and 2010

	2011	2010
Assets and Other Debits		
Cash and cash equivalents		
Demand deposits	\$ 2,164,854	\$ 204,094,591
Clearing account deposits and deposits in transit	24,865,217	29,282,886
Total cash	27,030,071	233,377,477
Time deposits	-	7,000,000
Repurchase Agreements	3,275,256,086	1,608,144,061
Commercial Paper	494,964,545	599,941,945
Treasury Bills	-	149,964,481
The Illinois Funds	734,407,528	876,200,966
Money Market Mutual Funds	466,108,170	471,079,474
Mortgage Reserve Fund	539	532
Total cash and cash equivalents	4,997,766,939	3,945,708,936
Deposits and investments		
Short-term investments		
Time deposits	59,774,220	61,678,141
Commercial Paper	2,581,038,794	2,543,687,743
Treasury Bills	2,248,910,503	1,622,619,420
Federal Home Loan Mortgage Corporation	-	81,432,260
Federal Home Loan Mortgage Corporation Discount Notes	-	149,804,611
Federal Home Loan Bank	-	150,329,700
Federal Home Loan Bank Discount Notes	-	149,663,889
Federal National Mortgage Association	52,021,235	25,648,253
Federal National Mortgage Association Discount Notes	349,464,208	400,585,182
Federal Agriculture Mortgage Corporation	-	13,501,620
Federal Deposit Insurance Corporation Guarantee Notes	75,463,200	25,004,750
Foreign Investments	10,000,000	-
Long-term investments		
Time deposits	24,165,743	54,530,326
Federal Home Loan Mortgage Corporation	220,165,600	316,343,255
Federal Home Loan Bank	314,505,950	115,099,155
Federal National Mortgage Association	308,133,250	285,170,095
Federal Deposit Insurance Corporation Guarantee Notes	66,121,350	142,260,150
State of Illinois Secondary Pool Investment Program	404,257	470,317
Illinois Technology Development	30,041,822	22,690,703
Foreign Investments	20,000,000	20,000,000
Total deposits and investments	6,360,210,132	6,180,519,570
Securities lending collateral		
Invested in Repurchase Agreements	3,456,373,500	3,107,545,325
Other assets		
Warrants cashed, but not canceled	3,599,372	5,238
Receivables from Universities and Agencies for monies advanced	548,020	416,502
Receivable from City of Edwardsville	272,866	281,392
Investment income earned, but not received	6,688,989	9,659,671
Total other assets	11,109,247	10,362,803

See Notes to the Financial Statements.

(Continued)

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Statements of Assets, Liabilities and Accountabilities (Continued)
June 30, 2011 and 2010**

	2011	2010
Other Debits		
Amount of future general revenue obligated for debt service	\$ 42,830,269,965	\$ 38,861,217,880
Total assets and other debits	<u>\$ 57,655,729,783</u>	<u>\$ 52,105,354,514</u>
Liabilities and Accountabilities		
Liabilities for balances on deposit		
Comptroller		
Protested taxes	\$ 361,323,172	\$ 336,133,520
Available for appropriation or expenditure	7,541,594,485	7,446,421,114
Agencies' deposits outside the State Treasury	786,344,428	662,082,104
Comptroller's warrants outstanding	<u>1,444,028,564</u>	<u>795,564,563</u>
Total liabilities for balances on deposit	<u>10,133,290,649</u>	<u>9,240,201,301</u>
Other liabilities		
Obligations under securities lending	<u>3,456,373,500</u>	<u>3,107,545,325</u>
Total Other Liabilities	<u>3,456,373,500</u>	<u>3,107,545,325</u>
General obligation indebtedness		
Principal and interest due within one year	2,943,843,057	2,912,456,024
Thereafter	<u>41,112,698,207</u>	<u>36,834,027,969</u>
Total general obligation indebtedness	<u>44,056,541,264</u>	<u>39,746,483,993</u>
Accountabilities		
Receivable from City of Edwardsville	272,866	281,392
Investment income earned, but not received (net of cumulative market adjustments)	9,249,003	10,840,009
Federal Reserve Bank settlement account reserve	1,962	1,962
Mortgage Reserve Fund	<u>539</u>	<u>532</u>
Total accountabilities	<u>9,524,370</u>	<u>11,123,895</u>
Total liabilities and accountabilities	<u>\$ 57,655,729,783</u>	<u>\$ 52,105,354,514</u>

See Notes to the Financial Statements.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Statements of Investment Income
Years Ended June 30, 2011 and 2010**

	2011	2010
Investment income earned	<u>\$ 49,888,444</u>	<u>\$ 50,655,198</u>

See Notes to the Financial Statements.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

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 him and safely keep the same.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and investments comprised of the balances in the separate funds, which are considered to be either in the State Treasury or outside the State Treasury. Accounting control for funds outside the State Treasury is the responsibility of other State agencies. Further, the Treasurer is not responsible for determining that all cash received by State agencies is deposited in the State Treasury.

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

The format of the Fiscal Officer Responsibilities financial statements was created to aid the Office of the Comptroller (Comptroller) in the preparation of the State's Comprehensive Annual Financial Report (CAFR). The Comptroller, acting as the State's accountant, designates which agencies are considered part of the primary government for which they require to prepare financial statements (SAMS 27.10.10-B). The basis of presentation; Statements of Assets, Liabilities and Accountabilities and Statements of Investment Income have been developed through an "agreement" between the Treasurer and Comptroller.

The Treasurer's financial statements consist of the Statements of Assets, Liabilities and Accountabilities and Statements of Investment Income. These financial statements are not presented in the traditional framework of Generally Accepted Accounting Principles (GAAP) because the statements only present those assets and activities for which the Treasurer is held accountable by his fiscal officer responsibilities. Exceptions to the traditional GAAP framework are the securities, funds and other assets of The Illinois Funds and College Savings Program and amounts receivable from inheritance tax assessments are not included in the Fiscal Officer financial statements. In addition, the Fiscal Officer financial statements do not include financial statements of the various funds administered by the Fiscal Officer. The Illinois Funds as well as the College Saving Program are audited annually and reported upon separately.

Basis of Accounting: The basis of accounting is essentially a full accrual basis in that revenues are reported when earned, regardless of when the related cash flow takes place, and expenses are reported when there is a legal obligation incurred, subject to certain exceptions as described in the sections below.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Investment Income: Investment income is recorded by the Treasurer using the accrual basis of accounting whereby income is recognized and an accountability established as income is earned. 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.

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.

Illinois Insured Mortgage Pilot Program: Beginning in FY10, an amount representing the Illinois Insured Mortgage Pilot Program (IIMPP) Trust loan receivable/investment is no longer reported on the Statement of Assets, Liabilities and Accountabilities. Cash and cash equivalents and/or investment amounts held in the trust are reported in the proper asset category and increase the balance "Available for Appropriation or Expenditure" on the Statement of Assets, Liabilities and Accountabilities. The balance of the Mortgage Reserve Fund, a locally held fund related to the IIMPP, is reported in the proper asset category and reported as an "Accountability" in the Statement of Assets, Liabilities and Accountabilities.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

NOTE C. COMPENSATING BANKS FOR SERVICES

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

NOTE D. DEPOSITS AND INVESTMENTS

Overview: The Treasurer’s investment activities are governed by the Treasurer’s published investment policy that was developed in accordance with the State statute. Investments are recorded at fair market value, with the exception of Commercial Paper, Repurchase Agreements, Money Market Funds, Illinois Funds, U.S. Treasury Bills, U.S. Agency Discount Notes, and the investments in the Illinois Technology Program which are valued at amortized cost. The Treasurer’s investments in U.S. Treasury Bills and U.S. Agency Discount Notes are short-term investments with no coupon payments, and the investments in repurchase agreements have maturities less than one year from date of acquisition; therefore GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, permits the Treasurer to record them at amortized cost. The Treasurer’s investments in the Illinois Technology Program are investments in venture capital limited partnerships and valued using cost-based measures. 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.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Treasurer's investment policy limits the investment portfolio to maturities not to exceed five years with the majority required to be in authorized investments with less than one-year maturity. No more than 10% of the investment portfolio shall be allocated to investments with a 2 to 4 year maturity band. No more than 10% of the investment portfolio shall be allocated to investments with a 4 to 5 year maturity band. The portfolio shall not deviate from these guidelines unless specifically authorized by the Treasurer in writing. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk. Certain investments purchased prior to the adoption of the investment policy have maturities in excess of 5 years and are excluded from the investment policy requirements.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Cash received by the Treasurer is initially deposited in clearing accounts maintained in banks located in Illinois that are insured by the Federal Deposit Insurance Corporation (FDIC). 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) were 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 Investor Service, or F-1 by Fitch, repurchase agreements or other investments approved by State law.

