State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

FINANCIAL AUDIT

For the years ended June 30, 2006 and 2005

AND COMPLIANCE EXAMINATION

For the year ended June 30, 2006

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

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

CONTENTS

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

TREASURER'S OFFICE OFFICIALS

Treasurer	Honorable Judy Baar Topinka
Chief of Staff	Ms. Nancy Kimme
Deputy Treasurer	Ms. Martin Noven
Chief Fiscal Officer/ Deputy Chief of Staff for Operations	Mr. Edward Buckles
Chief Legal Counsel	Ms. Alissa Camp
Manager of Banking	Ms. Rhonda Poeschel
Manager of Accounting	Mr. Chad Dierking
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler

The Office of the Treasurer maintains four office locations:

- Executive Office
  State Capitol
  219 State House
  Springfield, Illinois 62706

- Operational divisions
  Jefferson Terrace
  300 West Jefferson Street
  Springfield, Illinois 62702

- Unclaimed Property and other divisions
  Myers Building
  1 W. Old State Capitol Plaza
  Springfield, Illinois 62701

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

MANAGEMENT ASSERTION LETTER

October 20, 2006

Crowe Chizek and Company LLC
Certified Public Accountants
3201 West White Oaks Drive, Suite 202
Springfield, IL 62704

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Office of the Treasurer (Treasurer) Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Treasurer's compliance with the following assertions during the one-year period ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the Treasurer has materially complied with the assertions below.

A. The Treasurer has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Treasurer has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. The money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

State of Illinois, Office of the Treasurer

MANAGEMENT ASSERTION LETTER - CONTINUED

____
Honorable Judy Baar Topinka
State Treasurer

____
Edward W. Buckles
Chief Fiscal Officer

____
Martin Noven
Deputy Chief of Staff for Law and Policy

FISCAL OFFICER RESPONSIBILITIES

COMPLIANCE REPORT

SUMMARY

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

AUDITORS' REPORTS

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

SUMMARY OF FINDINGS

Number of	This Report	Prior Report
Findings	0	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

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

EXIT CONFERENCE

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

Crowe

Crowe Chizek and Company LLC
Member Horwath International

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

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities' (the Treasurer) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2006. The management of the Treasurer is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

A. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Treasurer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasurer's compliance with specified requirements.

In our opinion, the Treasurer complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006. The results of our procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General. There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

Internal Control

The management of the Treasurer is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Treasurer's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Springfield, Illinois
October 20, 2006

Crowe

Crowe Chizek and Company LLC
Member Horwath International

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements as listed in the table of contents of the State of Illinois Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Treasurer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain immaterial instances of internal control deficiencies, which we have reported to management of the State of Illinois, Office of the Treasurer in a separate letter dated October 20, 2006.

Compliance and Other Matters

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

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Springfield, Illinois
October 20, 2006

FINANCIAL STATEMENT REPORT

A tab page will replace this page.

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

FINANCIAL STATEMENT REPORT

SUMMARY

The audits of the accompanying statements of assets, liabilities and accountabilities of the State of Illinois, Office of the Treasurer Fiscal Officer Responsibilities (Treasurer) as of June 30, 2006 and 2005 and the statements of investment income for the years then ended was performed by Crowe Chizek and Company LLC.

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

AUDITORS' REPORTS

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Crowe

Crowe Chizek and Company LLC
Member Horwath International

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the years ended June 30, 2006 and 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Treasurer's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B, the financial statements of the Treasurer have been prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements referred to above have been prepared on the basis of the State of Illinois Fiscal Regulations and the reporting requirements of the Auditor General of the State of Illinois. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Treasurer as of June 30, 2006 and 2005.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and accountabilities of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities, as of June 30, 2006 and 2005, and the results of its investment activity for the years then ended in conformity with the basis of presentation described in the Summary of Significant Accounting Policies-Basis of Presentation footnote.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2006 on our consideration of the Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Springfield, Illinois
October 20, 2006

FINANCIAL STATEMENTS
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State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
STATEMENTS OF ASSETS, LIABILITIES AND ACCOUNTABILITIES
June 30

ASSETS AND OTHER DEBITS	2006	2005
CASH AND CASH EQUIVALENTS		
Demand deposits	$ 2,166,993	$ 1,749,512
Clearing account deposits and deposits in transit	45,079,593	30,637,968
Total cash	47,246,586	32,387,480
Time deposits	17,575,000	66,530,000
Repurchase Agreements	2,477,741,198	2,013,179,189
Commercial Paper	2,788,237,000	2,290,919,667
The Illinois Funds	1,352,596,206	1,185,604,294
Money Market Mutual Funds	324,402,375	325,219,621
Mortgage Reserve Fund	4,547	8,406
U.S. Agency Discount Notes	-	141,632,905
Federal National Mortgage Association	7,772,061	-
Total cash and cash equivalents	7,015,574,973	6,055,481,562
DEPOSITS AND INVESTMENTS, AT MARKET		
Short-term investments		
Time deposits	1,289,415,051	1,114,175,684
Federal Farm Credit Bank Bond	254,212,000	177,368,000
Federal Home Loan Mortgage Corporation	19,773,590	59,599,280
Federal National Mortgage Association	29,606,120	17,808,703
Federal Home Loan Bank	52,175,599	55,097,973
Foreign Investments	9,878,000	-
Long-term investments		
Time deposits	61,344,655	67,179,774
Federal Farm Credit Bank Bond	-	1,099,000
Federal Home Loan Mortgage Corporation	47,024,980	22,246,875
Federal National Mortgage Association	105,414,361	59,384,678
Federal Home Loan Bank	95,797,960	118,787,164
State of Illinois Secondary Pool Investment Program	1,791,843	2,628,176
Illinois Technology Development	2,962,005	1,728,419
Foreign Investments	10,000,000	19,848,000
Total deposits and investments	1,979,396,164	1,716,951,726
OTHER ASSETS		
Warrants cashed, but not canceled	199,892,691	156,401,300
Receivables from universities, agencies and retirement systems for monies advanced and securities purchased	482,710	3,215,381
Receivable from City of Edwardsville	315,469	324,780
Investment income earned, but not received	27,800,137	18,753,275
Illinois Insured Mortgage Pilot Program Trust	7,438,544	7,438,544
Total other assets	235,929,551	186,133,280
OTHER DEBITS		
Amount of future general revenue obligated for debt service	36,446,104,511	36,584,875,278
Total assets and other debits	$ 45,677,005,199	$ 44,543,441,846

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
STATEMENTS OF ASSETS, LIABILITIES AND ACCOUNTABILITIES - CONTINUED
June 30

LIABILITIES AND ACCOUNTABILITIES	2006	2005
LIABILITIES FOR BALANCES ON DEPOSIT		
Comptroller		
Protested taxes	$ 273,348,327	$ 258,612,411
Available for appropriation or expenditure	6,873,641,552	5,798,009,943
Agencies' deposits outside the State Treasury	658,243,657	571,496,295
Comptroller's warrants outstanding	785,600,188	676,507,506
Total liabilities for balances on deposit	8,590,833,724	7,304,626,155
GENERAL OBLIGATION INDEBTEDNESS		
Principal and interest due within one year	1,675,827,820	1,643,387,914
Thereafter	35,383,443,645	35,576,247,528
Total general obligation indebtedness	37,059,271,465	37,219,635,442
ACCOUNTABILITIES		
Receivable from City of Edwardsville	315,469	324,780
Investment income earned, but not received (net of cumulative market adjustments)	26,578,036	18,845,098
Federal Reserve Bank settlement account reserve	1,958	1,965
Mortgage Reserve Fund	4,547	8,406
Total accountabilities	26,900,010	19,180,249
Total liabilities and accountabilities	$ 45,677,005,199	$ 44,543,441,846

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
STATEMENTS OF INVESTMENT INCOME
For the Years Ended June 30

	2006	2005
Investment income received and deposited into the State Treasury	$ 290,412,715	$ 173,996,921
Add		
Investment income earned, but not received	27,800,137	18,753,275
Deposits outside the State Treasury	7,881,287	3,652,521
Net increase in the fair value of investments	-	1,386,311
Deduct		
Net decrease in the fair value of investments	(1,511,635)	-
Investment income earned in the prior year, but deposited in the current year	(22,405,796)	(9,240,160)
Investment income earned	$ 302,176,708	$ 188,548,868

The accompanying notes are an integral part of these statements.

