

**State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
FINANCIAL AUDIT**

For the years ended June 30, 2009 and 2008

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

State of Illinois
Office of the Treasurer

THE ILLINOIS FUNDS

FINANCIAL AUDIT
For the years ended June 30, 2009 and 2008

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State of Illinois
Office of the Treasurer

THE ILLINOIS FUNDS

TREASURER'S OFFICE OFFICIALS

Treasurer	Honorable Alexi Giannoulias
Chief of Staff	Ms. Robin Kelly
Deputy Treasurer/CFO	Mr. Edward Buckles
Deputy Chief of Staff/General Counsel	Mr. Paul Miller
Chief Legal Counsel	Ms. Gina DeCiani
Director of The Illinois Funds	Mr. Randy Coffey
Portfolio Manager	Mr. Mark Polistina
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler

The Office of the Treasurer maintains nine office locations:

- Executive Office
State Capitol
219 State House
Springfield, Illinois 62706
- Operational divisions
Illinois Business Center
400 West Monroe
Springfield, Illinois 62702
- Unclaimed Property & Other
Divisions
Myers Building
1 W. Old State Capitol Plaza
Springfield, Illinois 62701
- Chicago Office &
Personnel/Legal/Programmatic
James R. Thompson Center
100 West Randolph Street
Suite 15-600
Chicago, Illinois 60601
- Programmatic
Riverdale Office
13725 South Wabash Ave
Riverdale, Illinois 60827
- Programmatic
Effingham Office
401 Industrial Drive, Suite E
Effingham, Illinois 62401
- Programmatic
Mt. Vernon Office
200 West Potomac Boulevard
Mt. Vernon, Illinois 62864
- Programmatic
Rock Island Office
Rock Island County Office Bldg.
1504 Third Avenue
Rock Island, Illinois 61201
- Programmatic
Rockford Office
E.J. Zeke Giorgi Building
200 South Wyman Street
Rockford, Illinois 61101

FINANCIAL STATEMENT REPORT

State of Illinois
Office of the Treasurer

THE ILLINOIS FUNDS

FINANCIAL STATEMENT REPORT

SUMMARY

The audits of the accompanying financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer were performed by Crowe Horwath LLP as of and for the years ended June 30, 2009 and 2008.

Based on their audits, the auditors expressed an unqualified opinion on The Illinois Funds of the State of Illinois, Office of the Treasurer's financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Office's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 42-45 of this report, as finding 09-1 (*Internal Control Weaknesses*).

EXIT CONFERENCE

The finding and recommendation appearing in this report was discussed with Agency personnel at an exit conference on February 22, 2010. Attending from the Office of the Treasurer were Edward Buckles (Deputy Treasurer/CFO), Barb Ringler (Chief Internal Auditor), Randy Coffey (Director of The Illinois Funds), Mark Polistina (Portfolio Manager), Josh Budd (Deputy Director of The Illinois Funds), Paul Miller (Deputy Chief of Staff/General Counsel), Gina DeCiani (Chief Legal Counsel) via phone, Mary Baksys (Accounting Manager) and Nicholas Barnard (Internal Audit). Attending from the Office of the Auditor General was Paul Usherwood (Audit Manager). Attending from Crowe Horwath LLP – Special Assistant Auditors were John Weber (Partner) via phone, Lisa Stinson (Manager), and Brandon Reed (Senior Staff) via phone. The response to the recommendation was provided by Barb Ringler in a letter dated March 19, 2010.



Crowe Horwath LLP
Independent Member Crowe 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 Illinois Funds (a fiduciary fund) of the State of Illinois, Office of the Treasurer, as of and for the years ended June 30, 2009 and 2008, as listed in the Table of Contents. These financial statements are the responsibility of the management of the State of Illinois, Office of the Treasurer. 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 A, the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer present only this fiduciary fund and do not purport to, and do not, present fairly the financial position of the State of Illinois, Office of the Treasurer as of June 30, 2009 and 2008, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Illinois Funds of the State of Illinois, Office of the Treasurer as of June 30, 2009 and 2008, and the changes in its financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2010 on our consideration of The Illinois Funds of the State of Illinois, Office 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.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer. The supplementary information as listed in the Table of Contents on pages 17 to 39 are presented for purposes of additional analysis and are not a required part of the financial statements. The portfolio of investments and the detailed statement of fiduciary net assets by investor type and changes in fiduciary net assets by investor type 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 money market fund investment policy and prime fund 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 Horwath LLP

Springfield, Illinois
March 30, 2010

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
STATEMENTS OF FIDUCIARY NET ASSETS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash equivalents		
Repurchase agreements, including accrued interest of \$2,128 and \$569,250, in 2009 and 2008, respectively	\$ 2,320,002,128	\$ 3,090,569,250
Commercial paper, net of unamortized discount of \$4,278 and \$280,256, in 2009 and 2008, respectively	199,995,722	269,034,744
Certificates of deposit, including accrued interest of \$11,709 and \$2,297, in 2009 and 2008, respectively	6,511,709	1,202,297
Money market mutual funds	545,495,021	294,208,792
U.S. agency obligations		
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$8,182 and \$843,797, in 2009 and 2008, respectively	242,991,818	449,503,203
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$30,772 and \$683,024, in 2009 and 2008, respectively	2,232,969,228	1,524,474,976
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$0 and \$516,688, in 2009 and 2008, respectively	<u>-</u>	<u>674,483,312</u>
Total cash equivalents	5,547,965,626	6,303,476,574
Deposits and investments		
Commercial paper, net of unamortized discount of \$0 and \$284,181, in 2009 and 2008, respectively	-	199,715,819
Certificates of deposit, including accrued interest of \$232,160 and \$366,356, in 2009 and 2008, respectively	125,622,160	133,806,356
U.S. agency obligations		
Federal Home Loan Bank Debentures, net of unamortized Discount of \$38,549 and \$4,697, in 2009 and 2008, respectively	74,961,452	194,995,303
Federal Home Loan Mortgage Corporation callable notes	35,000,000	30,000,000
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$2,517 and \$ 1,162,924, in 2009 and 2008, respectively	51,197,483	123,837,077

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
STATEMENTS OF FIDUCIARY NET ASSETS - Continued

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS - CONTINUED		
U.S. agency obligations - Continued		
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$334,306 and \$ 703,976, in 2009 and 2008, respectively	\$ 149,665,695	\$ 94,296,024
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$123,750 and \$ 231,736, in 2009 and 2008, respectively	24,876,250	49,768,264
Federal Deposit Insurance Corporation Guaranteed Floating Rate Notes	<u>25,000,000</u>	<u>-</u>
Total deposits and investments	486,323,040	826,418,843
Accrued interest receivable	<u>449,414</u>	<u>1,512,253</u>
Total assets	<u>\$ 6,034,738,080</u>	<u>\$ 7,131,407,670</u>
LIABILITIES AND NET ASSETS		
Accrued liabilities		
Bank custodial fees	\$ 162,209	\$ 184,866
State management fees	<u>292,464</u>	<u>358,747</u>
Total liabilities	<u>454,673</u>	<u>543,613</u>
Net assets available to participants	<u>\$ 6,034,283,407</u>	<u>\$ 7,130,864,057</u>
The pricing of shares		
Participant shares outstanding, (\$1.00 par, unlimited shares authorized)	<u>\$ 6,034,283,407</u>	<u>\$ 7,130,864,057</u>
Participant net asset value, offering and redemption price per share	<u>\$ 1.00</u>	<u>\$ 1.00</u>