As of June 30, 2011, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard and Poor's Ratings, except for those issued by Barclay's, Proctor Gamble/Wells, and Walmart/Citiglobal, which were rated A-1+ by Standard and Poor's Ratings. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service or F1+ by Fitch Ratings. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service, AAA by Fitch Ratings, or AAA by Standard and Poor's Ratings. The Treasurer's short-term investment in foreign debt securities were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings. The Treasurer's long-term investment in foreign debt securities were rated Aa1 by Moody's Investors Service and A by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAM by Standard & Poor's Ratings. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service or AAAM by Standard & Poor's Ratings. The Treasurer's securities lending collateral investments in repurchase agreements were rated P-1 by Moody's Investors Service or A-1 by Standard & Poor's Ratings, except for BNP Paribas Securities Corporation and Merrill Pierce Fenner SM, which were rated A-1+ by Standard & Poor's Ratings and Cantor Fitzgerald & Co., which was not rated by Moody's Investors Services or Standard & Poor's Ratings.

As of June 30, 2010, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard and Poor's Ratings, except for those issued by Barclay's and Walmart/SSB, which were rated A-1+ by Standard and Poor's Ratings. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service or F1+ by Fitch Ratings, with the exception of Federal Agricultural Mortgage Corporation obligations.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service or AAA by Fitch Ratings. The Treasurer's long-term investment in foreign debt securities were rated Aa1 by Moody's Investors Service and A by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAM by Standard & Poor's. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's. The Treasurer's securities lending collateral investments in repurchase agreements were rated P-1 by Moody's Investors Service or A-1 by Standard & Poor's, except for BNP Paribas Securities Corporation and Deutsche Bank Securities which were rated A-1+ by Standard & Poor's.

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

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

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

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

The Treasurer purchased investments in ten 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 fair value of at least 102% of the agreement. The agreements require both parties to maintain an acceptable margin on underlying securities to ensure the agreements are adequately collateralized. The Treasurer accepts only obligations of the United States government or its sponsored agencies as collateral for repurchase agreements.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE D. DEPOSITS AND INVESTMENTS (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 assets of the bank.

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

Deposits: The carrying amount of all the Treasurer's demand and time deposits at June 30, 2011, was \$27,030,071 and \$83,939,963, respectively. The carrying amount of all the Treasurer's demand and time deposits at June 30, 2010, was \$233,377,477 and \$123,208,467, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2011, was \$25,845,115 and \$83,939,963, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2010, was \$230,643,237 and \$123,208,467, respectively.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: Excluding Time Deposits, the Treasurer had the following investments, stated at fair value except as noted below and maturities as of June 30. (Amounts are in thousands.)

<u>2011</u>	90 Days or Less	91 days to Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	NA***	Total
Commercial Paper *	\$ 494,964	\$ 2,581,039	\$ -	\$ -	\$ -	\$ -	\$ 3,076,003
Repurchase Agreements*	3,275,256	-	-	-	-	-	3,275,256
Treasury Bills *	-	2,248,911	-	-	-	-	2,248,911
Federal Home Loan Bank	-	-	314,506	-	-	-	314,506
Federal Home Loan Mortgage Corporation	-	-	220,166	-	-	-	220,166
Federal National Mortgage Association	-	52,021	308,133	-	-	-	360,154
Federal National Mortgage Association Discount Notes *	-	349,464	-	-	-	-	349,464
Federal Deposit Insurance Corporation Guarantee Notes	-	75,463	66,121	-	-	-	141,584
State of Illinois Secondary Pool Investment Program	-	-	-	253	151	-	404
Foreign Investments**	-	10,000	20,000	-	-	-	30,000
Securities Lending Collateral invested in Repurchase Agreements*	3,456,374	-	-	-	-	-	3,456,374
Illinois Technology Development *	-	-	-	-	-	30,042	30,042
The Illinois Funds*	734,408	-	-	-	-	-	734,408
Money Market Mutual Funds*	466,108	-	-	-	-	-	466,108
Mortgage Reserve Fund*	1	-	-	-	-	-	1
Total Investments and Securities Lending Collateral, excluding Time Deposits	\$ 8,427,111	\$ 5,316,898	\$ 928,926	\$ 253	\$ 151	\$ 30,042	\$ 14,703,381

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

<u>2010</u>	90 Days or Less	91 days to Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	NA***	Total
Commercial Paper *	\$ 599,942	\$2,543,688	\$ -	\$ -	\$ -	\$ -	\$ 3,143,630
Repurchase Agreements*	1,608,144	-	-	-	-	-	1,608,144
Treasury Bills *	149,965	1,622,619	-	-	-	-	1,772,584
Federal Home Loan Bank	-	150,330	115,099	-	-	-	265,429
Federal Home Loan Bank Discount Notes *	-	149,664	-	-	-	-	149,664
Federal Home Loan Mortgage Corporation	-	81,432	316,343	-	-	-	397,775
Federal Home Loan Mortgage Corporation Discount Notes *	-	149,805	-	-	-	-	149,805
Federal National Mortgage Association	-	25,648	285,170	-	-	-	310,818
Federal National Mortgage Association Discount Notes *	-	400,585	-	-	-	-	400,585
Federal Deposit Insurance Corporation Guarantee Notes	-	25,005	142,260	-	-	-	167,265
Federal Agriculture Mortgage Corporation State of Illinois Secondary Pool Investment Program	-	13,502	-	-	-	-	13,502
Foreign Investments**	-	-	20,000	-	-	-	20,000
Securities Lending Collateral invested in Repurchase Agreements*	3,107,545	-	-	-	-	-	3,107,545
Illinois Technology Development *	-	-	-	-	-	22,691	22,691
The Illinois Funds*	876,201	-	-	-	-	-	876,201
Money Market Mutual Funds*	471,079	-	-	-	-	-	471,079
Mortgage Reserve Fund*	1	-	-	-	-	-	1
Total Investments and Securities Lending Collateral, excluding Time Deposits	\$ 6,812,877	\$5,162,278	\$ 878,872	\$ 277	\$ 193	\$22,691	\$ 12,877,188

*Reported at Amortized Cost

**Denominated in US dollars.

*** Not a debt security, categorization not applicable.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

The Treasurer's net decrease in the fair value of investments during 2011 and 2010 was \$9,528,876 and \$1,172,672, respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year and is reported as investment income earned on the Statement of Investment Income.

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount, including accrued interest, was \$3,275,256,086 and \$1,608,144,061, and the fair value of the collateral securities to be resold based on commitments under the repurchase agreements was \$3,371,201,401 and \$1,679,425,767, as of June 30, 2011 and 2010, respectively.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Treasurer's investment in a single issuer. The following investments exceeded 5 percent of the total investments at June 30, 2011 and 2010. (Amounts are in thousands.)

	2011		2010	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
Repurchase agreements:				
Northern Trust Company	\$ 1,264,220	8.60	\$ -	-
Mizuho Securities	863,780	5.87	982,450	7.63
UBS Finance*	700,000	4.76	-	-
Commercial Paper:				
SSB/Citigroup Global	-	-	998,139	7.75
UBS Finance*	249,708	1.70	897,022	6.97

* Issuer total exceeds 5%

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

During fiscal year 2011 and 2010, Deutsche Bank Group lent U.S. Agency Securities, U.S. Treasury Bills, and U.S. Agency Discount Notes and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

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

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)

During the two fiscal years, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements plus cash collateral held, and the fair value of securities on loan for the State Treasurer as of June 30, 2011 were \$3,456,373,500 and \$3,442,318,977, respectively. The total collateral held and the fair value of securities on loan for the State Treasurer as of June 30, 2010 were \$3,107,545,325 and \$3,095,533,634, respectively. Securities on loan are reported at fair value with the exception of U.S. Treasury Bills and U.S. Agency Discount notes which are reported at amortized cost.