NOTE A - AUTHORIZING LEGISLATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Short-term investments have a maturity date of less than one year. Unrealized gains and losses are accounted for in the investment in which the change in fair value occurred. In addition, the Treasurer's Office has adopted its own investment practices that supplement the statutory requirements.

Interest Rate Risk: 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. The portion of the portfolio allocated to investments with more than a two year maturity, other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS/520), shall constitute no more than one percent of the entire state portfolio as reported on the daily accounting balance sheet of the "Treasurer's Investments and Other Fund Investments". The portfolio shall not deviate from these guidelines unless specifically authorized by the Treasurer in writing. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk.

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) are rated among the three highest classifications established by at least two standard rating services, repurchase agreements or other investments approved by State law. As of June 30, 2006, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1+ by Standard & Poor's Ratings, except for those issued by Bear Stearns and Morgan Stanley, which were rated A-1. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, are rated P-1 by Moody's Investors Service and F1+ by Fitch Ratings. The Treasurer's long-term investments in all U.S. Agency obligations are rated Aaa by Moody's Investors Service and AAA by Fitch Ratings. The Treasurer's short-term investment in foreign debt securities is rated P-1 by Moody's Investors Service and A-1+ by Standard & Poor's. The Treasurer's long-term investment in foreign debt securities is rated A2 by Moody's Investors Service and A+ by Standard & Poor's. The Treasurer's investments in The Illinois Funds is rated AAAm by Standard & Poor's. The

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Treasurer's investments in money market mutual funds are rated Aaa by Moody's Investors Service and AAAm by Standard & Poor's, except for those issued by American Freedom Funds, Victory Mutual Funds, and Allegiant Funds, which were not rated by Moody's Investors Service or Fitch Ratings, and the fund issued by SEI Investments, which was not rated by Standard & Poor's or Fitch Ratings.

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 sixteen mutual funds. These mutual funds provide a comparable yield to other investments, particularly during times of falling interest rates and are a source of liquidity when cash is needed. Investments to the mutual funds can be made daily and interest income is received monthly.

Repurchase agreements are purchased from various financial institutions and rated brokerage firms located in the State. Securities pledged as collateral to secure these agreements are required to have a market value of at least 102% of the agreement. The agreements require both

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

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.

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.

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

The Treasurer's investment in the State of Illinois Secondary Pool Investment Program was deposited in a trust to purchase a security interest in a pool of Small Business Administration (SBA), Federal Home Loan Mortgage Corporation Adjustable Rate Mortgage (FHLMC ARM), and Federal National Mortgage Association Adjustable Rate Mortgage (FNMA ARM) loans. The securities have a floating rate indexed to the prime rate as quoted in *The Wall Street Journal* and are adjusted quarterly. The pool is guaranteed by the U.S. Government and/or the respective agency. The Trustee for the program is JP Morgan. The primary pool assembler is Meridian Capital Markets, Inc. Dana Investment Advisors, Inc. works with Meridian to assemble the SBA pools and to establish a fair market price. The pool's investment advisor is Mesirow Advanced Strategies, Inc.

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

<u>Deposits</u>: The carrying amount of all the Treasurer's demand and time deposits at June 30, 2006, was $47,246,586 and $1,368,334,706, respectively. The carrying amount of all the Treasurer's demand and time deposits at June 30, 2005, was $32,387,480 and $1,247,885,458, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2006,

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

was $46,717,548 and $1,368,334,706, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2005, was $31,590,590 and $1,247,885,458, respectively. The classification of the bank balances, as defined by Governmental Accounting Standards Board Statement 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements (GASB 3) is as follows:

2006	Demand Deposits	Time Deposits	Total Deposits
Amount insured by the FDIC	$ 738,400	$ 28,250,830	$ 28,989,230
Amount collateralized with securities held by the Treasurer's agent in the Treasurer's name	13,060,613	1,340,083,876	1,353,144,489
Uncollateralized*	32,918,535	-	32,918,535
	$ 46,717,548	$ 1,368,334,706	$ 1,415,052,254

2005	Demand Deposits	Time Deposits	Total Deposits
Amount insured by the FDIC	$ 756,726	$ 28,343,862	$ 29,100,588
Amount collateralized with securities held by the Treasurer's agent in the Treasurer's name	13,012,354	1,219,541,596	1,232,553,950
Uncollateralized*	17,821,510	-	17,821,510
	$ 31,590,590	$ 1,247,885,458	$ 1,279,476,048

* The uncollateralized amounts represent float balances which are unavailable funds, subject to the clearing process. These amounts are not required to be collateralized.

Investments: The Treasurer's net increase/(decrease) in the fair value of investments during 2006 and 2005 was ($ 1,511,635) and $ 1,386,311, respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year.

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2006 and 2005 in accordance with Governmental Accounting Standards Board Statement 40, Deposit and Investment Risk Disclosures (GASB 40), there is no custodial credit risk assumed by the Treasurer because the Treasurer's investments are represented by specific identifiable investment securities which are insured or registered, or are securities held by the Treasurer or her agent in the Treasurer's name. Excluding Time Deposits, the Treasurer had the following investments, stated at market value except for Federal Farm Credit Bank Bond, and maturities as of June 30. (Amounts are in thousands.)

2006

	Cash Equivalents	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
Commercial Paper	$ 2,788,237	$ -	$ -	$ -	$ -	$ 2,788,237
Repurchase Agreements	2,477,741	-	-	-	-	2,477,741
Federal Farm Credit Bank Bond *	-	254,212	-	-	-	254,212
Federal Home Loan Bank	-	52,176	95,798	-	-	147,974
Federal Home Loan Mortgage Corporation	-	19,774	47,025	-	-	66,799
Federal National Mortgage Association	7,772	29,606	105,414	-	-	142,792
State of Illinois Secondary Pool Investment Program	-	-	-	723	1,069	1,792
Foreign Investments**	-	9,878	10,000	-	-	19,878
Subtotal	$ 5,273,750	$ 365,646	$ 258,237	$ 723	$ 1,069	5,899,425
Illinois Technology Development						2,962
The Illinois Funds						1,352,596
Money Market Mutual Fund						324,402
Mortgage Reserve Fund						5
Total Investments, excluding Time Deposits						$ 7,579,390

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

2005

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

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

**Denominated in US dollars

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount, including accrued interest, was approximately $ 2,477,741,198 and $ 2,013,179,189, and the market value of the collateral securities to be resold based on commitments under the repurchase agreements was approximately $ 2,530,201,650 and $ 2,204,487,193, as of June 30, 2006 and 2005, respectively.

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

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, 2006. No investments exceeded 5 percent of the total investments at June 30, 2005. (Amounts are in thousands.)

	2006	
	Carrying Value	% of Total Investments
Repurchase agreements:		
Bank of America	$ 529,010	6.98
Greenwich Capital	700,000	9.24
Northern Trust	748,731	9.88
Commercial paper:		
Bear Stearns	$ 547,024	7.22
Deutsche Bank	448,693	5.92
HSBC Securities	747,413	9.86

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST

The Illinois Insured Mortgage Pilot Program Trust (the Trust) was created in October 1982 in order to stimulate construction activity in the State. The State purchased $120,000,000 of investment certificates for which the underlying collateral was a pool of mortgage loans issued by American National Bank and Trust Company of Chicago ("Trustee") for the purpose of providing financing to approved construction projects. The principal terms of the loans required "interest only" payments for seven years following the completion of construction with full payment of the outstanding principal balance at the end of the seventh year.