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operations		
Revenues		
Investment earnings	\$ 66,418,655	\$ 251,631,018
Expenses		
Bank custodial fees	2,050,236	2,296,631
State management fees	<u>3,793,530</u>	<u>4,105,710</u>
Total expenses	<u>5,843,766</u>	<u>6,402,341</u>
Net investment earnings	<u>60,574,889</u>	<u>245,228,677</u>
Dividends to shareholders from net investment income	(60,574,889)	(245,228,677)
Share transactions (dollar amounts and number of shares are the same)		
Subscriptions	18,920,893,296	17,495,452,090
Reinvestments	61,206,843	245,038,960
Redemptions	<u>(20,078,680,789)</u>	<u>(17,683,827,397)</u>
Net increase (decrease) in net assets and shares resulting from share transactions	<u>(1,096,580,650)</u>	<u>56,663,653</u>
Net assets, beginning of year	<u>7,130,864,057</u>	<u>7,074,200,404</u>
Net assets, end of year	<u>\$ 6,034,283,407</u>	<u>\$ 7,130,864,057</u>

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2009 and 2008

Background

The Illinois Funds was established in 1976 to supplement and enhance the investment opportunities available to custodians of public agency funds throughout the State of Illinois. The management, custodianship, and operation of The Illinois Funds are under the supervision of the State of Illinois, Office of the Treasurer (“Treasurer”).

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois is the primary government, which includes all funds, elected offices, departments, and agencies of the State, as well as boards, commissions, authorities, universities and colleges over which the State’s executive or legislative branches exercise legal control.

The Illinois Funds is not legally separate from the State of Illinois and is, therefore, determined to be part of the primary government. The Illinois Funds is included in the Illinois Comprehensive Annual Financial Report as an investment trust fund. The Illinois Funds consists of an internal and external portion. The internal portion is the portion that belongs to the State and its component units. The external portion is the portion belonging to the noncomponent-unit participants. The scope of The Illinois Funds’ financial statements presented herein is limited to the financial position of The Illinois Funds, including net assets available to all participants, both internal and external, and the changes in net assets. The internal portion of the Illinois Funds is included in the various funds in the Illinois Comprehensive Annual Financial Report as an investment.

Securities held by the Custodian, U.S. Bank of Illinois (“USB”), for safekeeping on behalf of The Illinois Funds’ participants under a separate agreement are not recorded in the accounts or reported in the accompanying financial statements of The Illinois Funds. This service is provided by USB to all Illinois Funds’ participants at a discounted fee.

Fiduciary Fund: The Illinois Funds is classified as an investment trust fund. This investment trust fund is used to account for assets held by The Illinois Funds in a trustee capacity or as an agent for public treasurers and other custodians of public monies throughout the State of Illinois. This investment trust fund is not held in the State Treasury and is a non-appropriated fund.

Basis of Accounting and Measurement Focus: The accounts of The Illinois Funds are maintained and reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2009 and 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents, Deposits, and Investments: Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 90 days or less at time of purchase.

Repurchase agreements (securities purchased under agreements to resell) are carried at the amounts at which the securities will be subsequently resold, including accrued interest (which represents current value), as specified in the agreements.

Commercial paper is stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Commercial paper utilizes the straight-line method of amortization or accretion. It is the intent of management to hold commercial paper to maturity.

Certificates of deposit with financial institutions are stated at cost plus accrued interest, which represents current value. Certificates of deposit may be subject to certain withdrawal restrictions. It is the intent of management to hold the time deposits to maturity.

Money market mutual funds are carried at cost and are purchased from various brokerage firms. The funds are comprised of U.S. Treasury obligations. Mutual fund yields are subject to market rate fluctuations.

U.S. agency obligations are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. U.S. agency coupon notes utilize the constant yield method and, when applicable, all others use straight-line amortization. It is the intent of management to hold U.S. agency securities to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

U.S. treasury obligations are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Treasury notes utilize the constant yield method and strips and bills use straight-line amortization. It is the intent of management to hold U.S. Treasury securities to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

Management Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. These estimates may differ from actual results.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2009 and 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets Available to Participants: The net assets available to participants represents the total value of all participant deposits including late deposits held in an overnight investment account as of June 30, 2009 and 2008.

The Illinois Funds operates as an open-end mutual fund. Participants' deposits and withdrawals were accounted for as purchases and sales of The Illinois Funds' capital shares. The amount of net proceeds from the sale of shares represents the gross withdrawals, which were redeemed from The Illinois Funds' shares during the year. The cost of shares purchased represents the gross deposits, which were invested in The Illinois Funds' shares during the year. These amounts did not include deposits or earnings, which were remitted directly to participants versus invested (or reinvested) in The Illinois Funds' shares.

Net assets for the Money Market Fund less Prime Fund balance were \$5,016,158,632 and \$5,059,075,135, as of June 30, 2009 and 2008, respectively. Net assets for the Prime Fund were \$1,018,124,775 and \$2,071,788,922 as of June 30, 2009 and 2008, respectively.

Reclassifications: Some items in prior year financial statements were reclassified to conform to the current presentation.

NOTE B - DEPOSITS AND INVESTMENTS

Governmental Accounting Standards Board Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, established standards for accounting for investments held by governmental entities. The Illinois Funds operates as a 2a7-like pool and, thus, reports all investments at amortized cost rather than fair value.

Permitted Deposits and Investments: The Treasurer's investment activities are governed by the Treasurer's published investment policies, which were developed in accordance with the State statute and the desire to maintain The Illinois Funds' AAAM rating from Standard & Poor's. In addition, the Treasurer's Office has adopted its own investment practices, which supplement the statutory requirements.

The Illinois Funds offers two investment options: the Money Market Fund and the Prime Fund.

For the Money Market Fund, the Treasurer may invest in time deposits and other interest-bearing accounts in banks and savings and loan associations located in Illinois that are insured by the Federal Deposit Insurance Corporation ("FDIC"), credit unions whose principal office is located in Illinois, obligations of the United States and its agencies, short-term obligations of corporations whose obligations are rated among the three highest classifications established by

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2009 and 2008

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

at least two standard rating services, repurchase agreements, or other investments approved by State law. The Treasurer's current investment practice for the Money Market Fund does not include any investment in short-term obligations of corporations (commercial paper).