NOTE E. ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST

The Illinois Insured Mortgage Pilot Program Trust (the Trust) was created in October 1982 in order to stimulate construction activity in the State. The State purchased \$120,000,000 of investment certificates for which the underlying collateral was a pool of mortgage loans issued for the purpose of providing financing to approved construction projects. Two mortgage agreements in the pool were secured by hotel properties, the Collinsville Holiday Inn (Collinsville Hotel) and the Abraham Lincoln Hotel and Conference Center (President Lincoln Hotel).

The two hotel loans, with original loan balances of \$15,500,000 for the President Lincoln Hotel and \$13,400,000 for the Collinsville Hotel, owned by the Trust, were first restructured during fiscal year 1988. 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. As of June 30, 2011, the unpaid principal and interest on the President Lincoln and Collinsville Hotels totaled approximately \$25,885,479 and \$1,335,592, respectively. As of June 30, 2010, the unpaid principal and interest on the President Lincoln and Collinsville Hotels totaled approximately \$23,810,877 and \$1,274,027, respectively.

In 2006, the Circuit Court of Cook County entered judgment in favor of the Trustee and against the Collinsville Hotel Venture declaring the loan was in default and authorizing the Trustee to pursue collection proceedings against the personal guarantee. On January 2, 2007, the Trustee filed a foreclosure complaint against the Collinsville Hotel Venture. The Collinsville hotel foreclosure complaint was filed in the Madison County Circuit Court following (a) the entry of a judgment order in June 2006 by a Cook County circuit judge declaring the Hotel to be in default of its loan, and also entering a judgment in the amount of \$1.5 million against two individuals who partially guaranteed the loan; and (b) the entry of an order in the same court denying the Hotel's motion to reconsider the ruling. Accrued and unpaid interest of approximately \$14,315,000 was capitalized upon judgment order, but was not added to the Treasurer's recorded value.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE E. ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST (CONTINUED)

A foreclosure sale was held on October 18, 2007. The Collinsville Hotel and all associated property were sold to the Trust, as high bidder for \$25,375,654. The sale price was paid in full through the Trust's credit of sale price against the unpaid principal and interest secured by the mortgage on the property. On November 1, 2007, the court issued a judicial deed, and the Trust therefore took title of the property.

After a sealed bid auction, the Trust sold the Collinsville Hotel property to a hotel developer for \$5.25 million. The sale closed on August 26, 2008. The Trust subsequently received approximately \$600,000 from an outstanding operating account of the Collinsville Hotel. In May of 2010, the Trust settled litigation against Regions Bank, which was initiated after Regions Bank refused to pay on four letters of credit totaling \$1,637,375, that were additional loan collateral. After Regions Bank transferred \$853,874 and the deeds and/or titles to several properties that the Trust will work to liquidate, the litigation was dismissed. It is anticipated the properties will be sold soon, for an amount less than \$1,000,000.

In 2006, the Circuit Court of Cook County entered judgment in favor of the Trustee and against the President Lincoln Hotel declaring that the loan was in default. On January 2, 2007, the Trustee filed a foreclosure complaint against the President Lincoln Hotel Venture. On January 18, 2008, the Court entered a Judgment of Foreclosure and sale against all defendants. On March 4, 2008, the Trustee purchased the President Lincoln Hotel for \$100,000; the sale price was paid in full through the Trust's credit of the sale price against the unpaid principal and interest of the mortgage note. The Court confirmed the sale on March 14, 2008. The President Lincoln hotel was sold via public auction on December 14, 2009 to the high bidder for \$6.5 million. The transaction closed in February 2010, with the purchaser transferring the sale price to the Trust accounts.

The funds of the Trust are invested in a money market account at the Trustee, US Bank. Pursuant to Public Act 96-1181, the Trust transferred \$16 million to the State Treasury on September 30, 2010.

The following is a summary of the balances related to the restructured loans (amounts in thousands):

	President Lincoln 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 secon restructuring	40	428	468
Payments received - years ended June 30, 1992, through June 30, 2011	(2,262)	(3,150)	(5,412)
Interest capitalized upon judgement order	15,714	14,315	30,029
Credit of sale price	-	(25,376)	(25,376)
Interest capitalized upon sale	-	3,526	3,526
Sale proceeds applied to principal	(4,255)	(4,397)	(8,652)
Balance of operating account applied to principal	-	(499)	(499)
Surety bond proceeds applied to principal	(2,278)	-	(2,278)
Letter of Credit payment applied to principal	-	(733)	(733)
Allowance for Doubtful Accounts	(23,051)	(1,261)	(24,312)
June 30, 2011 - loan balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE F. DEFEASED DEBT

During fiscal year 2011, the State of Illinois issued no General Obligation Refunding Bonds. During fiscal year 2010, 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 \$123,954,420 during fiscal year 2010, as follows:

	Balances at June 30, 2011		
	Principal	Interest	Total
Balance of defeased bonds issues	\$ 1,527,645,000	\$ 645,270,231	\$ 2,172,915,231
General Obligation Refunding Bonds	1,501,300,000	547,660,811	2,048,960,811
Net decrease	\$ 26,345,000	\$ 97,609,420	\$ 123,954,420

The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$106,022,368 during fiscal year 2010.

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2011 and 2010, \$570,605,000 and \$1,103,030,000, respectively, of bonds outstanding was considered defeased.

NOTE G. SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER

At June 30, 2011 and 2010, the Treasurer was responsible for \$13,822,787 and \$16,967,958, 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
For the Years Ended June 30, 2011 and 2010**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS

A summary of the changes from June 30, 2010 to June 30, 2011, in General Obligation Bonded Indebtedness by issue type follows:

	Multi-Purpose - Interest Rates varying from 1.75% to 7.35% Series 1997 through 2010, due serially to 2036	Pension Funding - Interest Rates varying from 2.766% to 5.877% Series 2003, 2010 and 2011, due serially to 2033	General Obligation Refunding Series 2001 through 2010 - Interest Rates varying from 3.0% to 7.3% due serially to 2025	Medicaid Funding - Interest Rate 2.5% Series 2010, due 2011
Balance at June 30, 2010				
Principal	\$ 7,778,269,168	\$ 13,316,000,000	\$ 3,115,718,829	\$ 246,095,000
Interest	5,472,000,590	8,861,114,309	951,321,711	5,964,386
Total	13,250,269,758	22,177,114,309	4,067,040,540	252,059,386
Redemptions charge to Appropriations				
Principal	442,451,202	743,200,000	222,608,829	246,095,000
Interest	540,081,544	601,177,049	145,020,515	5,964,386
Total	982,532,746	1,344,377,049	367,629,344	252,059,386
Certificates/Bonds issued				
Principal	1,200,000,000	3,700,000,000	-	-
Interest	1,076,853,996	1,279,801,800	-	-
Total	2,276,853,996	4,979,801,800	-	-
Balance at June 30, 2011				
Principal	8,535,817,966	16,272,800,000	2,893,110,000	-
Interest	6,008,773,042	9,539,739,060	806,301,196	-
Total	\$ 14,544,591,008	\$ 25,812,539,060	\$ 3,699,411,196	\$ -