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

In July 1991, Bank One, Springfield replaced American National Bank and Trust Company as trustee of the Program. On February 24, 1995, Heritage/Pullman Bank & Trust Company replaced Bank One, Springfield as trustee of the program. In 2001, Cosmopolitan Bank & Trust Company bought out Pullman Bank & Trust Company thus becoming trustee of the program. Park National Bank became the trustee of the program in January 2006 as a result of the merger of Cosmopolitan Bank & Trust Company and four other Illinois banks.

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST (Continued)

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

The President Lincoln, Springfield hotel, with an original loan balance of $ 15,500,000 entered into a second restructuring agreement on April 30, 1990, retroactive to January 1, 1990. The agreement requires quarterly payments based on cash flow, as defined therein, applied first to any outstanding principal. Interest is charged at 6% per annum on the outstanding principal; however, this interest is deferred until the principal has been satisfied and no interest is charged on deferred interest. The maturity date was extended to January 1, 2010; however, if the sum of unpaid principal and interest deferrals exceeds $ 18,000,000 at any time after January 1, 1999, the loan becomes immediately due by default. As of June 30, 2006 and 2005, respectively, the unpaid principal and interest totaled approximately $ 28,294,519 and $ 27,462,342.

Under the original restructured agreement effective January 12, 1987, the surety bond primarily covered 15% of the loan and accrued interest up to a maximum of $ 2,245,000. The amended surety bond under the current restructured agreement requires the borrower, at the borrower's expense, to maintain and keep in force during the term of the loan, a surety bond guaranteeing to the lender, in the amounts set forth in Schedule 1 of the Second Mortgage Loan Restructuring Closing Book, all or a portion of the Principal Amount. The lender has 45 days upon default to notify the surety that there is a default and potential claim against the surety bond. Once the lender has obtained merchantable title, it can proceed with a claim against the surety bond. The surety can choose one of three options to determine the amount of its payment to the lender. It may pay: 1) the lesser of the percentage amount of the loss or the Maximum Amount for a claim made (as defined in Endorsement 2, Addendum A of the Agreement), or 2) the entire amount of the loss if the principal sum is in default and if the lender provides the surety with a merchantable title, or 3) the amount of the interest in default and assume the principal's obligation to pay future interest due and the principal sum provided the lender provides the surety with merchantable title. The estimated present value of the surety bond as of June 30, 2006 and 2005 is $ 5,784,000 and $ 5,356,000, respectively.

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST (Continued)

The Holiday Inn, Collinsville hotel, with an original loan balance of $ 13,400,000 signed a second restructuring agreement on January 10, 1991, retroactive to January 1, 1991. The terms of this agreement are similar to those discussed in the preceding paragraph, and results in required payments based on a calculation of defined cash flow, which are applied first to outstanding principal. Accrued and unpaid interest of approximately $ 428,000 was capitalized upon the second restructuring, but was not added to the Treasurer's recorded value. Interest is charged at 6% per annum on the outstanding principal; however, this interest is deferred until the principal has been satisfied and no interest is charged on deferred interest. The maturity date was extended to January 1, 2010; however, if at any time after January 1, 1999, the sum of unpaid principal and interest deferrals exceed $ 17,700,000, the loan becomes immediately due by default. The unpaid principal and interest totaled approximately $ 30,283,513 and $ 29,357,787 at June 30, 2006 and 2005, respectively. As additional security for the loan, the borrower, at the borrower's expense, must obtain and deliver to the Trustee, no later than the closing date, and must maintain and keep in force during the term of the loan one or more unconditional, irrevocable, letters of credit in a total amount not less than 15% of the principal amount, issued by institutions which have a net worth of no less then ten million dollars. Furthermore, as described in the agreement regarding additional collateral, the borrower must, in cases when the additional collateral is set to expire within 60 days, deliver to the lender substitute collateral no later than 30 days prior to the date of such scheduled expiration. In the event that the substitute collateral is not received within the specified time, the lender can declare an event of default and immediately draw upon the additional security. The letters of credit expire on either December 15 or December 31 of each year. Provided that the borrower is not in default under the restructured loan documents, the amount of additional collateral can be adjusted to an amount equal to the lesser of: 1) the percentage of the loss or 2) the Maximum Amount, both of which are defined in Schedule 1 of the Second Agreement to Restructure the Loan. At a default date, the borrower has the option of providing additional collateral equal to either the Maximum Amount of $ 3,060,000 or 64% of the loss. The estimated present value of the additional collateral equals $ 2,637,000 as of June 30, 2006 and 2005. Pursuant to the restructuring agreement, the Collinsville Mortgage is also secured by a personal guarantee in the maximum amount of $ 1,500,000. However, personal financial statements from the guarantors are not readily available, and thus the estimated value of the guarantee is unknown.

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST (Continued)

The hotel loans are considered to be nonperforming assets and, as such, interest is recorded only if received. If the interest receivable were recorded, the accrued interest balances for the hotels at June 30, 2006 and 2005, would be as follows:

	(In thousands)		
	Springfield	Collinsville	Total
Accrued interest receivable - June 30, 2006	$ 14,425	$ 14,855	$ 29,280
Accrued interest receivable - June 30, 2005	$ 13,593	$ 13,929	$ 27,522

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

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

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

The Trustee of the Illinois Insured Mortgage Pilot Program at the direction of the Illinois State Treasurer filed two lawsuits on October 31, 1997, one against the Collinsville Hotel Venture and the other against the President Lincoln Hotel Venture, for breaching their cash flow notes by improperly deducting capital expenditures from cash flow in violation of their respective loan agreements. The loan agreements provide that capital expenditures may be deducted from cash

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST (Continued)

flow only to the extent that payments pre-approved by the Trustee are made by the Ventures into a capital reserve account. The Trustee claims that these violations of the loan agreements, and the failure of the Ventures to pay upon demand money they improperly deducted from cash flow, constitute a default of the notes making them immediately due and payable.

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

After the final judgment was entered in the Madison County case, the Judge in Cook County who was presiding over the Collinsville case lifted his stay. Plaintiffs in the Madison County case then asked the Court to hold the Trustee and its counsel in contempt for pursuing the Cook County case. Eventually, the Trustee petitioned the Illinois Supreme Court for a supervisory order to allow it to proceed prosecuting the Cook County case without being held in contempt by the Madison County Court. The Supreme Court issued such a supervisory order in the fall of 2001, and the Cook County case is now proceeding. However, the Cook County case against the Springfield Hotel remains stayed.

As a result of discovery in the Collinsville case, the Trustee has determined that there have been additional events of default, and as a result it has now filed an amended complaint. In 2006, the Circuit Court of Cook County entered judgment in favor of the trustee and against the borrowers declaring that the loan was in default and authorizing the trustee to pursue collection proceedings against the personal guarantee. The borrowers petitioned the Court to reconsider its order. Collection proceedings cannot be commenced until the petition is rejected by the Court. In 1997, the trustee endeavored to draw on the letters of credit then in its possession. That attempt was enjoined by orders entered in the lawsuit filed in 1995 seeking to compel the trustee to sell the borrower's loan documents. As of April 24, 2006, such orders ceased to bind the trustee. In July of 2006, the trustee again presented drafts on all letters of credit. As of October 20, 2006, the trustee has collected $439,625 from The Bank of Edwardsville, $300,000 from U.S. Bank National Association, and $260,000 from Bank of America. The payments on the letters of credit will be recorded as a reduction of principal in fiscal year 2007. Regions Bank is refusing to pay the letters of credit it holds, which total $1,637,375. A suit against Regions Bank has been authorized by the Trustee but had not been filed as of October 20, 2006.