For the Prime Fund, the Treasurer may invest in time deposits and other interest-bearing accounts in banks and savings and loan associations located in Illinois that are insured by the FDIC, credit unions whose principal office is located in Illinois, high-grade commercial paper rated A1/P1 or higher, U.S. government agency securities, The Illinois Funds Money Market Fund, repurchase agreements, and AAA rated money market funds. The Prime Funds' investment in the Illinois Funds Money Market Fund was rated AAAM by Standard and Poor's Ratings.

Custodial Credit Risk: Custodial credit risk for deposits and investments is the risk that, in the event of a financial institution failure, the Illinois Funds would not be able to recover the value of the deposits and investments in the possession of an outside party. The Office of the Treasurer has a formal policy to address custodial credit risk.

The Treasurer's policy requires all time deposits and other interest-bearing deposits to have collateral equal to at least 105% of the amount of the deposit not covered by Federal deposit insurance. Securities eligible to be pledged as collateral are U.S. Treasury and agency obligations.

Obligations pledged to secure deposits must be delivered to the appointed Custodian of The Illinois Funds. Prior to placing the deposit, and on a daily basis thereafter, the Treasurer determines that the collateral has a fair value adequate to secure the deposit.

Repurchase agreements are purchased from various brokerage firms and financial institutions. Securities pledged as collateral to secure these agreements are required to have a fair value of at least 102% of the agreement. The agreements require both parties to maintain an acceptable margin (yield) on underlying securities to ensure that the agreements are adequately collateralized. The Treasurer accepts only U.S. agency obligations and U.S. Treasury obligations as collateral for repurchase agreements. All securities pledged to secure repurchase agreements are required to be delivered to the appointed Custodian of The Illinois Funds.

Other instruments, such as U.S. Treasury obligations, may be purchased from various brokerage firms and are held in safekeeping by the appointed Custodian of The Illinois Funds.

Deposits: Certificates of deposit had both carrying values and bank balances (excluding accrued interest) of \$131,890,000 and \$134,640,000, at June 30, 2009 and 2008, respectively. These

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2009 and 2008

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

deposits were fully insured or collateralized by securities held by the Treasurer or by his agent in the name of The Illinois Funds at June 30, 2009 and 2008.

Investments: At June 30, 2009 and 2008, excluding time deposits, the Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2009 and 2008. (Amounts are in thousands.)

	2009			2008			
	Cash Equivalents	Less Than One Year	Total	Cash Equivalents	Less Than One Year	One to Five Years	Total
Repurchase agreements	\$2,320,002	\$ -	\$2,320,002	\$3,090,569	\$ -	\$ -	\$ 3,090,569
Commercial paper	199,996	-	199,996	269,035	199,716	-	468,751
U.S. agency securities	<u>2,475,961</u>	<u>360,701</u>	<u>2,836,662</u>	<u>2,648,462</u>	<u>487,896</u>	<u>5,000</u>	<u>3,141,358</u>
Subtotal	<u>\$4,995,959</u>	<u>\$ 360,701</u>	5,356,660	<u>\$6,008,066</u>	<u>\$ 687,612</u>	<u>\$5,000</u>	6,700,678
Treasury-only money market mutual funds			<u>545,495</u>				<u>294,209</u>
Total investments, excluding time deposits			<u>\$5,902,155</u>				<u>\$6,994,887</u>

The master repurchase agreements utilized by The Illinois Funds require the broker or financial institution to maintain the fair value of collateral securities at 102% of the agreement. The carrying amount of the repurchase agreements (excluding accrued interest) was \$2,320,000,000 and \$3,090,000,000 as of June 30, 2009 and 2008, respectively. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was \$2,368,121,624 and \$3,151,809,553 as of June 30, 2009 and 2008, respectively.

State of Illinois
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THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2009 and 2008

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk: Interest Rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the investment policies limit the investment portfolio maturities. The Money Market Fund investment policy limits its investment portfolio to maturities not to exceed two years with a minimum of 75% required to be in authorized investments with less than one-year maturity. The Prime Fund investment policy subjects its investment portfolio to the same limitations as those provided for the investment funds of the State Treasury. Therefore, the Prime Fund investment policy limits the investment portfolio to maturities not to exceed three years. However, the Prime Fund investment policy specifically requires that no more than 50% of total assets can be invested in securities with maturities greater than 30 days issued by any single permissible United States government agency or instrumentality. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Illinois Funds' investment in a single issuer. The following investments exceeded 5% of the Illinois Funds total investments at June 30, 2009 and 2008. (Amounts are in thousands.)

	2009		2008	
	<u>Carrying Value</u>	<u>% of Total Investments</u>	<u>Carrying Value</u>	<u>% of Total Investments</u>
Repurchase agreements:				
Bank of America	\$ -	-%	\$ 550,035	7.71 %
Barclay's Capital	625,000	10.36	-	-
Greenwich Capital	-	-	500,033	7.01
HSBC	850,001	14.09	500,036	7.01
Mizuho Securities USA	-	-	700,262	9.82
Morgan Stanley	545,000	9.03	500,184	7.02

Certificates of deposit held in the Money Market Fund's portfolio cannot constitute more than 10% of any single financial institution's total deposits and no investment category shall exceed 25% of the portfolio, with the exception of cash equivalents and U.S. Treasury securities. For the Prime Fund, no more than 5% of total assets can be invested in securities issued by any single commercial paper issuer (calculated at the time of purchase); and, a maximum of 33.3% of the portfolio may be invested in direct commercial paper obligations that do not exceed 180 days to maturity. Additionally, a maximum of 25% of the Prime Fund's total assets may be invested in any approved AAAM Money Market Fund (i.e. The Illinois Funds Money Market Fund).

State of Illinois
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THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2009 and 2008

NOTE C - INVESTMENT INCOME

The Illinois Funds follows the accounting practice known as equalization. Accordingly, distributable investment income is allocated daily and paid monthly to participants on a pro rata (per share) basis and accumulated investment income payable is credited to The Illinois Funds' net asset base. A portion of the proceeds from sales and costs of repurchases of The Illinois Funds' capital shares (equivalent, on a per share basis, to the amount of distributable investment income on the date of the transaction) are credited or charged to undistributed income. As a result, undistributed investment income per share is unaffected by sales or redemptions of The Illinois Funds capital shares.

Periodically, throughout the fiscal year, market conditions may enable The Illinois Funds to realize capital gains by selling securities, which have appreciated in value. These gains are placed in a separate account within The Illinois Funds' portfolio. These gains may be distributed to participants during the fiscal year based on average daily account balances. During fiscal years 2009 and 2008, there were none of these sales.

NOTE D - ADMINISTRATIVE FEES

To administer The Illinois Funds, the Treasurer has established a division entitled "The Illinois Funds' Administrative Office." This division had 27 and 26 full time equivalent employees for the year ended June 30, 2009 and 2008, respectively. The revenues and expenditures of the division are recorded in an enterprise fund maintained by the Treasurer entitled The Illinois Funds' Administrative Trust Fund No. 195.