State of Illinois
Office of the Treasurer

Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

	Total Bonded Indebtedness	General Obligation Certificates	Total General Obligation Indebtedness
Balance at June 30, 2010			
Principal	\$ 24,456,082,997	\$ -	\$ 24,456,082,997
Interest	15,290,400,996	-	15,290,400,996
Total	<u>39,746,483,993</u>	<u>-</u>	<u>39,746,483,993</u>
Redemptions charge to Appropriations			
Principal	1,654,355,031	1,300,000,000	2,954,355,031
Interest	1,292,243,494	30,975,000	1,323,218,494
Total	<u>2,946,598,525</u>	<u>1,330,975,000</u>	<u>4,277,573,525</u>
Certificates/Bonds issued			
Principal	4,900,000,000	1,300,000,000	6,200,000,000
Interest	2,356,655,796	30,975,000	2,387,630,796
Total	<u>7,256,655,796</u>	<u>1,330,975,000</u>	<u>8,587,630,796</u>
Balance at June 30, 2011			
Principal	27,701,727,966	-	27,701,727,966
Interest	16,354,813,298	-	16,354,813,298
Total	<u>\$ 44,056,541,264</u>	<u>\$ -</u>	<u>\$ 44,056,541,264</u>
Amounts due within one year			
Principal	\$ 1,561,880,000	\$ -	\$ 1,561,880,000
Interest	1,381,963,057	-	1,381,963,057
Total	<u>\$ 2,943,843,057</u>	<u>\$ -</u>	<u>\$ 2,943,843,057</u>

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

A summary of the changes from June 30, 2009 to June 30, 2010, in General Obligation Bonded Indebtedness by issue type follows:

	Antipollution - Interest Rate 8.75% Series W due 2010	Multi-Purpose - Interest Rates varying from 1.395% to 7.3% Series 1989 through 2010, due serially to 2035	Pension Funding - Interest Rates varying from 1.823% to 5.1% Series 2003 and 2010, due serially to 2033	General Obligation Refunding Series 1992 through 2010 - Interest Rates varying from 2.0% to 7.3% due serially to 2025
Balance at June 30, 2009				
Principal	\$ 800,000	\$ 7,200,371,293	\$ 9,900,000,000	\$ 1,850,626,457
Interest	35,000	4,653,635,871	8,972,925,000	507,697,517
Total	835,000	11,854,007,164	18,872,925,000	2,358,323,974
Redemptions charge to Appropriations				
Principal	800,000	423,952,910	50,000,000	162,711,843
Interest	35,000	448,179,732	493,550,000	97,598,311
Total	835,000	872,132,642	543,550,000	260,310,154
Certificates/Bonds issued/Rate Reset				
Principal	-	2,456,000,000	3,466,000,000	1,501,300,000
Interest	-	1,905,376,375	381,739,309	547,660,811
Total	-	4,361,376,375	3,847,739,309	2,048,960,811
Refunding				
Principal	-	1,454,149,215	-	73,495,785
Interest	-	638,831,924	-	6,438,306
Total	-	2,092,981,139	-	79,934,091
Balance at June 30, 2010				
Principal	-	7,778,269,168	13,316,000,000	3,115,718,829
Interest	-	5,472,000,590	8,861,114,309	951,321,711
Total	\$ -	\$ 13,250,269,758	\$ 22,177,114,309	\$ 4,067,040,540

State of Illinois
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Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

	Medicaid Funding Interest Rate 2.5% Series 2010 due 2011	Total Bonded Indebtedness	General Obligation Certificates	Total General Obligation Indebtedness
Balance at June 30, 2009				
Principal	\$ -	\$ 18,951,797,750	\$ 1,000,000,000	\$ 19,951,797,750
Interest	-	14,134,293,388	39,000,000	14,173,293,388
Total	-	33,086,091,138	1,039,000,000	34,125,091,138
Redemptions charge to Appropriations				
Principal	-	637,464,753	2,250,000,000	2,887,464,753
Interest	-	1,039,363,043	55,277,778	1,094,640,821
Total	-	1,676,827,796	2,305,277,778	3,982,105,574
Certificates/Bonds issued/Rate Reset				
Principal	246,095,000	7,669,395,000	1,250,000,000	8,919,395,000
Interest	5,964,386	2,840,740,881	16,277,778	2,857,018,659
Total	252,059,386	10,510,135,881	1,266,277,778	11,776,413,659
Refunding				
Principal	-	1,527,645,000	-	1,527,645,000
Interest	-	645,270,230	-	645,270,230
Total	-	2,172,915,230	-	2,172,915,230
Balance at June 30, 2010				
Principal	246,095,000	24,456,082,997	-	24,456,082,997
Interest	5,964,386	15,290,400,996	-	15,290,400,996
Total	\$ 252,059,386	\$ 39,746,483,993	\$ -	\$ 39,746,483,993
Amounts due within one year				
Principal		\$ 1,777,330,000	\$ -	\$ 1,777,330,000
Interest		1,135,126,024	-	1,135,126,024
Total		\$ 2,912,456,024	\$ -	\$ 2,912,456,024

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE H. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)

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

Future general obligation debt service requirements at June 30, 2011, are as follows:

Year ending June 30	Principal	Interest	Total
2012	\$ 1,561,880,000	\$ 1,381,963,057	\$ 2,943,843,057
2013	1,549,360,000	1,337,054,407	2,886,414,407
2014	1,628,035,000	1,281,782,555	2,909,817,555
2015	1,825,610,000	1,214,122,523	3,039,732,523
2016	1,421,735,000	1,133,216,999	2,554,951,999
2017-2021	6,776,540,000	4,492,108,494	11,268,648,494
2022-2026	4,679,640,067	3,084,887,496	7,764,527,563
2027-2031	5,685,595,071	1,732,320,306	7,417,915,377
2032-2036	2,977,714,862	292,975,427	3,270,690,289
Total	\$ 28,106,110,000	\$ 15,950,431,264	\$ 44,056,541,264

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

Additional information and disclosures related to the State's General Obligation Indebtedness are presented in the State of Illinois Comprehensive Annual Financial Report. This report may be obtained online at www.ioc.state.il.us or by writing to the Illinois Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858.

NOTE I. COMMITMENTS AND CONTINGENCIES

There have been several cases filed that challenge the constitutionality of legislation allowing the broader use of fee proceeds that are deposited into special funds the use of which is, by law, otherwise limited to specified purposes. The Treasurer has been named as a nominal defendant in these cases.

The lead case is *Illinois State Chamber of Commerce v. Filan*. This case arose out of the following set of facts. In the fiscal year 2004 Budget Implementation Act, the legislature authorized the Director of the Governor's Office of Management and Budget to transfer funds from specialized or dedicated funds to the General Revenue Fund. Some of the dedicated funds are funded by fees. The Chamber of Commerce, as an employer, pays a surcharge (fee) to the Division of Insurance. The fee is then used by the Workers' Compensation Commission (Commission) for the Commission's operations. The stated purpose of the fee is to reduce the amount of the Commission's operating expenses being paid from general tax revenues. However, the surcharge and fee generated more than twice the sum needed for the Commission's operating budget, and the excess money was transferred to the General Revenue Fund.

**State of Illinois
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**Fiscal Officer Responsibilities
Notes to the Financial Statements
For the Years Ended June 30, 2011 and 2010**

NOTE I. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Chamber of Commerce alleged that this practice violates the tax uniformity clause of the Illinois Constitution, the due process clause of the Illinois Constitution and the United States Constitution, and the due takings clause, claiming the fee is, in effect, a disproportional and unfair tax.

In March 2010, the parties executed an agreement to settle this litigation, which was preliminarily approved by the court. A final fairness hearing was scheduled for June 16, 2010.

At the final hearing, the settlement agreement was approved. Distribution of settlements proceeds and transfers of money between funds, pursuant to the settlement agreement, is ongoing. The court continues to retain jurisdiction of this matter until the distribution of funds has been completed.

The other fee transfer cases remain on hold until the Circuit Court renders a final decision. In the aggregate, these cases involve an amount in excess of \$10 million, and may amount to as much as \$17 million.

NOTE J. SUBSEQUENT EVENTS

On August 8, 2011 Standard & Poor's downgraded the debt ratings of the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and 10 of 12 Federal Home Loan Banks one notch, to AA+ from AAA, its very highest rating.

On January 20, 2012, the State of Illinois issued General Obligation Bonds, Series A of January 2012 in the amount of \$525,000,000 maturing in 2013 through 2037 at interest rates of 3.0% to 5.0%. On January 20, 2012, the State of Illinois issued General Obligation Bonds, Series B of January 2012 in the amount of \$275,000,000 maturing in 2013 through 2037 at interest rates of .75% to 5.75%.