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST (Continued)

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

	(In thousands)		
	President Lincoln Springfield	Holiday Inn Collinsville	Total
Recorded Value			
Original loan balances	$ 15,500	$ 13,400	$ 28,900
Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1991	(4,086)	(564)	(4,650)
Less payments received-year ended June 30, 1992	(320)	(95)	(415)
Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1992	-	(2,000)	(2,000)
Less payments received-year ended June 30, 1993	(256)	(161)	(417)
Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1993	(3,638)	(3,580)	(7,218)
Less payments received-year ended June 30, 1994	(290)	(378)	(668)
Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1994	(3,435)	(2,312)	(5,747)
Adjustment for correction of an error	(1,305)	3,868	2,563
Less payments received-year ended June 30, 1995	(518)	(832)	(1,350)
June 30, 1995 – recorded value	1,652#	7,346##	8,998
Less payments received – year ended June 30, 1996	(458)	(394)	(852)
Less payments received – year ended June 30, 1997	(185)	(180)	(365)
Less payments received – year ended June 30, 1998	(93)	-	(93)
Less payments received – year ended June 30, 1999	-	(107)	(107)
Less payments received – year ended June 30, 2000	-	-	-
Less payments received – year ended June 30, 2001	-	-	-
Less payments received – year ended June 30, 2002	(56)	-	(56)
Less payments received – year ended June 30, 2003	(86)	-	(86)
Less payments received – year ended June 30, 2004	-	-	-
Less payments received – year ended June 30, 2005	-	-	-
Less payments received – year ended June 30, 2006	-	-	-
June 30, 2006 - recorded value	$ 774	$ 6,665	$ 7,439

NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST (Continued)

	(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 second restructuring	40	428	468
Payments received-years ended June 30, 1992, 1993, 1994, 1995, 1996, 1997,1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005 and 2006	(2,262)	(2,147)	(4,409)
June 30, 2006 - loan balance	$ 13,870	$ 15,428	$ 29,298

Notes:
[#] The valuation of the mortgage position at June 30, 1995, was estimated at $ 1,670,000.
[##] The valuation of the mortgage position at June 30, 1995, was estimated at $ 8,850,000.

NOTE F - DEFEASED DEBT

During fiscal year 2006, 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 $ 25,091,793 during fiscal year 2006, as follows:

	Balances at June 30, 2006		
	Principal	Interest	Total
Balance of defeased bonds issues	$ 276,135,000	$ 127,043,084	$ 403,178,084
General Obligation Refunding Bonds	274,950,000	103,136,291	378,086,291
Net decrease	$ 1,185,000	$ 23,906,793	$ 25,091,793

NOTE F - DEFEASED DEBT (Continued)

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 $ 18,638,158 during fiscal year 2006.

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

In prior years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2006 and 2005, $ 980,955,000 and $ 761,820,000, respectively, of bonds outstanding is considered defeased.

NOTE G - SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER

At June 30, 2006 and 2005, the Treasurer was responsible for $ 13,852,275 and $ 13,082,204, 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.

NOTE H - GENERAL OBLIGATION INDEBTEDNESS

A summary of the changes from June 30, 2005 to June 30, 2006, in General Obligation Bonded Indebtedness by issue type follows:

	Antipollution Interest Rates varying from 8.00% to 11.00% Series O through W, due serially to 2010	Multi-Purpose Interest Rates varying from 2.50% to 7.90%, Series 1988 through 2006, due serially to 2034	Pension Funding Interest Rates varying from 2.50% to 5.10% Series 2003, due serially to 2033
Balance at June 30, 2005			
Principal	$ 18,840,000	$ 7,958,745,153	$ 10,000,000,000
Interest	3,129,800	5,658,657,750	10,956,475,000
Total	21,969,800	13,617,402,903	20,956,475,000
Redemptions charge to Appropriations			
Principal	6,160,000	432,376,804	-
Interest	1,448,350	482,092,797	496,200,000
Total	7,608,350	914,469,601	496,200,000
Certificates/Bonds issued			
Principal	-	925,000,000	-
Interest	-	589,195,694	-
Total	-	1,514,195,694	-
Refunding			
Principal	-	260,100,000	-
Interest	-	126,063,312	-
Total	-	386,163,312	-
Balance at June 30, 2006			
Principal	12,680,000	8,191,268,349	10,000,000,000
Interest	1,681,450	5,639,697,335	10,460,275,000
Total	$ 14,361,450	$ 13,830,965,684	$ 20,460,275,000

NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued)

	General Obligation Refunding Series 1992 through 2006 Interest Rates varying from 2.50% to 6.15% due serially to 2022	Total Bonded Indebtedness	General Obligation Certificates	Total General Obligation Indebtedness
Balance at June 30, 2005				
Principal	$ 1,915,416,655	$ 19,893,001,808	$ -	$ 19,893,001,808
Interest	708,371,084	17,326,633,634	-	17,326,633,634
Total	2,623,787,739	37,219,635,442	-	37,219,635,442
Redemptions charge to Appropriations				
Principal	126,913,083	565,449,887	1,000,000,000	1,565,449,887
Interest	104,276,844	1,084,017,991	20,106,250	1,104,124,241
Total	231,189,927	1,649,467,878	1,020,106,250	2,669,574,128
Certificates/Bonds issued				
Principal	274,950,000	1,199,950,000	1,000,000,000	2,199,950,000
Interest	103,136,291	692,331,985	20,106,250	712,438,235
Total	378,086,291	1,892,281,985	1,020,106,250	2,912,388,235
Refunding				
Principal	16,035,000	276,135,000	-	276,135,000
Interest	979,772	127,043,084	-	127,043,084
Total	17,014,772	403,178,084	-	403,178,084
Balance at June 30, 2006				
Principal	2,047,418,572	20,251,366,921	-	20,251,366,921
Interest	706,250,759	16,807,904,544	-	16,807,904,544
Total	$ 2,753,669,331	$ 37,059,271,465	$ -	$ 37,059,271,465

NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued**)**

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

	Antipollution Interest Rates varying from 7.625% to 11.00% Series M through W, due serially to 2010	Multi-Purpose Interest Rates varying from 2.33% to 7.90%, Series 1988 through 2005, due serially to 2034	Pension Funding Interest Rates varying from 2.50% to 5.10% Series 2003, due serially to 2033
Balance at June 30, 2004			
Principal	$ 26,000,000	$ 7,487,820,454	$ 10,000,000,000
Interest	5,185,750	5,540,526,646	11,452,675,000
Total	31,185,750	13,028,347,100	21,452,675,000
Redemptions charge to Appropriations			
Principal	7,160,000	404,075,301	-
Interest	2,055,950	446,594,361	496,200,000
Total	9,215,950	850,669,662	496,200,000
Certificates/Bonds issued			
Principal	-	875,000,000	-
Interest	-	564,725,465	-
Total	-	1,439,725,465	-
Refunding			
Principal	-	-	-
Interest	-	-	-
Total	-	-	-
Balance at June 30, 2005			
Principal	18,840,000	7,958,745,153	10,000,000,000
Interest	3,129,800	5,658,657,750	10,956,475,000
Total	$ 21,969,800	$ 13,617,402,903	$ 20,956,475,000

NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued)