USB performs the custodial responsibilities for the administration of The Illinois Funds. USB calculates the administrative and custodial fees paid to the State Treasurer and USB, respectively. Fees are calculated on a tiered structure. Both fees are paid from a charge based on the net asset value of The Illinois Funds. The fee is accrued daily and withdrawn monthly from the fund. Until February 29, 2008, the custodian's fee for the Money Market Fund was calculated at 0.05% for the first \$2,000,000,000; 0.025% for the next \$1,000,000,000; 0.0248% for the next \$500,000,000; and 0.0246% for the amount over \$3,500,000,000 per annum of the market value of the total amount of The Illinois Funds. The custodian's fee for the Prime Fund was calculated at 0.0516% for the first \$500,000,000; 0.0295% for the next \$500,000,000; 0.0265% for the next \$500,000,000; 0.0255% for the next \$500,000,000; and 0.025% for the amount over \$2,000,000,000 per annum of the market value of the total amount of the fund.

Beginning March 1, 2008, the custodian's fee for the Money Market Fund is calculated at 0.0395% for the first \$3,000,000,000; 0.0245% for the next \$2,000,000,000; 0.0235% for the next \$1,000,000,000; 0.0185% for the next \$4,000,000,000; and 0.0135% for the amount over

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THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2009 and 2008

NOTE D - ADMINISTRATIVE FEES (Continued)

\$10,000,000,000 per annum of the market value of the total amount of The Illinois Funds. The custodian's fee for the Prime Fund is calculated at 0.03885% for the first \$500,000,000; 0.02385% for the next \$500,000,000; 0.02085% for the next \$500,000,000; and 0.01885% for the amount over \$1,500,000,000 per annum of the market value of the total amount of the fund.

The State Treasurer receives 0.06% per annum of the net asset value of The Illinois Funds. This fee is used to defray administrative costs associated with investing The Illinois Funds' assets, to increase marketing efforts needed to expand participation in The Illinois Funds, and to improve the level of service to participants.

The Treasurer's Office has the ability to rebate to The Illinois Funds' participants any excess administrative fees collected during the fiscal year. There were no excess administrative fees rebated to The Illinois Funds' participants during fiscal years 2009 and 2008.

The Treasurer received fees and paid expenditures from the Administrative Trust Fund No. 195 as follows:

	<u>2009</u>	<u>2008</u>
Fees received	\$ 3,794,000	\$ 4,106,000
Expenditures	2,949,000	2,717,000

The State Finance Act (30 ILCS 105/8.46) directs the transference of money from the Administrative Trust Fund No. 195 to the FY09 Budget Relief Fund No. 678. As directed, \$250,000 was transferred from the Administrative Fund in fiscal year 2009. There were no transfers of this type in fiscal year 2008.

NOTE E - RELATED PARTIES

The Illinois Funds' Administrative Office, a division of the State Treasurer's Office, is responsible for the administration of The Illinois Funds, including management of investments and marketing services. The Illinois Funds' Administrative Office received fees as stated in Note D during fiscal 2009 and 2008, respectively. The Illinois Funds' Administrative Trust Fund No. 195 was maintained by the Treasurer in a separate investment account of The Illinois Funds. The cash balance at June 30, 2009 and 2008, was approximately \$2,853,000 and \$2,149,000, respectively.

State of Illinois
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THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2009 and 2008

NOTE E - RELATED PARTIES (Continued)

The State of Illinois, its agencies, and its universities invest in the Illinois Funds. The detail follows:

	<u>2009</u>	<u>2008</u>
Total number of participants	2,291	2,249
Number of State of Illinois participants	30	29
Balance of State of Illinois investments	\$ 1,412,068,363	\$ 1,468,487,811

NOTE F - SUBSEQUENT EVENTS

On July 1, 2009, the State Treasurer's Office merged the Prime Fund into the Money Market Fund. The decision to combine the Prime Fund and Money Market Fund was to create a fund which maintained the best features of both the Prime Fund and the Money Market Fund. The Illinois Funds will maintain all existing services of the current Money Market Fund. The Money Market Fund will include permissible investments of Repurchase Agreements, Commercial Paper, AAA rated Money Market Funds, Time Deposits and issues of The United States and its Government Agencies.

SUPPLEMENTARY INFORMATION

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS
June 30, 2009

	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Current Value*</u>
Repurchase Agreements					
BANK OF AMERICA	6/30/2009	0.060%	7/1/2009	\$ 300,000,000	\$ 300,000,500
BARCLAY'S CAPITAL MARKETS	6/30/2009	0.020%	7/1/2009	200,000,000	200,000,111
BARCLAY'S CAPITAL MARKETS	6/30/2009	0.010%	7/1/2009	175,000,000	175,000,049
BARCLAY'S CAPITAL MARKETS	6/30/2009	0.010%	7/1/2009	250,000,000	250,000,069
HSBC	6/30/2009	0.040%	7/1/2009	600,000,000	600,000,667
HSBC	6/30/2009	0.040%	7/1/2009	250,000,000	250,000,278
MORGAN STANLEY	6/30/2009	0.030%	7/1/2009	345,000,000	345,000,287
MORGAN STANLEY	6/30/2009	0.030%	7/1/2009	<u>200,000,000</u>	<u>200,000,167</u>
 Total Repurchase Agreements				 <u>\$ 2,320,000,000</u>	 <u>\$ 2,320,002,128</u>

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution Date</u>	<u>Effective Yield</u>	<u>Maturity Date</u>	<u>Fair Value**</u>	<u>Amortized Cost</u>
Commercial Paper					
GE CAPITAL	06/30/09	0.150%	07/01/09	\$ 50,000,000	\$ 50,000,000
HSBC FINANCE	06/30/09	0.150%	07/01/09	50,000,000	50,000,000
SSB CITIGROUP	05/01/09	0.220%	07/15/09	49,993,500	49,995,722
WELLS FARGO	06/30/09	0.063%	07/01/09	<u>50,000,000</u>	<u>50,000,000</u>
 Total Commercial Paper				 <u>\$ 199,993,500</u>	 <u>\$ 199,995,722</u>