On March 27, 2012, the State of Illinois issued General Obligation Bonds, Series of March 2012 in the amount of \$575,000,000 maturing in 2013 through 2037 at interest rates of 4.0% to 5.0%.

SUPPLEMENTARY INFORMATION

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets, Liabilities and Accountabilities
June 30, 2011 and 2010**

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

	June 30,	
	2011	2010
Assets and Other Debits		
Cash and Cash Equivalents	\$ 4,997,766,939	\$ 3,945,708,936
Deposits and Investments	6,360,210,132	6,180,519,570
Securities Lending Collateral	3,456,373,500	3,107,545,325
Other Assets	11,109,247	10,362,803
Other Debits	42,830,269,965	38,861,217,880
Total Assets and Other Debits	\$ 57,655,729,783	\$ 52,105,354,514
Liabilities for Balances on Deposit		
Comptroller		
Protested Taxes	\$ 361,323,172	\$ 336,133,520
Available for Appropriation or Expenditure	7,541,594,485	7,446,421,114
Agencies' Deposits Outside the State Treasury	786,344,428	662,082,104
Comptroller's Warrants Outstanding	1,444,028,564	795,564,563
Total Liabilities for Balances on Deposit	10,133,290,649	9,240,201,301
Other Liabilities	3,456,373,500	3,107,545,325
General Obligation Indebtedness	44,056,541,264	39,746,483,993
Total Liabilities	57,646,205,413	52,094,230,619
Accountabilities		
Receivable from City of Edwardsville	272,866	281,392
Investment Income Earned, but not Received	9,249,003	10,840,009
Federal Reserve Bank Settlement Account Reserve	1,962	1,962
Mortgage Reserve Fund	539	532
Total Accountabilities	9,524,370	11,123,895
Total Liabilities and Accountabilities	\$ 57,655,729,783	\$ 52,105,354,514

**State of Illinois
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**Fiscal Officer Responsibilities
Assets – Detail
June 30, 2011 and 2010**

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

	June 30,	
	2011	2010
Cash and Cash Equivalents		
Demand Deposits	\$ 2,164,854	\$ 204,094,591
Clearing Account Deposits and Deposits in Transit	24,865,217	29,282,886
Time Deposits	-	7,000,000
Repurchase Agreements	3,275,256,086	1,608,144,061
Commercial Paper	494,964,545	599,941,945
Treasury Bills	-	149,964,481
The Illinois Funds	734,407,528	876,200,966
Money Market Mutual Funds	466,108,170	471,079,474
Mortgage Reserve Fund	539	532
	<hr/>	<hr/>
Total Cash and Cash Equivalents	<u>\$ 4,997,766,939</u>	<u>\$ 3,945,708,936</u>

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
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**Fiscal Officer Responsibilities
Assets - Detail (Continued)
June 30, 2011 and 2010**

	June 30, 2011			June 30, 2010		
	Bank Balances			Bank Balances		
	Collected	Float	Total	Collected	Float	Total
Demand deposits						
Associated Bank	\$ -	\$ -	\$ -	\$ 200,065,754	\$ -	\$ 200,065,754
JP Morgan Chase	61,884	726,651	788,535	123,077	969,546	1,092,623
Illinois National Bank	-	-	-	1,515	-	1,515
Northern Trust Company, Chicago	180,791	-	180,791	186,593	-	186,593
Wells Fargo Bank	10,572	-	10,572	13,866	-	13,866
	<u>\$ 253,247</u>	<u>\$ 726,651</u>	979,898	<u>\$ 200,390,805</u>	<u>\$ 969,546</u>	201,360,351
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			<u>1,184,956</u>			<u>2,734,240</u>
Total demand deposits			<u>\$ 2,164,854</u>			<u>\$ 204,094,591</u>

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

**State of Illinois
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**Fiscal Officer Responsibilities
Assets - Detail (Continued)
June 30, 2011 and 2010**

	June 30, 2011 Bank Balances			June 30, 2010 Bank Balances		
	Collected	Float	Total	Collected	Float	Total
Clearing Account Deposits and Deposits in Transit						
Bank of America	\$ -	\$ 122,595	\$ 122,595	\$ -	\$ 258,494	\$ 258,494
DuQuoin State Bank	28,045	-	28,045	13,970	-	13,970
JP Morgan	101	1,239,280	1,239,381	-	-	-
Fifth Third	47,452	23,170,401	23,217,853	31,858	27,749,973	27,781,831
Illinois National Bank	1	10,372	10,373	-	630,239	630,239
US Bank-Springfield	106,429	-	106,429	101,117	-	101,117
Northern Trust Company, Chicago	50,677	24,278	74,955	102,498	11,391	113,889
International Bank of Chicago	-	-	-	72,808	-	72,808
Pan American Bank	60,586	-	60,586	-	-	-
MB Financial	-	-	-	64,655	240,718	305,373
Wells Fargo Bank	5,000	-	5,000	5,165	-	5,165
	<u>\$ 298,291</u>	<u>\$ 24,566,926</u>	<u>24,865,217</u>	<u>\$ 392,071</u>	<u>\$ 28,890,815</u>	<u>29,282,886</u>
Net reconciling items (e.g., deposits-in- transit and outstanding drafts)			<u>-</u>			<u>-</u>
Total clearing account deposits			<u>\$ 24,865,217</u>			<u>\$ 29,282,886</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, 2011 and 2010**

Deposits and Investments

Most of the Treasurer's investments at June 30, 2011 and 2010 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,	
	2011	2010
Short-Term Investments		
Time Deposits	\$ 59,774,220	\$ 61,678,141
Commercial Paper	2,581,038,794	2,543,687,743
Treasury Bills	2,248,910,503	1,622,619,420
Federal Home Loan Mortgage Corporation	-	81,432,260
Federal Home Loan Mortgage Corporation Discount Notes	-	149,804,611
Federal Home Loan Bank	-	150,329,700
Federal Home Loan Bank Discount Notes	-	149,663,889
Federal National Mortgage Association	52,021,235	25,648,253
Federal National Mortgage Association Discount Notes	349,464,208	400,585,182
Federal Agriculture Mortgage Corporation	-	13,501,620
Federal Deposit Insurance Corporation Guarantee Notes	75,463,200	25,004,750
Foreign Investments	10,000,000	-
Total Short-Term Investments	5,376,672,160	5,223,955,569
Long-Term Investments		
Time Deposits	24,165,743	54,530,326
Federal Home Loan Mortgage Corporation	220,165,600	316,343,255
Federal Home Loan Bank	314,505,950	115,099,155
Federal National Mortgage Association	308,133,250	285,170,095
Federal Deposit Insurance Corporation Guarantee Notes	66,121,350	142,260,150
State of Illinois Secondary Pool Investment Program	404,257	470,317
Illinois Technology Development	30,041,822	22,690,703
Foreign Investments	20,000,000	20,000,000
Total Long-Term Investments	983,537,972	956,564,001
Total Deposits and Investments	\$ 6,360,210,132	\$ 6,180,519,570

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets – Detail (Continued)
June 30, 2011 and 2010**

Deposits and Investments (Continued)

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

The average yield for investments including amounts listed as cash equivalents on the 2011 and 2010 financial statements was .48% and .59%, respectively.

Securities Lending Collateral

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

	June 30	
	2011	2010
Securities Lending Collateral		
Invested in Repurchase Agreements	\$ 3,456,373,500	\$ 3,107,545,325

Other Assets

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

	June 30	
	2011	2010
Warrants cashed, but not canceled	\$ 3,599,372	\$ 5,238
Receivables from Universities and Agencies for monies advanced	548,020	416,502
Receivable from City of Edwardsville	272,866	281,392
Investment income earned, but not received	6,688,989	9,659,671
Total Other Assets	\$ 11,109,247	\$ 10,362,803

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets – Detail (Continued)
June 30, 2011 and 2010**

Other Assets (Continued)

The account balances of warrants cashed but not canceled and the receivable from universities and agencies represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2011 and 2010. The balances in these accounts will vary significantly from day to day, depending on the availability of investable funds and the timing of warrant presentation for payment.