	General Obligation Refunding Series 1992 through 2004 Interest Rates varying from 2.50% to 5.50% due serially to 2021	Total Bonded Indebtedness	General Obligation Certificates	Total General Obligation Indebtedness
Balance at June 30, 2004				
Principal	$ 2,042,441,877	$ 19,556,262,331	$ 850,000,000	$ 20,406,262,331
Interest	820,226,042	17,818,613,438	4,934,722	17,823,548,160
Total	2,862,667,919	37,374,875,769	854,934,722	38,229,810,491
Redemptions charge to Appropriations				
Principal	127,025,222	538,260,523	1,615,000,000	2,153,260,523
Interest	111,854,958	1,056,705,269	10,672,222	1,067,377,491
Total	238,880,180	1,594,965,792	1,625,672,222	3,220,638,014
Certificates/Bonds issued				
Principal	-	875,000,000	765,000,000	1,640,000,000
Interest	-	564,725,465	5,737,500	570,462,965
Total	-	1,439,725,465	770,737,500	2,210,462,965
Refunding				
Principal	-	-	-	-
Interest	-	-	-	-
Total	-	-	-	-
Balance at June 30, 2005				
Principal	1,915,416,655	19,893,001,808	-	19,893,001,808
Interest	708,371,084	17,326,633,634	-	17,326,633,634
Total	$ 2,623,787,739	$ 37,219,635,442	$ -	$ 37,219,635,442

NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued)

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

Future general obligation debt service requirements at June 30, 2006, are as follows:

Year ending June 30	Principal	Interest	Total
2007	$ 707,570,000	$ 968,257,820	$ 1,675,827,820
2008	755,645,000	953,469,244	1,709,114,244
2009	743,895,000	928,720,344	1,672,615,344
2010	728,585,000	903,636,217	1,632,221,217
2011	716,795,000	876,546,945	1,593,341,945
2012 – 2016	3,366,205,000	3,980,086,784	7,346,291,784
2017 – 2021	3,236,610,000	3,232,182,615	6,468,792,615
2022 – 2026	3,874,085,067	2,392,896,356	6,266,981,423
2027 – 2031	4,869,395,071	1,333,129,977	6,202,525,048
2032 – 2034	2,310,754,862	180,805,163	2,491,560,025
Total	$ 21,309,540,000	$ 15,749,731,465	$ 37,059,271,465

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

NOTE I - ARBITRAGE REBATE LIABILITY

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

OTHER SUPPLEMENTARY INFORMATION

A tab page will replace this page

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
ASSETS, LIABILITIES AND ACCOUNTABILITIES
June 30, 2006 and 2005

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

	June 30	
	2006	2005
Assets and other debits		
Cash and cash equivalents	$ 7,015,574,973	$ 6,055,481,562
Deposits and investments, at market	1,979,396,164	1,716,951,726
Other assets	235,929,551	186,133,280
Amount of future general revenue obligated for debt service	36,446,104,511	36,584,875,278
Total assets and other debits	$ 45,677,005,199	$ 44,543,441,846
Liabilities for balances on deposit		
Comptroller		
Protested taxes	$ 273,348,327	$ 258,612,411
Available for appropriation or expenditure	6,873,641,552	5,798,009,943
Agencies' deposits outside the State Treasury	658,243,657	571,496,295
Comptroller's warrants outstanding	785,600,188	676,507,506
Total liabilities for balances on deposit	8,590,833,724	7,304,626,155
General obligation indebtedness	37,059,271,465	37,219,635,442
Total liabilities	45,650,105,189	44,524,261,597
Accountabilities		
Receivable from City of Edwardsville	315,469	324,780
Investment income earned, but not received	26,578,036	18,845,098
Federal Reserve Bank settlement account reserve	1,958	1,965
Mortgage Reserve Fund	4,547	8,406
Total accountabilities	26,900,010	19,180,249
Total liabilities and accountabilities	$ 45,677,005,199	$ 44,543,441,846

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

	June 30	
	2006	2005
Cash and cash equivalents		
Demand deposits	$ 2,166,993	$ 1,749,512
Clearing account deposits and deposits in transit	45,079,593	30,637,968
Time deposits	17,575,000	66,530,000
Repurchase agreements	2,477,741,198	2,013,179,189
Commercial paper	2,788,237,000	2,290,919,667
The Illinois Funds	1,352,596,206	1,185,604,294
Money Market Mutual Fund	324,402,375	325,219,621
Mortgage Reserve Fund	4,547	8,406
U.S. Agency discount notes	-	141,632,905
Federal National Mortgage Association	7,772,061	-
Total cash and cash equivalents	$ 7,015,574,973	$ 6,055,481,562

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

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
ASSETS - DETAIL - CONTINUED

	June 30, 2006 Bank Balances			June 30, 2005 Bank Balances		
	Collected	Float	Total	Collected	Float	Total
Demand deposits						
Associated Bank of Commerce	$ -	$ -	$ -	$ 3,268	$ -	$ 3,268
Bank of America	531,966	-	531,966	-	-	-
Fifth Third Bank of Aurora	2,641	-	2,641	5,335	-	5,335
JP Morgan (formerly Bank One)	55,743	-	55,743	86,395	-	86,395
Cole Taylor Bank of Chicago	-	-	-	250,144	-	250,144
Illinois National Bank	4,125	-	4,125	146,992	-	146,992
National City	112,772	392,028	504,800	70,588	415,003	485,591
Northern Trust Company, Chicago	532,083	-	532,083	193,035	-	193,035
Wells Fargo Bank	5,369	-	5,369	-	-	-
	$ 1,244,699	$ 392,028	1,636,727	$ 755,757	$ 415,003	1,170,760
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			530,266			578,752
Total demand deposits			$ 2,166,993			$ 1,749,512

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.

	June 30, 2006 Bank Balances Collected	Float	Total	June 30, 2005 Bank Balances Collected	Float	Total
Clearing account deposits and deposits in transit						
Bank of America	$ 1,732,166	$ 367,468	$ 2,099,634	$ -	$ -	$ -
Cole Taylor Bank of Chicago	-	-	-	1,063,072	61,366	1,124,438
National City	293	-	293	304	-	304
DuQuoin State Bank	24,883	-	24,883	25,713	-	25,713
JP Morgan (formerly Bank One)	64,384	39,408,273	39,472,657	59,769	26,490,223	26,549,992
Illinois National Bank	(24,590)	1,577,795	1,553,205	-	368,465	368,465
US Bank-Springfield	53,219	-	53,219	91,547	-	91,547
Northern Trust Company, Chicago	110,852	128,743	239,595	379,078	63,883	442,961
International Bank of Chicago	47,091	-	47,091	30,863	-	30,863
Oakbrook Bank	34,076	1,550,970	1,585,046	44,651	1,740,896	1,785,547
Wells Fargo Bank	5,197	-	5,197	-	-	-
	$ 2,047,571	$ 43,033,249	45,080,820	$ 1,694,997	$ 28,724,833	30,419,830
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			(1,227)			218,138
Total clearing account deposits			$ 45,079,593			$ 30,637,968

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.

Deposits and Investments

Most of the Treasurer's investments at June 30, 2006 and 2005 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	
	2006	2005
Short-term investments		
Time Deposits	$ 1,289,415,051	$ 1,114,175,684
Federal Farm Credit Bank Bond	254,212,000	177,368,000
Federal Home Loan Mortgage Corporation	19,773,590	59,599,280
Federal Home Loan Bank	52,175,599	55,097,973
Federal National Mortgage Association	29,606,120	17,808,703
Foreign Investments	9,878,000	-
Total short-term investments	1,655,060,360	1,424,049,640
Long-term investments		
Time Deposits	61,344,655	67,179,774
Federal Farm Credit Bank Bond	-	1,099,000
Federal Home Loan Mortgage Corporation	47,024,980	22,246,875
Federal Home Loan Bank	95,797,960	118,787,164
Federal National Mortgage Association	105,414,361	59,384,678
State of Illinois Secondary Pool Investment Program	1,791,843	2,628,176
Illinois Technology Development	2,962,005	1,728,419
Foreign Investments	10,000,000	19,848,000
Total long-term investments	324,335,804	292,902,086
Total deposits and investments	$ 1,979,396,164	$ 1,716,951,726

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 2006 and 2005 financial statements was 4.00% and 2.25%, respectively.