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Current Value*</u>
Certificates of Deposits					
AMERICAN EAGLE BANK - ELGIN	06/02/09	2.000%	06/02/10	\$ 100,000	\$ 100,165
AMERICAN ENTERPRISE BANK	06/22/09	2.000%	08/21/09	1,500,000	1,503,346
AMERICAN ENTERPRISE BANK	05/12/09	2.000%	05/12/10	2,000,000	2,003,288
AMERICAN HEARTLAND BANK & TRUST	10/03/08	3.310%	10/02/09	250,000	250,680
AMERICAN HEARTLAND BANK & TRUST	09/11/08	2.620%	09/11/09	300,000	300,646
AMERICAN HEARTLAND BANK & TRUST	11/04/08	2.870%	11/04/09	250,000	250,590
AMERICAN HEARTLAND BANK & TRUST	08/07/08	2.390%	08/07/09	250,000	250,491
AMERICAN HEARTLAND BANK & TRUST	09/18/08	2.680%	09/18/09	500,000	501,101
AMERICAN HEARTLAND BANK & TRUST	01/05/09	2.000%	01/05/10	500,000	500,822
ANNA NATIONAL BANK	02/05/09	2.000%	02/05/10	400,000	400,658
ARCOLA HOMESTEAD SAVINGS	07/24/08	2.500%	07/24/09	95,000	95,195
BANK OF DWIGHT	05/22/09	2.000%	05/21/10	1,000,000	1,001,644
BANK OF PONTIAC	03/04/09	2.000%	03/04/10	750,000	751,233
BANKORION	11/07/08	2.130%	11/06/09	1,000,000	1,001,751
CARLINVILLE NATIONAL BANK	12/03/08	2.000%	12/03/09	1,000,000	1,001,644
CARLINVILLE NATIONAL BANK	09/12/08	2.740%	09/11/09	95,000	95,214
CENTRAL BANK - ASHKUM	05/04/09	2.000%	05/04/10	300,000	300,493
CHICAGO COMMUNITY BANK	08/01/08	2.370%	08/04/09	10,000,000	10,019,479
CITIZENS COMMUNITY BANK OF IL, BERWYN	07/24/08	2.600%	07/24/09	12,000,000	12,025,644
CITIZENS COMMUNITY BANK OF IL, BERWYN	08/01/08	2.370%	08/04/09	5,000,000	5,009,740
CITIZENS COMMUNITY BANK MASCOUTH	02/03/09	2.000%	02/03/10	1,000,000	1,001,644
CITIZENS FIRST NATIONAL BANK	01/08/09	2.000%	01/08/10	95,000	95,156
COLLINSVILLE BUILDING & LOAN	01/05/09	2.000%	01/05/10	95,000	95,156
CROSSROADS BANK	06/11/09	2.000%	06/11/10	1,000,000	1,001,096
DUQUOIN STATE BANK	01/07/09	2.000%	10/05/09	1,000,000	1,001,644
EDENS BANK	08/21/08	2.220%	08/21/09	4,000,000	4,007,299

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>	<u>Face</u> <u>Amount</u>	<u>Current</u> <u>Value*</u>
Certificates of Deposits - Continued					
FARMER'S STATE BANK, EMDEN	12/11/08	2.000%	12/11/09	\$ 600,000	\$ 600,986
FEDERAL SAVINGS BANK MASCOUTAH	06/24/09	2.000%	06/24/10	95,000	95,199
FIRST BANK OF HIGHLAND PARK	12/15/08	2.000%	07/13/09	500,000	500,822
FIRST BANK OF HIGHLAND PARK	07/02/08	2.420%	07/02/09	500,000	500,995
FIRST BANK OF HIGHLAND PARK	07/11/08	2.330%	07/10/09	500,000	500,958
FIRST BANK OF HIGHLAND PARK	08/13/08	2.360%	08/13/09	500,000	500,970
FIRST BANK OF HIGHLAND PARK	03/09/09	2.000%	09/08/09	500,000	500,822
FIRST BANK OF HIGHLAND PARK	03/09/09	2.000%	09/08/09	500,000	500,822
FIRST BANK OF HIGHLAND PARK	09/17/08	2.680%	09/17/09	500,000	501,101
FIRST BANK OF HIGHLAND PARK	11/04/08	2.570%	11/04/09	2,000,000	2,004,225
FIRST BANK OF HIGHLAND PARK	11/21/08	2.000%	11/20/09	1,000,000	1,001,644
FIRST BANK OF HIGHLAND PARK	01/05/09	2.000%	01/05/10	500,000	500,822
FIRST BANK OF HIGHLAND PARK	07/24/08	2.600%	07/24/09	500,000	501,068
FIRST BANK OF HIGHLAND PARK	10/08/08	2.630%	10/08/09	1,000,000	1,002,162
FIRST BANK OF HIGHLAND PARK	12/02/08	2.000%	12/02/09	1,500,000	1,502,466
FIRST CLOVER LEAF BANK	12/10/08	2.000%	12/10/09	900,000	901,479
FIRST CLOVER LEAF BANK	04/03/09	2.000%	04/02/10	500,000	500,822
FIRST COMMUNITY BANK ELGIN	12/08/08	2.000%	12/08/09	700,000	701,151
FIRST COMMUNITY BANK ELGIN	07/28/08	2.410%	07/28/09	500,000	500,990
FIRST NATIONAL BANK	03/13/09	2.000%	03/12/10	600,000	600,986
FIRST NATIONAL BANK DIETERICH	03/10/09	2.000%	03/10/10	800,000	801,315
FIRST NATIONAL BANK DIETERICH	03/04/09	2.000%	03/04/10	300,000	300,493
FIRST NATIONAL BANK TAYLORVILLE	11/04/08	2.870%	11/04/09	800,000	801,887
FIRST NATIONAL BANK TAYLORVILLE	06/04/09	2.000%	06/04/10	300,000	300,500
GALENA STATE BANK & TRUST	07/03/08	2.420%	07/03/09	1,000,000	1,001,989
GALENA STATE BANK & TRUST	03/06/09	2.000%	03/05/10	700,000	701,151

State of Illinois
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THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Current Value*</u>
Certificates of Deposits - Continued					
GERMANTOWN TRUST & SAVINGS	07/02/08	2.420%	07/02/09	\$ 500,000	\$ 500,994
GERMANTOWN TRUST & SAVINGS	04/02/09	2.000%	04/02/10	400,000	400,657
GUARDIAN SAVINGS BANK - GRANITE CITY	09/24/08	2.680%	09/24/09	100,000	100,220
HIGHLAND COMMUNITY BANK CHICAGO	02/03/09	2.000%	02/03/10	100,000	100,164
INTERNATIONAL BANK OF CHICAGO	11/07/08	2.180%	11/06/09	1,500,000	1,502,688
INTERNATIONAL BANK OF CHICAGO	11/14/08	2.040%	11/13/09	1,000,000	1,001,677
INTERNATIONAL BANK OF CHICAGO	04/17/09	2.000%	04/16/10	425,000	425,699
INTERNATIONAL BANK OF CHICAGO	03/13/09	2.000%	03/12/10	1,500,000	1,502,466
INTERNATIONAL BANK OF CHICAGO	11/04/08	2.870%	11/04/09	1,000,000	1,002,359
IROQUOIS FARMERS STATE BANK	07/11/08	2.440%	07/10/09	300,000	300,602
LAKE BANK CHICAGO	07/03/08	2.420%	07/03/09	8,500,000	8,516,907
MARINE BANK SPRINGFIELD	06/12/09	2.000%	06/11/10	5,000,000	5,005,205
MARINE BANK SPRINGFIELD	10/10/08	2.270%	09/04/09	5,000,000	5,009,329
METROPOLITAN BANK	07/24/08	2.600%	07/24/09	10,000,000	10,021,370
NATIONAL BANK & TRUST - SYCAMORE	02/03/09	2.000%	02/03/10	1,000,000	1,001,644
NATIONAL BANK & TRUST - SYCAMORE	03/18/09	2.000%	03/18/10	1,250,000	1,252,055
NATIONAL BANK & TRUST - SYCAMORE	02/03/09	2.000%	02/03/10	1,000,000	1,001,644
NATIONAL BANK OF EARLVILLE	06/05/09	2.000%	06/04/10	400,000	400,671
NORTH COUNTY SAVINGS	02/05/09	2.000%	02/05/10	95,000	95,156
OLD EXCHANGE NATIONAL BANK	04/02/09	2.000%	04/02/10	600,000	600,986
PEOPLES NATIONAL BANK MCLEANSBORO	08/04/08	2.400%	08/04/09	100,000	100,197
PLAZA BANK	08/01/08	2.370%	08/04/09	10,000,000	10,019,479
PRAIRIE NATIONAL BANK STEWARDSON	03/24/09	2.000%	03/24/10	1,000,000	1,001,644
PRAIRIE STATE BANK	07/01/08	2.510%	07/02/09	2,500,000	2,505,157
PULASKI SAVINGS	05/04/09	2.000%	05/04/10	95,000	95,156
SOUTH CENTRAL BANK	05/11/09	2.000%	05/11/10	1,500,000	1,502,466