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

Repayments received for the years ended June 30, 2011 and 2010, were \$8,526 and \$7,590, respectively.

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

Amount of Future General Revenue Obligated for Debt Service

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

	June 30	
	2011	2010
Certificates, Bond and Coupons Maturing in Next Fiscal Year	\$ 2,943,843,057	\$ 2,912,456,024
Less - Balance on Deposit in State Treasury at Year End, for Certificate and Bond Redemption and Interest	(1,226,271,299)	(885,266,113)
Amount Obligated from Future General Revenue		
General Revenue - Next Fiscal Year	1,717,571,758	2,027,189,911
General Revenue - Thereafter	41,112,698,207	36,834,027,969
Amount of Future General Revenue Obligated for Debt Service at Fiscal Year End	<u>\$ 42,830,269,965</u>	<u>\$ 38,861,217,880</u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets – Detail (Continued)
June 30, 2011 and 2010**

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

A summary of the changes during the period July 1, 2010 through June 30, 2011, in the amount of future general revenue obligated for debt service is as follows:

	2011	2010
Balance at Beginning of Fiscal Year	\$ 38,861,217,880	\$ 33,485,887,771
Issuance of Certificates and Bonds	8,587,630,796	11,776,413,659
Bonds and Coupons Redeemed and Bonds Refunded	(4,277,573,525)	(3,982,105,574)
Bonds and Coupons Refunded	-	(2,172,915,230)
Net Change in Balances on Deposit in State Treasury	(341,005,186)	(246,062,746)
Balance at End of Fiscal Year	<u>\$ 42,830,269,965</u>	<u>\$ 38,861,217,880</u>

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

	June 30	
	2011	2010
<u>General Obligation Bonds</u>		
Amount of future general revenue obligated for debt service	\$ 42,830,269,965	\$ 38,861,217,880
Balance on deposit in the State Treasury at June 30 for bond redemption and interest	1,226,271,299	885,266,113
Total indebtedness at June 30	<u>\$ 44,056,541,264</u>	<u>\$ 39,746,483,993</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 2011 included one issue. The issue of General Obligation Certificates occurred on July 28, 2010, for principal of \$1,300,000,000 and premium of \$9,153,987. Of this amount, \$1,300,000,000 was deposited into the General Revenue Fund, and \$9,153,987 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on June 10, 2011.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Assets – Detail (Continued)
June 30, 2011 and 2010**

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

General Obligation Certificates issued under the Short Term Borrowing Act during fiscal year 2010 included one issue. The issue of General Obligation Certificates occurred on August 27, 2009, for principal of \$1,250,000,000 and premium of \$8,308,456. Of this amount, \$1,250,000,000 was deposited into the General Revenue Fund, and \$8,308,456 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on June 8, 2010.

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

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Liabilities and Accountabilities - Detail
For the Years Ended June 30, 2011 and 2010**

Liabilities for Balances on Deposit

Protested Taxes: Substantially all of the \$361,323,172 and \$336,133,520 at June 30, 2011 and 2010, respectively, in the Protest Trust Fund has been enjoined by the courts pending the outcome of cases in process. By statute, a taxpayer making a tax payment "under protest" has 30 days to initiate a court suit and obtain an injunction. If not enjoined, the tax payments are transferred to the fund in the State Treasury that would have received the original deposit.

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

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

	2011	2010
Treasurer's Clearing Account Balances	\$ 249,049,543	\$ 214,085,365
Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury	(60,661,051)	79,514,123
Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts	322,904,016	247,865,004
Deposits in Demand Accounts in Process of Being Ordered into the State Treasury	275,051,920	120,617,612
Total Agency Deposits Outside the State Treasury	<u>\$ 786,344,428</u>	<u>\$ 662,082,104</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.

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Liabilities and Accountabilities – Detail (Continued)
June 30, 2011 and 2010**

Other Liabilities

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

General Obligation Indebtedness

Refer 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. Refer to “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, 2011 and 2010**

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

	2011		2010
General Revenue Fund	\$ 22,926,060	\$	25,067,590
Other State funds	25,434,903		24,006,058
Segregated State trust funds	1,527,481		1,581,550
	<u>\$ 49,888,444</u>	<u>\$</u>	<u>50,655,198</u>

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

Fund participating in pooled investments			
General Revenue Fund	\$ 22,926,060	\$	25,067,590
Aggregated Operations Regulatory Fund	668		1,324
Airport Land Loan Revolving Fund	58		601
Alternative Compliance Market Account Fund	519		2,351
Ambulance Revolving Loan Fund	8,059		20,684
AML Reclamation Set Aside Fund	79,251		71,337
Assisted Living and Shared Housing Regulatory Fund	1,165		1,770
Auction Recovery Fund	173		1,918
Auction Reg. Administration Fund	288		630
Autism Research Checkoff Fund	168		421
Autoimmune Disease Research Fund	107		292
Bank & Trust Company Fund	91,544		125,244
Brownfields Redevelopment Fund	13,540		13,954
Build Illinois Bond Retirement and Interest Fund	26,287		34,594
Build Illinois Capital Revolving Loan Fund	25,946		52,994
Build Illinois Fund	94,413		112,157
Capital Litigation Fund	9,345		16,907
Capital Project Fund	111,106		54,415
Care Provide Per W Dev. Dis.	25,994		34,105
Cemetery Consumer Protection Fund	2,632		4,927
Charitable Trust Stabilization Fund	3,480		10,736
Child Abuse Prevention Fund	1,506		2,786
Clean Air Act (CAA) Permit Fund	35,981		60,173
Coal Mining Regulatory Fund	7,099		7,646
Common School Fund	278,281		228,530
Community College Health Insurance Security Fund	8,417		12,076
Community DD Services Medicaid Trust Fund	89,411		98,833
Community Mental Health Medical Trust Fund	144,866		106,101
Community Water Supply Laboratory Fund	3,632		3,167

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2011 and 2010**

	2011	2010
Fund participating in pooled investments		
County Automobile Renting Tax Fund	\$ 86	\$ 43
County Hospital Services Fund	15,452	22,480
County Option Motor Fuel Tax Fund	22,202	28,057
County Water Commission Tax Fund	33,603	48,138
Credit Union Fund	12,800	11,511
Criminal Justice Trust Fund	303,008	451,144
Design Professionals Administration and Investigation Fund	5,349	8,281
Diabetes Research Checkoff Fund	288	631
Drug Rebate Fund	430,356	209,840
Drycleaner Environmental Response Trust Fund	17,982	27,595
DuQuoin State Fair Harness Racing Trust Fund	31	42
Early Intervention Services Fund	26,449	22,852
Electronics Recycling Fund	1,356	1,876
Environmental Laboratory Certification Fund	1,604	1,987
EPA Court Ordered Trust Fund	33	40
Explosive Regulatory Fund	362	633
Facilities Management Fund	34,829	44,996
Fair Share Trust	922	1,379
Family Care Fund	7,190	11,933
Federal Asset Forfeiture Fund	7,972	9,104
Federal Home Investment Trust Fund	7,523	5,482
Federal Moderate Rehab Housing Fund	731	1,290
Federal Student Loan Fund	198,984	261,950
Federal Workforce Training Fund	562	1,297
Fire Service & Small Equipment Fund	555	13,646
Fire Truck Revolving Loan Fund	10,780	4,620
Fish and Wildlife Endowment Fund	10,298	11,862
Food and Drug Safety Fund	1,906	870
Gaining Early Awareness Fund	55,900	56,116
General Assembly Retirement Excess Benefits Fund	106	78
General Assembly Retirement Fund	20,763	21,896
General Obligation Bond Retirement and Interest Fund	5,382,514	4,212,137
General Professions Dedicated Fund	14,490	37,888
Group Home Loan Revolving Fund	150	230
Group Insurance Premium	66,809	86,644
Group Workers Compensation Pool	9,210	10,088
Hansen-Therkelsen Memorial Deaf Student College Fund	2,566	4,516
Health and Human Services Medicaid Trust Fund	148,515	228,335
Health Insurance Reserve Fund	282,640	410,233
Healthcare Providers Relief Fund	325,337	322,221
Hearing Instrument Dispenser Examining and Disciplinary Fund	133	360