Other Assets

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

	2006	2005
Warrants cashed, but not canceled	$ 199,892,691	$ 156,401,300
Receivables from universities, agencies and retirement systems for monies advanced and securities purchased	482,710	3,215,381
Receivable from City of Edwardsville	315,469	324,780
Investment income earned, but not received	27,800,137	18,753,275
Illinois Insured Mortgage Pilot Program Trust	7,438,544	7,438,544
Total other assets	$ 235,929,551	$ 186,133,280

The account balances of warrants cashed but not canceled and the receivable from universities, agencies and retirement systems represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2006 and 2005. 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, 2006 and 2005, were $ 9,311 and $ 18,353, respectively.

Other Assets (Continued)

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

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

Amount of Future General Revenue Obligated for Debt Service

The following summary reflects the general revenue obligated for debt service during fiscal 2006 and thereafter:

	General Obligation Bonds
Certificates, bond and coupons maturing in fiscal year 2007	$ 1,675,827,820
Less - balance on deposit in State Treasury at June 30, 2006, for certificate and bond redemption and interest	(613,166,954)
Amount obligated from future general revenue	
Fiscal year 2007 general revenue	1,062,660,866
After June 30, 2007	35,383,443,645
Amount of future general revenue obligated for debt service at June 30, 2006	$ 36,446,104,511

A summary of the changes during the period July 1, 2005 through June 30, 2006, in the amount of future general revenue obligated for debt service is as follows:

	General Obligation Bonds
Balance at June 30, 2005	$ 36,584,875,278
Issuance of certificates and bonds	2,912,388,235
Bonds and coupons redeemed and bonds refunded	(2,669,574,128)
Bonds and coupons refunded	(403,178,084)
Net decreases in balances on deposits in State Treasury	21,593,210
Balance at June 30, 2006	$ 36,446,104,511

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

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

General Obligation Bonds	2006	2005
Amount of future general revenue obligated for debt service	$ 36,446,104,511	$ 36,584,875,278
Balance in deposit in the State Treasury at June 30 for bond redemption and interest	613,166,954	634,760,164
Total indebtedness at June 30	$ 37,059,271,465	$ 37,219,635,442

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 2006 included one issue. The issue of General Obligation Certificates occurred on November 22, 2005, for principal of $1,000,000,000 and premium of $5,680,750. Of this amount, $1,000,000,000 was deposited into the General Revenue Fund, and $5,680,750 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on June 23, 2006.

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

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

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

Liabilities for Balances on Deposit

Protested Taxes: Substantially all of the $ 273,348,327 and $ 258,612,411 at June 30, 2006 and 2005, 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:

	2006	2005
Treasurer's clearing account balances	$ 198,586,702	$ 157,344,428
Treasurer's clearing account drafts in process of being ordered into the State Treasury	178,963,788	93,535,884
Deposits in process of being ordered into the Treasurer's clearing accounts	223,350,323	175,389,807
Deposits in demand accounts in process of being ordered into the State Treasury	57,342,844	145,226,176
Total agency deposits outside the State Treasury	$ 658,243,657	$ 571,496,295

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

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

General Obligation Indebtedness

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

Accountabilities

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

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME
For the years ended June 30, 2006 and 2005

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

	2006	2005
General revenue fund	$ 154,108,476	$ 114,758,837
Other State funds	121,069,923	61,948,805
Segregated State trust funds	26,998,309	11,841,226
	$ 302,176,708	$ 188,548,868

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

	2006	2005
Fund participating in pooled investments		
General Revenue Fund	$ 154,108,476	$ 114,758,837
Aggregated Operations Regulatory Fund	7,199	3,172
Airport Land Loan Revolving Fund	25,697	37,155
Alternative Compliance Market Account Fund	4,247	3,186
AML Reclamation Set Aside Fund	340,366	169,504
Assisted Living and Shared Housing Regulatory Fund	4,328	2,127
Auction Recovery Fund	11,343	4,713
Auction Reg. Administration Fund	22,536	8,473
Autism Research Checkoff Fund	7	-
Bank & Trust Company Fund	655,900	213,147
Brownfields Redevelopment Fund	256,381	222,099
Build Illinois Bond Retirement and Interest Fund	141,060	75,455
Build Illinois Capital Revolving Loan Fund	396,162	285,372
Build Illinois Fund	751,185	402,632
Capital Litigation Fund	228,636	151,360
Care Provide Per W Dev. Dis.	267,188	128,492
Cemetery Consumer Protection Fund	29,204	15,654
Child Abuse Prevention Fund	22,072	10,882
Clean Air Act (CAA) Permit Fund	499,824	173,335
Coal Mining Regulatory Fund	11,375	9,626
Common School Fund	1,024,318	573,590
Community College Health Insurance Security Fund	450,793	356,348
Community DD Services Medicaid Trust Fund	86,240	-
Community Mental Health Medical Trust Fund	667,948	119,114
Community MH/DD Service Provider Fee Fund	-	1,031
Community Water Supply Laboratory Fund	70,944	42,737
County Automobile Renting Tax Fund	3,585	1,783

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2006 and 2005

	2006	2005
Fund participating in pooled investments		
County Hospital Services Fund	$ 457,203	$ 353,649
County Option Motor Fuel Tax Fund	218,966	93,019
County Water Commission Tax Fund	404,601	188,441
Credit Union Fund	198,960	109,122
Design Professionals Administration and Investigation Fund	31,802	14,131
Diabetes Research Checkoff Fund	12	-
Drug Rebate Fund	2,058,117	924,839
Drycleaner Environmental Response Trust Fund	180,157	133,130
DuQuoin State Fair Harness Racing Trust Fund	266	200
Early Intervention Services Fund	374,888	134,215
Environmental Laboratory Certification Fund	9,875	7,942
EPA Court Ordered Trust Fund	27,178	21,772
Explosive Regulatory Fund	1,575	1,045
Facilities Management Fund	471,182	-
Fair Share Trust	7,590	3,178
Family Care Fund	76,268	12,735
Federal Asset Forfeiture Fund	6,650	25,318
Federal Home Investment Trust Fund	42,981	16,253
Federal Student Loan Fund	1,684,503	1,138,952
Federal Workforce Training Fund	9,896	3,702
Fire Truck Revolving Loan Fund	75,355	34,860
Fish and Wildlife Endowment Fund	49,599	24,607
Food and Drug Safety Fund	40,730	24,150
General Assembly Retirement Excess Benefits Fund	498	235
General Assembly Retirement Fund	128,551	57,107
General Obligation Bond Retirement and Interest Fund	23,263,412	14,525,291
General Professions Dedicated Fund	533,403	232,188
Group Home Loan Revolving Fund	-	371
Group Insurance Premium	341,669	251,442
Group Workers Compensation Pool	19,563	11,522
Hansen-Therkelsen Memorial Deaf Student College Fund	32,409	17,823
Health Insurance Reserve Fund	2,891,611	1,255,799
Hearing Instrument Dispenser Examining and Disciplinary Fund	8,950	6,575
Help Illinois Vote Fund	3,627,797	1,625,683
Home Inspector Administration Fund	51,729	24,211
Home Rule City Retailers' Occupation Tax Fund	879,633	381,495
Home Rule Municipal Retailers' Occupation Tax Fund	1,029,538	697,228