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PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Current Value*</u>
Certificates of Deposits - Continued					
SOUTH CENTRAL BANK	06/05/09	2.000%	06/04/10	\$ 1,500,000	\$ 1,502,137
SOUTH SIDE BANK & TRUST PEORIA	07/21/08	2.450%	07/21/09	2,000,000	2,004,027
SOUTH SIDE BANK & TRUST PEORIA	03/24/09	2.000%	03/24/10	2,000,000	2,003,288
STATE BANK OF CHRISMAN	02/03/09	2.000%	02/03/10	600,000	600,986
STATE BANK OF CHRISMAN	07/18/08	2.300%	07/17/09	500,000	500,945
STREATOR HOME BANK	05/05/09	2.000%	05/05/10	95,000	95,156
TOWN AND COUNTRY BANK	03/13/09	2.000%	03/12/10	1,000,000	1,001,644
TOWN AND COUNTY BANK ANIOCH	03/03/09	2.000%	03/03/10	865,000	866,422
UNITED COMMUNITY BANK - CHATHAM	06/04/09	2.000%	09/02/09	5,000,000	5,008,363
UNITED COMMUNITY BANK - CHATHAM	06/25/09	2.000%	06/25/10	1,000,000	1,000,329
WABASH SAVINGS BANK MOUNT CARMEL	06/02/09	2.000%	06/02/10	95,000	95,157
WASHINGTON FEDERAL BANK SAVINGS	07/18/08	2.300%	07/17/09	<u>95,000</u>	<u>95,179</u>
Total Certificates of Deposits				<u>\$ 131,890,000</u>	<u>\$ 132,133,869</u>

State of Illinois
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THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Cost</u>
Money market mutual funds	
Milestone Money Market Fund	\$ 329,146,834
First American Treasury Reserve Sweep	161,710,100
Aim Treasury Money Market Fund	25,000,000
Goldman Sachs Financial Square Treasury Obligations Fund	22,638,087
Federated #068 Treasury Obligations	<u>7,000,000</u>
Total money market mutual funds	<u>\$ 545,495,021</u>

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THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution Date</u>	<u>Effective Yield</u>	<u>Maturity Date</u>	<u>Fair Value**</u>	<u>Amortized Cost</u>
United States Agency Securities***					
Federal Home Loan Bank Debentures					
Federal Home Loan Bank Debentures	05/20/09	0.500%	05/20/10	\$ 25,007,750	\$ 25,000,000
Federal Home Loan Bank Debentures	01/26/09	0.870%	01/26/10	25,062,500	24,981,421
Federal Home Loan Bank Debentures	03/16/09	1.100%	03/16/10	<u>25,117,250</u>	<u>24,980,031</u>
Total Federal Home Loan Bank Debentures				<u>\$ 75,187,500</u>	<u>\$ 74,961,452</u>
Federal Home Loan Mtg Corp Notes					
Federal Home Loan Mtg Corp Notes	02/04/09	1.000%	02/04/10	\$ 10,006,000	\$ 10,000,000
Federal Home Loan Mtg Corp Notes	03/18/09	1.250%	03/18/10	<u>25,047,000</u>	<u>25,000,000</u>
Total Federal Home Loan Mtg Corp Notes				<u>\$ 35,053,000</u>	<u>\$ 35,000,000</u>
Federal Home Loan Mtg Corp Discount Notes					
Federal Home Loan Mtg Corp Discount Notes	06/26/09	0.020%	07/02/09	\$ 50,000,000	\$ 49,999,972
Federal Home Loan Mtg Corp Discount Notes	06/26/09	0.020%	07/02/09	50,000,000	49,999,972
Federal Home Loan Mtg Corp Discount Notes	03/16/09	0.300%	07/06/09	28,200,000	28,198,825
Federal Home Loan Mtg Corp Discount Notes	03/16/09	0.300%	07/08/09	23,000,000	22,998,658
Federal Home Loan Mtg Corp Discount Notes	05/13/09	0.170%	07/13/09	47,666,666	49,997,167
Federal Home Loan Mtg Corp Discount Notes	05/14/09	0.180%	07/13/09	47,666,667	49,997,000
Federal Home Loan Mtg Corp Discount Notes	06/11/09	0.160%	07/13/09	<u>47,666,667</u>	<u>42,997,707</u>
Total Federal Home Loan Mtg Corp Discount Notes				<u>\$ 294,200,000</u>	<u>\$ 294,189,301</u>

State of Illinois
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THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution Date</u>	<u>Effective Yield</u>	<u>Maturity Date</u>	<u>Fair Value**</u>	<u>Amortized Cost</u>
Federal Home Loan Bank Discount Notes					
Federal Home Loan Bank Discount Note	03/11/09	1.040%	03/03/10	\$ 24,935,000	\$ 24,823,056
Federal Home Loan Bank Discount Note	05/12/09	0.190%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	05/15/09	0.160%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/29/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/29/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/29/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/29/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000