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2011 and 2010**

	2011	2010
Help Illinois Vote Fund	\$ 111,523	\$ 101,322
Home Inspector Administration Fund	2,309	6,590
Home Rule City Retailers' Occupation Tax Fund	342,479	549,368
Home Rule Municipal Retailers' Occupation Tax Fund	400,896	414,033
Hospital Provider Fund	598,179	658,737
Human Service Priority Cap Program Fund	968	22,818
Hunger Relief Fund	237	-
Illinois Affordable Housing Trust Fund	47,698	42,811
Illinois Beach Marina Fund	358	1,564
Illinois Clean Water Act	39,459	71,473
Illinois Equity Fund	4,007	5,390
Illinois Farmer and Agri-Business Loan Guarantee Fund	41,492	50,264
Illinois Habitat Fund	15,673	21,150
Illinois Power Agency Trust Fund	24,614	174,619
Illinois State Dental Disciplinary Fund	9,630	23,210
Illinois State Medical Disciplinary Fund	6,411	15,154
Illinois State Pharmacy Disciplinary Fund	4,772	6,593
Illinois State Podiatric Disciplinary Fund	1,495	2,174
Illinois State Police Operations Assistance Fund	16,597	-
Illinois Veteran's Assistance Fund	12,470	19,311
Industrial Commission Surcharge Escrow Fund	7,675	94,438
Injured Workers Benefit Fund	1,666	8,906
Innovations in Long-Term Care Quality Demonstration Grants	12,290	18,615
Intercity Passenger Rail Fund	2,112	1,041
Interpreters for the Deaf Fund	696	809
Judges Retirement Excess Benefits Fund	1,444	1,276
Judges Retirement Fund	107,836	131,931
Juvenile Accountability Incentive Block Grant Fund	27,660	29,834
Kaskaskia Commons Permanent School Fund	1,246	1,527
Large Business Attraction Fund	4,350	8,807
Law Enforcement Camera Grant Fund	2,838	15,880
Local Government Health Insurance Reserve Fund	15,192	31,952
Long-Term Care Pmbudsman Fund	75	-
Long-Term Care Provider Fund	202,915	323,556
Medicaid Buy-In Program Revolving Fund	1,964	5,899
Metro East Mass Transit District Tax Fund	27,855	28,355
Metropolitan Pier and Exposition Authority Trust Fund	161,408	41,965
Money Follows the Person Budget Fund	2,027	2,364
Motor Vehicle Theft Prevention Fund	28,711	26,980
Multiple Sclerosis Research Fund	4,168	11,866

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2011 and 2010**

	2011	2010
Municipal Automobile Renting Tax Fund	\$ 5,917	\$ 6,005
Municipal Economic Development Fund	411	344
Non-Home Rule Municipal Retailer's Occupation Tax Fund	83,135	81,386
Nuclear Safety Emergency Preparedness Fund	31,642	24,741
Nursing Dedicated and Professional Fund	13,978	24,721
Off-highway Vehicle Trails Fund	6,444	8,198
Oil Spill Response Fund	109	-
Optometric Licensing and Disciplinary Committee Fund	574	1,538
Personal Property Tax Replacement Fund	410,612	407,149
Petroleum Violation Fund	2,496	7,643
Plugging and Restoration Fund	2,939	3,996
Post Trans Main and Retention	-	245
Private Sewage Disposal Program	533	339
Professional Services Fund	39,793	21,801
Professions Indirect Cost Fund	14,022	26,358
Public Agriculture Loan Guarantee	53,904	65,592
Public Health Services Revolving Fund	675	834
Public Infrastructure Construction Loan Revolving Fund	15,304	12,809
Public Pension Regulation Fund	8,331	8,250
Quality of Life Endowment Fund	7,695	12,023
Radiation Protection Fund	10,230	6,510
Radioactive Waste Facility Development and Operation Fund	2,249	3,121
Rail Freight Loan Repayment Fund	16,045	21,984
Rate Adjustment Fund	98,029	123,510
Real Estate Audit Fund	300	1,258
Real Estate License Administration Fund	151,898	173,589
Real Estate Recovery Fund	4,006	4,861
Real Estate Research and Education Fund	145	3,352
Regional Transit Authority Public Transportation Tax Fund	-	24
Regional Transit Authority Sales Tax Trust Fund	460,285	555,025
Registered CPA Administration and Disciplinary Fund	4,955	22,082
Replacement Vehicle Tax-Municipal Trust Fund	3	-
Road Fund	3,380,416	3,589,678
Road Transportation A Fund	4,784,028	1,734,809
Salmon Fund	441	835
Savings and Residential Finance Regulatory Fund	8,428	15,034
School Technology Revolving Loan Fund	5,676	12,476
Second Injury Fund	3,636	3,500
Securities Audit and Enforcement Fund	91,366	55,161
Self-Insurers Administration Fund	621	1,428

**State of Illinois
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**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2011 and 2010**

	2011	2010
Self-Insurers Security Fund	\$ 148,018	\$ 227,538
Sheffield February 1982 Agreed Order Fund	20,675	26,250
Special Tax Inc.	15,097	11,292
St. Jude Children Research Fund	2	-
State Assets Forfeiture Fund	5,068	6,832
State Board of Elections Federal Trust Fund	1,549	4,531
State Construction Account Fund	705,809	976,423
State Employees Retirement Excess Benefits Fund	222	306
State Employees Retirement System Fund	448,062	795,068
State Employees' Deferred Compensation Plan Fund	26,289	30,841
State Furbearer Fund	744	869
State Migratory Waterfowl Stamp Fund	18,322	22,282
State Pheasant Fund	5,355	4,558
State Rail Freight Loan Repayment Fund	36,782	85,197
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	3,939	5,789
Student Loan Operating Fund	34,964	42,592
Supreme Court Historic Preservation Fund	20,902	31,731
Teachers' Health Insurance Security Fund	164,170	313,504
Teachers' Retirement Excess Benefits Fund	157,264	67,725
Teachers' Retirement System Fund	590,657	614,076
Ticket for the Cure Fund	3,090	9,920
TOMA Consumer Protection	479	702
Underground Resource Conservation Enforcement Trust Fund	2,170	2,996
Underground Storage Tank Fund	16,859	-
University of Illinois Income Trust Fund	9	1,030
Vince Demuzio Memorial Colon Cancer Fund	24	377
Violent Crime Victims Assistance Fund	4,403	7,196
Water Pollution Control Revolving Fund	2,178,845	2,778,553
Wildlife and Fish Fund	101,718	143,104
Wildlife and Prairie Park Fund	136	179
Worker's Compensation Benefit Trust Fund	8	10
Worker's Compensation Revolving Fund	180,324	104,802
	<hr/>	<hr/>
Total pooled investment income	\$ 48,360,963	\$ 49,073,648

**State of Illinois
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**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2011 and 2010**

	2011	2010
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Segregated Investments		
Agrichemical Incident Response Trust Fund	\$ 4	\$ 47
College Savings Pool Administration Fund	1,816	2,025
Commodity Trust Fund	-	-
Deferred Lottery Prize Winners Trust Fund	5,498	5,424
Horse Racing Equity Trust	2,227	6,834
Illinois Habitat Endowment Trust Fund	6,733	15,033
Illinois Municipal Retirement Fund	32,180	29,837
Illinois Prepaid Tuition Trust Fund	7,773	27,399
Illinois Rural Rehabilitation Fund	1	8
Illinois State Toll Highway Revenue Fund	1,431,571	1,433,017
National Heritage Endowment Trust Fund	503	785
Radioactive Waste Facility Closure and Compensation Fund	130	144
Title III Social Security and Employment Service	5,628	9,602
Tobacco IPTIP	29,902	43,833
Unemployment Compensation Special Administration Fund	3,515	7,562
	<hr/>	
Total segregated investment income	1,527,481	1,581,550
	<hr/>	
Total investment income	\$ 49,888,444	\$ 50,655,198
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**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Investment Income (Continued)
For the Years Ended June 30, 2011 and 2010**