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2006 and 2005

	2006	2005
Fund participating in pooled investments		
Hospital Provider Fund	$ 88,458	$ 55,276
Illinois Affordable Housing Trust Fund	1,723,342	942,847
Illinois Beach Marina Fund	24,323	13,970
Illinois Building Commission Revenue Fund	-	31
Illinois Century Network Special Purposes	-	87
Illinois Clean Water Act	990,481	336,607
Illinois Equity Fund	119,120	55,879
Illinois Farmer and Agri-Business Loan Guarantee Fund	301,167	163,410
Illinois Habitat Fund	72,344	29,701
Illinois State Dental Disciplinary Fund	52,030	43,859
Illinois State Medical Disciplinary Fund	526,044	115,343
Illinois State Pharmacy Disciplinary Fund	238,988	119,461
Illinois State Podiatric Disciplinary Fund	25,227	14,648
Illinois Veteran's Assistance Fund	12,024	-
Industrial Commission Surcharge Escrow Fund	791,910	150,933
Innovations in Long-Term Care Quality Demonstration Grants	77,589	39,233
Judges Retirement Excess Benefits Fund	4,562	1,917
Judges Retirement Fund	570,792	269,972
Juvenile Accountability Incentive Block Grant Fund	461,075	287,124
Kaskaskia Commons Permanent School Fund	7,104	5,168
Large Business Attraction Fund	152,442	67,922
Local Government Health Insurance Reserve Fund	326,708	238,985
Long-Term Care Provider Fund	661,623	449,100
Medicaid Buy-In Program Revolving Fund	40,699	16,951
Medicaid Provider Relief Fund	-	39,169
Metro East Mass Transit District Tax Fund	139,606	74,784
Metropolitan Pier and Exposition Authority Trust Fund	228,197	118,958
Motor Vehicle Theft Prevention Fund	139,173	90,312
Municipal Automobile Renting Tax Fund	26,672	13,838
Municipal Economic Development Fund	1,970	1,145
New Technology Recovery Fund	-	1,147
Non-Home Rule Municipal Retailer's Occupation Tax Fund	65,612	35,033
Nuclear Safety Emergency Preparedness Fund	368,503	168,413
Nursing Dedicated and Professional Fund	242,415	139,735
Off-highway Vehicle Trails Fund	81,571	170,196
Optometric Licensing and Disciplinary Committee Fund	9,770	10,275
Personal Property Tax Replacement Fund	3,264,475	1,311,757

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2006 and 2005

		2006		2005
Fund participating in pooled investments				
Petroleum Resources Revolving Fund	$	18,355	$	12,813
Petroleum Violation Fund		204,646		170,896
Plugging and Restoration Fund		19,622		9,872
Post Trans Main and Retention		6,849		4,819
Professional Services Fund		342,189		-
Professions Indirect Cost Fund		106,309		23,513
Public Agriculture Loan Guarantee		406,144		222,994
Public Health Services Revolving Fund		23,080		8,246
Public Infrastructure Construction Loan Revolving Fund		64,747		26,550
Public Pension Regulation Fund		60,830		25,581
Radiation Protection Fund		14,868		17,352
Radioactive Waste Facility Closure and Compensation Fund		-		16,918
Radioactive Waste Facility Development and Operation Fund		12,487		11,678
Rail Freight Loan Repayment Fund		166,189		100,506
Rate Adjustment Fund		23,316		5,036
Real Estate Audit Fund		6,507		3,579
Real Estate License Administration Fund		402,351		149,872
Real Estate Recovery Fund		41,337		22,107
Real Estate Research and Education Fund		25,082		11,246
Regional Transit Authority Public Transportation Tax Fund		106		25
Regional Transit Authority Sales Tax Trust Fund		1,464,453		539,228
Registered CPA Administration and Disciplinary Fund		7,877		12,017
Replacement Vehicle Tax-Municipal Trust Fund		20		12
Response Contractor's Indemnification Fund		12		305
Road Fund		21,848,764		3,139,014
Road Transportation A Fund		523,906		1,255,341
Salmon Fund		5,723		2,908
Savings and Residential Finance Regulatory Fund		732,077		257,620
School Technology Revolving Loan Fund		96,309		296,241
Second Injury Fund		22,485		11,724
Securities Audit and Enforcement Fund		424,813		263,977
Self-Insurers Administration Fund		17,887		16,380
Self-Insurers Security Fund		1,200,299		620,133
Self-Sufficiency Trust Fund		12		5
Sheffield February 1982 Agreed Order Fund		154,987		88,127
Special Tax Inc.		107,882		46,848
State Assets Forfeiture Fund		68,360		31,852

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2006 and 2005

	2006	2005
Fund participating in pooled investments		
State Construction Account Fund	$ 3,217,767	$ 7,078,202
State Employees Retirement Excess Benefits Fund	661	286
State Employees Retirement System Fund	8,724,123	4,300,052
State Employees' Deferred Compensation Plan Fund	155,213	80,568
State Furbearer Fund	7,607	3,807
State Migratory Waterfowl Stamp Fund	102,121	54,289
State Pheasant Fund	41,105	17,941
State Rail Freight Loan Repayment Fund	324,035	231,368
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	28,074	15,445
Student Loan Operating Fund	1,005,652	600,603
Teachers' Health Insurance Security Fund	2,197,041	1,126,096
Teachers' Retirement Excess Benefits Fund	200,916	84,234
Teachers' Retirement System Fund	2,534,182	1,238,887
Ticket for the Cure Fund	26,066	-
Toxic Pollution Prevention Fund	4,204	2,642
Underground Resource Conservation Enforcement Trust Fund	34,916	20,396
Vince Demuzio Memorial Colon Cancer Fund	6	-
Violent Crime Victims Assistance Fund	120,618	82,382
Water Pollution Control Revolving Fund	15,031,090	8,102,779
Wildlife and Fish Fund	1,258,827	521,345
Wildlife and Prairie Park Fund	3,217	1,322
Worker's Compensation Revolving Fund	378,045	-
Worker's Compensation Benefit Trust Fund	1,886	4,423
Total pooled investment income	275,178,399	176,707,642

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2006 and 2005

	2006	2005
Segregated Investments		
Agrichemical Incident Response Trust Fund	$ 37,643	$ 24,759
College Savings Pool Administration Fund	19,019	5,636
Deferred Lottery Prize Winners Trust Fund	303,361	205,986
Employment Security Administration Fund	-	6
Illinois Habitat Endowment Trust Fund	436,181	211,981
Illinois Municipal Retirement Fund	703,560	263,048
Illinois Prepaid Tuition Trust Fund	293,328	132,630
Illinois Rural Rehabilitation Fund	3,006	1,089
Illinois State Toll Highway Revenue Fund	20,545,834	9,141,432
National Heritage Endowment Trust Fund	52,172	32,526
Radioactive Waste Facility Closure and Compensation Fund	4,005	2,662
State Employees Unemployment Benefit Fund	59	36,694
Title III Social Security and Employment Service	904,909	580,872
Tobacco IPTIP	3,249,979	1,008,717
Unemployment Compensation Special Administration Fund	445,253	193,188
Total segregated investment income	26,998,309	11,841,226
Total investment income	$ 302,176,708	$ 188,548,868

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

	2006	2005
Receipts deposited in the State Treasury	$ 290,412,715	$ 173,996,921
Add		
Investment income earned, but not deposited at end of year in process of being ordered into the State Treasury	13,250,027	6,768,875
Accrued	22,431,397	15,636,921
Net increase in the fair value of investments	-	1,386,311
Deduct		
Investment income earned in the prior year, but deposited in current year	(22,405,796)	(9,240,160)
Net decrease in the fair value of investments	(1,511,635)	-
Total investment income earned	$ 302,176,708	$ 188,548,868