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PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution Date</u>	<u>Effective Yield</u>	<u>Maturity Date</u>	<u>Fair Value**</u>	<u>Amortized Cost</u>
Federal Home Loan Bank Discount Notes - Continued					
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	\$ 50,000,000	\$ 50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	06/30/09	0.010%	07/01/09	50,000,000	50,000,000
Federal Home Loan Bank Discount Note	05/12/09	0.190%	07/02/09	50,000,000	49,999,736
Federal Home Loan Bank Discount Note	05/13/09	0.190%	07/02/09	50,000,000	49,999,736
Federal Home Loan Bank Discount Note	06/26/09	0.020%	07/02/09	50,000,000	49,999,972
Federal Home Loan Bank Discount Note	06/26/09	0.020%	07/02/09	50,000,000	49,999,972
Federal Home Loan Bank Discount Note	06/26/09	0.020%	07/02/09	50,000,000	49,999,972
Federal Home Loan Bank Discount Note	06/26/09	0.020%	07/02/09	50,000,000	49,999,972
Federal Home Loan Bank Discount Note	06/26/09	0.020%	07/02/09	50,000,000	49,999,972
Federal Home Loan Bank Discount Note	06/26/09	0.020%	07/02/09	50,000,000	49,999,972
Federal Home Loan Bank Discount Note	05/15/09	0.170%	07/06/09	50,000,000	49,998,819
Federal Home Loan Bank Discount Note	06/11/09	0.150%	07/08/09	50,000,000	49,998,542
Federal Home Loan Bank Discount Note	05/12/09	0.180%	07/10/09	50,000,000	49,997,750
Federal Home Loan Bank Discount Note	03/27/09	0.230%	07/13/09	50,000,000	49,996,167
Federal Home Loan Bank Discount Note	05/15/09	0.170%	07/13/09	50,000,000	49,997,167
Federal Home Loan Bank Discount Note	05/13/09	0.190%	07/15/09	33,000,000	32,997,562
Federal Home Loan Bank Discount Note	05/14/09	0.190%	07/15/09	50,000,000	49,996,306
Federal Home Loan Bank Discount Note	05/15/09	0.180%	07/17/09	50,000,000	49,996,000

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2009

	<u>Execution Date</u>	<u>Effective Yield</u>	<u>Maturity Date</u>	<u>Fair Value**</u>	<u>Amortized Cost</u>
Federal Home Loan Bank Discount Notes - Continued					
Federal Home Loan Bank Discount Note	05/12/09	0.220%	08/10/09	\$ 49,995,000	\$ 49,987,778
Federal Home Loan Bank Discount Note	05/12/09	0.220%	08/11/09	49,995,000	49,987,472
Federal Home Loan Bank Discount Note	02/03/09	0.940%	02/02/10	<u>24,947,500</u>	<u>24,859,000</u>
Total Federal Home Loan Bank Discount Notes				<u>\$ 2,382,872,500</u>	<u>\$ 2,382,634,923</u>
Federal National Mortgage Association Discount Notes					
Federal National Mortgage Association Discount Notes	02/02/09	0.900%	01/15/10	<u>24,955,000</u>	<u>24,876,250</u>
Total Federal National Mortgage Association Discount Notes				<u>\$ 24,955,000</u>	<u>\$ 24,876,250</u>
Federal Deposit Insurance Corporation Guaranteed Notes					
Federal Deposit Insurance Corporation Guaranteed Notes	01/30/09	1.139%	07/30/10	<u>25,102,000</u>	<u>25,000,000</u>
Total Federal Deposit Insurance Corporation Guaranteed Notes				<u>\$ 25,102,000</u>	<u>\$ 25,000,000</u>

* Current value represents the face amount plus accrued interest, which approximates fair value.

** Fair value represents the closing bid price on June 30, 2009.

*** It is the intent of management to hold direct U.S. Agency Securities to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

State of Illinois
Office of the Treasurer
STATEMENTS OF FIDUCIARY NET ASSETS BY INVESTOR TYPE AND STATEMENT OF
CHANGES IN FIDUCIARY NET ASSETS BY INVESTOR TYPE
June 30, 2009
(Dollars in thousands)

STATEMENT OF FIDUCIARY NET ASSETS BY INVESTOR TYPE

	<u>Total</u>	<u>Internal</u>	<u>External</u>
Cash equivalents	\$ 5,547,966	\$ 1,298,266	\$ 4,249,700
Deposits and investments	486,323	113,804	372,519
Interest receivable	<u>449</u>	<u>105</u>	<u>344</u>
	6,034,738	1,412,175	4,622,563
Bank fees	163	38	125
Management fees	<u>292</u>	<u>69</u>	<u>223</u>
Net assets	<u>\$ 6,034,283</u>	<u>\$ 1,412,068</u>	<u>\$ 4,622,215</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY INVESTOR TYPE

	<u>Total</u>	<u>Internal</u>	<u>External</u>
Participant deposits	\$ 18,982,100	\$ 12,707,091	\$ 6,275,009
Interest and other investment income	66,419	11,823	54,596
Investment expense	(5,844)	(1,367)	(4,477)
Redemptions	(20,078,681)	(12,763,309)	(7,315,372)
Dividends to shareholders	<u>(60,575)</u>	<u>(10,658)</u>	<u>(49,917)</u>
	(1,096,581)	(56,420)	(1,040,161)
Beginning net assets	<u>7,130,864</u>	<u>1,468,488</u>	<u>5,662,376</u>
Ending net assets	<u>\$ 6,034,283</u>	<u>\$ 1,412,068</u>	<u>\$ 4,622,215</u>

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY
For the years ended June 30, 2009 and 2008
(Unaudited)

1.0 Policy: It is the policy of the Treasurer of the State of Illinois ("Treasurer") to invest funds pooled by local governments in the Money Market Fund within The Illinois Funds (previously referred to as the Illinois Public Treasurers' Investment Pool or IPTIP) in a manner which will provide the highest investment return using authorized instruments, while meeting the daily cash flow demands of participants and conforming to all state statutes governing the investment of public funds.

2.0 Objective: The primary objective in the investment of funds within the Money Market Fund is the safety of principal, while providing all participants a competitive rate of return and daily access to invested funds.

2.1 Safety: The safety of principal is the foremost objective of the investment program. Money Market Fund investments shall be undertaken in a manner, which seeks to ensure the preservation of capital in the portfolio. To obtain this objective, diversification is required to ensure that the Money Market Fund properly manages market, interest rate and credit risk.

2.2 Liquidity: The investment portfolio shall remain sufficiently liquid to enable the Money Market Fund to meet all operating requirements which might be reasonably anticipated.

2.3 Return on Investment: The investment portfolio shall be designed to obtain the highest available return, taking into account the Money Market Fund's investment risk constraints and cash flow needs.

The Treasurer will select an accepted industry benchmark which best reflects the Money Market Fund's portfolio and will measure performance against the benchmark over a market cycle. The benchmark will be periodically reviewed for suitability.

3.0 Ethics and Conflicts of Interest: Authorized investment staff and employees in policy making positions for the Money Market Fund shall refrain from personal business activity that conflicts with proper execution of the investment program, or which impairs their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of the Money Market Fund's portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the Money Market Fund, particularly with regard to the time of purchase and sales.