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

	2011	2010
The Illinois Funds	\$ 710,511	\$ 808,427
Time Deposits	1,885,173	7,940,533
Now Accounts	293,157	957,127
Money Market Mutual Fund	199,428	2,111,681
Repurchase Agreements	2,729,240	691,501
Commercial Paper	13,715,351	5,642,043
Federal Farm Credit Bank Bond Private Placement	-	4,937
Federal Farm Credit Bank Notes	-	1,251,024
State of Illinois Secondary Pool Investment Program	1,472	24,127
Federal National Mortgage Association	7,587,154	12,349,444
Federal Agriculture Mortgage Corporation	2,036	85,714
Foreign Investments	404,058	446,129
Federal Home Loan Mortgage Corporation	3,371,352	5,163,003
Federal Home Loan Bank Notes	3,496,390	3,111,777
Federal Deposit Insurance Corporation Guarantee Notes	1,382,726	3,444,562
Treasury Bills	6,163,908	4,865,007
Illinois Technology Development	(583,553)	176,612
Mortgage Pilot Program	7,002,560	-
	<u>\$ 48,360,963</u>	<u>\$ 49,073,648</u>
Total pooled investment income		

**State of Illinois
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**Fiscal Officer Responsibilities
Administrative Responsibilities
June 30, 2011 and 2010**

Protest Trust Fund

	2011	2010
Liability at beginning of year	\$ 336,133,520	\$ 436,093,830
Add		
Trust receipts collected by other State agencies	154,077,904	126,662,813
	<u>490,211,424</u>	<u>562,756,643</u>
Deduct		
Trust disbursements for refunds of successfully protested tax payments	58,097,030	60,196,800
Transfers to other funds	70,791,222	166,426,323
	<u>128,888,252</u>	<u>226,623,123</u>
Liability at end of year	<u>\$ 361,323,172</u>	<u>\$ 336,133,520</u>

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, 2011 and 2010, were \$122,243,610 and \$243,378,978, respectively. These amounts do not reflect refunds and fees distributed to county treasurers.

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

	2011	2010
Tobacco Settlement proceeds	\$ -	\$ 283,887,103
Bond sale proceeds	1,540,392,592	-
Interest and other investment income	30,732	56,624
Total Receipts and Deposits	<u>\$ 1,540,423,324</u>	<u>\$ 283,943,727</u>

**State of Illinois
Office of the Treasurer**

**Fiscal Officer Responsibilities
Key Performance Measures
June 30, 2011
(Unaudited)**

- The Illinois Funds asset base at 6/30/11 was \$5,574,093,063.
- Earned interest income of \$6.4 million during FY11 for The Illinois Funds.

- Funded 276 Cultivate IL Annual AG deposits totaling \$19,651,600.
- Funded 21 Cultivate IL Long Term AG deposits totaling \$1,235,371.
- Funded 4 Employ IL Small Business Loans totaling \$751,864.
- Funded 6 Opportunity IL Disaster Recovery Loans totaling \$37,789.
- Funded 3 Opportunity IL – Citizen Soldiers Loans totaling \$30,000.

- Total number of warrants successfully issued, countersigned and recorded: 7,696,559
- Total number of warrants successfully canceled, paid and recorded: 7,672,943
- Total amount of warrants successfully issued, countersigned and recorded: \$75,615,948,996

- Total amount of estate tax collections: \$122,243,610
- Total amount of estate tax distributions: \$6,849,709
- Total amount of estate tax refunds: \$8,354,278

- The investment portfolio earned approximately \$49,888,444 during fiscal year 2011.
- Investments yielded approximately .48% throughout the current year.
- The average investment base increased approximately \$1,731,429,920 from the prior year.

- The value of the Illinois Technology Development account at cost as of 6/30/11 was \$30,041,822.
- The value of the Illinois Technology Development account at estimated fair value as of June 30, 2011, was \$35,906,981. Fair values were estimated by the individual technology development accounts' management not the State Treasurer's Office or an independent third party.

**Investment Policy
June 30, 2011 (Unaudited)**

The following section contains the Illinois State Treasurer's investment policy

Illinois State Treasurer's Investment Policy

1.0 POLICY:

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

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

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

2.0 OBJECTIVE:

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

2.1 Safety:

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To 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 that might be reasonably projected.

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 Manager of Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee¹, to determine the effectiveness of investment decisions in meeting investment goals.

¹ *The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Chief of Staff, Deputy Treasurer – Chief Fiscal Officer, Director of State Portfolio and Banking, Portfolio Manager, Chief Legal Counsel, Cash Management Officer and anyone else deemed appropriate by the Treasurer.*

3.0 ETHICS AND CONFLICTS OF INTEREST:

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

4.0 AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS:

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers. No state funds may be deposited in any financial institution until receipt of the current ratings under the Community Reinvestment Act of 1977 and investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services, unless the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed \$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:

- Audited financial statements or a published Statement of Condition;
- Proof of minority/female/disabled broker status;
- A signed copy of the Treasurer's trading authorization;
- Proof of State of Illinois registration;
- Proof of registration with the Securities and Exchange Commission;
- Completed Broker/Dealer Questionnaire;
- Certification of notice and knowledge of this Policy;
- Any other documentation determined necessary by the Treasurer.

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 consultants, it may do so in accordance with the procurement rules at 44 Ill. Adm. Code 1400.

5.0 AUTHORIZED AND SUITABLE INVESTMENTS:

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

- a) Securities that are guaranteed by the full faith and credit of the United States as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities;

- 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; and the corporation is not a forbidden entity, as defined in Section 22.6 of the Deposit of State Monies Act (effective Jan. 27, 2006);
- 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) Any agency created by an act of Congress.
- k) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations.
- l) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.).
- m) Suitable securities in the Treasurer's portfolio may be lent in accordance with Federal Financial Institution Examination Council guidelines.

6.0 INVESTMENTS RESTRICTIONS:

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

7.0 COLLATERALIZATION:

All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer² 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.

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 that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.
- d)** The investment portfolio shall not contain investments that exceed the following diversification limits 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,
 - iv.** No more than ½ of 1% of the investment portfolio shall be invested in Foreign Government Securities, not to exceed a five year maturity, as defined in Section 5.0(k) of this Policy,
 - v.** No more than 10% of the investment portfolio shall be allocated to investments with a 2-4 year maturity band,
 - vi.** No more than 10 % of the investment portfolio shall be allocated to investments with a 4-5 year maturity band (not including Foreign Government Securities).
 - vii.** There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band.

² *The Treasurer maintains a list of acceptable collateral.*

9.0 CUSTODY AND SAFEKEEPING:

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

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 Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by authorized investment officers.

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

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

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

11.0 LIMITATION OF LIABILITY:

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

12.0 REPORTING:

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

- a)** The total amount of funds held by the State Treasurer;
- b)** The asset allocation for the investments made by the State Treasurer;
- c)** The benchmarks established by the State Treasurer;
- d)** Current and historic return information;
- e)** A detailed listing of the time deposit balances, including for each deposit, the name of the financial institution and the deposit rate;
- f)** Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy;
- g)** Impact of any material change in investment policy adopted during the month.

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

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

13.0 EXTERNAL ADVISORY COMMITTEE

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

The External Committee may consist of nine (9) total members. Four (4) members shall be duly elected members of the Illinois General Assembly and shall be represented as follows: one (1) External Committee member shall be from Illinois Senate majority caucus; one (1) External Committee member shall be from Illinois Senate minority caucus; one (1) External Committee member shall be from Illinois House majority caucus; and one (1) External Committee member shall be from Illinois House minority caucus. Five (5) External Committee members shall be independent advisors that the Treasurer and the Internal Committee choose as representative of the public and private sectors.

14.0 EMERGENCY POWERS

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

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

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

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

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

ii) The date and time that emergency powers were repealed;

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

iv) The reason for deviating from the written investment policy.