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2006 and 2005

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

	2006	2005
The Illinois Funds	$ 29,967,336	$ 15,861,721
Time Deposits	44,170,798	61,948,331
Money Market Mutual Fund	12,511,507	5,944,658
Repurchase Agreements	80,485,653	39,030,596
Commercial Paper	90,207,521	42,153,396
Federal Farm Credit Bank Bond Private Placement	7,913,763	2,061,222
State of Illinois Secondary Pool Investment Program	92,991	-
Federal National Mortgage Association	2,270,056	1,993,716
Foreign Investments	720,000	668,600
Federal Home Loan Mortgage Corporation	2,226,302	1,686,007
Federal Home Loan Bank Notes	4,087,699	2,798,360
U.S. Agency Discount Notes	-	2,494,565
Illinois Technology Development	(46,621)	-
Clearing account	571,394	66,470
Total pooled investment income	$ 275,178,399	$ 176,707,642

PROTEST TRUST FUND

	2006	2005
Liability at beginning of year	$ 258,632,411	$ 211,133,434
Add		
Trust receipts collected by other State agencies	54,808,872	78,307,852
	313,441,283	289,441,286
Deduct		
Trust disbursements for refunds of successfully protested tax payments	6,572,078	19,137,402
Transfers to other funds	33,520,878	11,691,473
	40,092,956	30,828,875
Liability at end of year	$ 273,348,327	$ 258,612,411

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, 2006 and 2005, were $ 272,482,044 and $ 314,294,210, 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 settlement and investment income. The following is a detail of the deposits into Fund Number 733:

	2006	2005
Tobacco Settlement proceeds	$ 272,602,000	$ 274,124,000
Interest and other investment income	3,250,000	1,009,000
Total receipts and deposits	$ 275,852,000	$ 275,133,000

- Increased average Illinois Funds asset base to $5,714,796,015.
- Earned interest income of $212.8 million during FY06 for The Illinois Funds.
- Funded 4 Targeted Initiative Projects in the amount of $2,935,000.
- Funded 2 Daycare Projects totaling $2,142,702.
- Funded 7 State Treasurer's Economic Program Projects totaling $3,265,000. These 7 projects created 218 jobs and retained 37 jobs.
- Funded 1 Experience IL Tourism Project in the amount of $300,000.
- Funded 2 Lights Cameras Illinois! Projects in the amount of $20,050,000.
- Funded 10 Operation Protect & Provide Projects in the amount of $79,050.
- Funded 9 Local Government Short-Term Loans in the amount of $11,173,250.
- Funded 1 Ready Access Project in the amount of $5,800.
- Funded 476 Annual Agriculture deposits in the amount of $468,087,254.
- Funded 2 Annual Alternative Agriculture deposits in the amount of $140,000.
- Funded 145 Five Year Agriculture deposits in the amount of $8,028,814.
- Funded 2 Five Year Alternative Agriculture deposits in the amount of $74,050.
- Funded 15 Small Business State Treasurer's Economic Program Projects in the amount of $2,428,300. These 15 projects created 166 jobs and retained 88 jobs.

- Total number of warrants successfully issued, countersigned and recorded: 8,300,238
- Total number of warrants successfully canceled, paid and recorded: 8,179,792
- Total amount of warrants successfully issued, countersigned and recorded: $58,120,195,363

- Total amount of estate tax collections: $272,482,044
- Total amount of estate tax distributions: $15,796,482
- Total amount of estate tax refunds: $8,578,674

- The Bank at School Program increased by approximately 101,000 students to a total of approximately 604,872 students Statewide.

- The investment portfolio earned approximately $302,177,000 during fiscal year 2006.
- Investments yielded approximately 4.00% throughout the current year.
- The average investment base increased approximately $700,000,000 from the prior year.

Following is the current State of Illinois, Office of the Treasurer, 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 her control in a manner that provides the highest investment return using authorized instruments while meeting the State's daily cash flow demands in conformance with all state statutes governing the investment of public funds.

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

2.0 OBJECTIVE

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

2.1 Safety

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

2.2 Liquidity

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

2.0 OBJECTIVE - Continued

2.3 Return On Investment

The investment portfolio shall be designed to obtain the highest available return, taking into account the Treasurer's investment risk constraints and cash flow needs. The Portfolio Manager shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

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

3.0 ETHICS AND CONFLICTS OF INTEREST

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

4.0 AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers selecting institutions to provide investment services. No state funds may be deposited in any financial institution until investment officers have conducted a safety and soundness review of the financial institution by consulting IDC, Sheshunoff, and/or Veribanc bank rating services, unless the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed $ 100,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 8.0. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520).

In addition, a list shall be maintained of approved security broker/dealers selected according to their creditworthiness, and their financial significance in the state, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the state. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 240.15c3-1 (Net Capital Requirements For Brokers or Dealers).

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

a) Audited financial statements or a published Statement of Condition;

b) Proof of minority/female/disabled broker status;

c) A trading resolution;

d) Proof of State of Illinois registration;

e) Proof of registration with the Securities and Exchange Commission;

4.0 AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS - Continued

f) Completed Broker/Dealer Questionnaire;

g) Certification of notice and knowledge of this Policy;

h) Published reports for brokers from rating agencies with investment grade ratings;

i) Proof of emerging broker status; and

j) Balance sheets from Consolidated Reports of Condition and Income (or the entire report when requested), Statements of Financial Condition, or Office of Thrift Supervision Financial Reports.

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

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

5.0 AUTHORIZED AND SUITABLE INVESTMENTS

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

a) Securities that are guaranteed by the full faith and credit of the United States as to principal and interest;

b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities;

5.0 AUTHORIZED AND SUITABLE INVESTMENTS - Continued

c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);

d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;

e) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States, which maintains its principal office in the State of Illinois;

f) Commercial paper of a corporation that is organized in the United States with assets exceeding $ 500,000,000 and is rated by two or more standard rating services at a level that is at least as high as the following: A-1 by Standard & Poor's, P-1 by Moody's, F-1 by Fitch, D-1 by Duff & Phelps Credit Rating Company, A1 by IBCA, and TBW-1 by Thompson Bank Watch; 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);

j) Obligations of National Mortgage Associations established by or under the National Housing Act (1201 U.S.C. 1701 et seq.);

5.0 AUTHORIZED AND SUITABLE INVESTMENTS - Continued

k) Securities of a foreign government, other than the Republic of Sudan (effective Jan. 27, 2006), 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; and

l) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq).

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

6.0 INVESTMENT RESTRICTIONS

a) The following investments are prohibited:

   i. Investments in derivative products;

   ii. Leveraging of assets through reverse repurchase agreements;

   iii. Direct investments in tri-party repurchase agreements.

b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers meeting the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.

c) Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5).

d) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act (effective Jan. 27, 2006).

7.0 COLLATERALIZATION

All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time.

The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

8.0 DIVERSIFICATION

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

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

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

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

   i. Financial institutions holding deposits that exceed $ 100,000,000 on the date that this Policy is adopted shall continue to be eligible to hold deposits that do not exceed the amount of deposits held on that date.

8.0 DIVERSIFICATION- Continued

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

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 5% of the investment portfolio shall be allocated to investments with a 4-5 year maturity band (not including Foreign Government Securities).

e) The Treasurer shall invest the majority of state funds in authorized investments of less than one-year maturity. There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band.

9.0 CUSTODY AND SAFEKEEPING

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

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

10.0 INTERNAL CONTROLS

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

a) Asset Allocation

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

b) Competitive Bidding

Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments.

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

11.0 LIMITATION OF LIABILITY

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

12.0 REPORTING

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

a) Performance as compared to established benchmarks;

b) Asset allocation;

c) Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy;

d) Impact of any material change in investment policy adopted during the quarter;

e) The average days to maturity;

f) A listing of all investments in the portfolio by class or type marked to market value; and

g) The income earned from the investments as of the report date.

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

The Treasurer reserves the right to amend this Policy at any time upon the advice and consent of the Investment Policy Committee.