4.0 Authorized Broker/Dealers and Financial Institutions: Authorized investment staff shall utilize the Treasurer's approved list of financial institutions when selecting institutions to provide investment services. No public deposit shall be made except in a qualified public depository as defined by state statutes.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY – CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

In addition, a list shall also be maintained of approved security broker/dealers selected according to their credit worthiness, and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office and the extent to which the broker/dealer has a large labor or economic impact on the State. They may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following or equivalent acceptable to the Treasurer, where applicable:

- audited financial statements
- proof of National Association of Security Dealers certification
- trading resolutions
- proof of state registration
- completed broker/dealer questionnaire
- certification of having read the Money Market Fund's investment policy
- depository contracts
- published reports for brokers from rating agencies with investment grade ratings
- emerging broker status
- Consolidated Reports of Condition and Income

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

A current audited financial statement or equivalent acceptable to the Treasurer is required to be on file for each financial institution and broker/dealer with which The Illinois Funds establishes a depository, trading, or safekeeping relationship. Qualified parties shall submit updated financial statements or equivalent acceptable to the Treasurer when a material change in any of the above occurs.

5.0 Authorized and Suitable Investments: The following investments are permitted investments of state funds according to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2) and are authorized to the extent they are approved by Standard & Poor's for AAAM rated funds:

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY – CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

- In bonds, notes certificate of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)

- Repurchase Agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of that Act and the regulations issued thereunder; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)

- Interest bearing savings accounts, interest-bearing certificates of deposits or interest bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Bank Act (205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22/5)

- In money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to United States Treasury Securities and to agreements to repurchase such obligations and the fund is rated AAA. Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)

- Suitable securities in the Money Market Fund's portfolio may be lent in accordance with Federal Financial Institution Examination Council guidelines

6.0 Investment Restrictions: The following restrictions shall apply to all Money Market Fund investment transactions:

- Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited

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

- Certificates of deposit may not be purchased from the Money Market Fund's custodial institution or any of its subcontractors

- Investments in Bankers' Acceptances of any kind.

7.0 Collateralization: All Money Market Fund deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations 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.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY – CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

8.0 Safekeeping and Custody: All security transactions entered into by the Money Market Fund 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.

9.0 Diversification: The Money Market Fund 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 Money Market Fund assets, the Money Market Fund portfolio shall not exceed the following diversification limits unless specifically authorized by the Treasurer:

1. The Money Market Fund shall seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories among financial institutions, issuers and broker/dealers.
2. The Money Market Fund shall at no time hold certificates of deposit constituting more than 10 percent of any single financial institution's total deposits.
3. No investment category shall exceed 25% of the Money Market Fund portfolio, with the exception of cash equivalents and U.S. Treasury securities.
4. The Money Market Fund shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two years maturity.

10.0 Internal Controls: The Treasurer shall establish a system of internal controls, which shall be documented in writing and filed with the Inspector General of the Treasurer's Office for review as an adjunct to the annual independent examination of the financial statements of the Money Market Fund. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by authorized investment staff of the Money Market Fund.

The Treasurer shall publish the current investment policy yearly in a newspaper of general circulation in both Springfield and Chicago.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY – CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

10.1 Asset Allocation: The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this Investment Policy.

10.2 Competitive Bidding: Authorized investment staff shall obtain competitive bids from at least three broker/dealers prior to executing repurchase agreements or purchasing treasury securities from a broker/dealer. Notwithstanding the foregoing, authorized investment staff may tender bids directly through a single broker/dealer for the original auction of individual U.S. Treasury obligations. Certificates of deposit shall be purchased by authorized investment staff on the basis of a financial institution's ability to pay the Treasurer's required interest rate. Such rate is generally determined on the basis of U.S. Treasury rates for a comparable term.

11.0 Limitations of Liability: Authorized investment staff, acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The Treasurer is bonded to a level of \$150,000 for the faithful performance of duties in relations to the Illinois Public Treasurers' Investment Pool.

12.0 Reporting: Reports shall be presented quarterly by the Director of The Illinois Funds to the Treasurer and The Illinois Funds participants. The quarterly report shall contain the following:

- performance as compared to the established benchmark
- asset allocation
- any deviation from the standards established in Section 9.0 above
- any change in investment policy adopted during the quarter
- the average days to maturity

A listing of all investments in the portfolio marked to market shall be provided to the Treasurer and The Illinois Funds participants annually.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six months following the adoption of this investment policy. Such reporting standards may include those sanctioned by the Association of Investment Management Research (AIMR) in accordance with Generally Accepted Accounting Principles (GAAP).

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY
For the years ended June 30, 2009 and 2008
(Unaudited)

1.0 Policy: The State Treasurer of Illinois has authority under Section 17 of the State Treasurer's Act (15 ILCS 505/17) to establish and administer an investment pool to supplement and enhance investment opportunities otherwise available to managers of public funds or public agencies in the state. The Treasurer may invest the assets of the investment pool in the same types of investments and subject to the same limitations provided for the investment of funds in the State Treasury. This policy specifically addresses The Illinois Funds Prime Fund. The Prime Fund will provide opportunities for public agencies to invest in a fund that has been rated AAAM by Standard & Poor's and also has the potential to generate enhanced return for public investors. This is accomplished by requiring a 30-day minimum deposit, by investing more funds in high quality instruments with a relatively higher return and maintaining a maximum weighted average portfolio maturity of 60 days.

2.0 Objective: The primary objectives of The Prime Fund are to invest public funds with a more long-term objective than the Illinois Funds Money Market Fund and create opportunities for enhanced investment return for public investors in the State of Illinois. The Fund has a AAAM rating from Standard & Poor's, which is the best rating available for a Local Government Investment Pool. The AAAM rating ensures that investments are placed only in the highest quality investments.

2.1 Safety: The safety of principal is one of the main objectives of the investment program. Prime Fund investments will be undertaken in a manner which seeks to ensure the preservation of principal in the portfolio while providing enhanced return. To obtain this objective, diversification among permissible investments is required to ensure that The Prime Fund properly manages market, interest rate and credit risk.

2.2 Liquidity: The investment portfolio will remain sufficiently liquid to enable The Prime Fund to meet all participant redemption demands that might be reasonably anticipated.

2.3 Return on Investment: The investment portfolio will be designed to obtain an enhanced return by requiring a minimum of 30 days for each deposit, a seven day notice for any withdrawal, and reasonable penalties for early withdrawal of funds prior to the expiration of the 30 day minimum and/or seven day notice period.

The Treasurer will select accepted industry benchmarks which best reflect The Prime Fund's portfolio and measure performance against certain benchmarks over time. The Treasurer will periodically review benchmarks for suitability.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

3.0 Ethics and Conflicts of Interest: Authorized investment staff and employees in policy making positions for The Prime Fund will refrain from personal business activity that conflicts with proper execution of the investment program, or which impairs their ability to make impartial investment decisions. Such individuals will disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They will further disclose any personal investments that are related to the performance of The Prime Fund's portfolio. In addition, such individuals will subordinate their personal investment transactions to those of The Prime Fund, particularly with regard to the time of purchase and sales.

4.0 Authorized Broker/Dealers and Financial Institutions: Authorized investment staff will utilize the Treasurer's approved list of broker/dealers and financial institutions when selecting institutions to provide investment services.

In addition, a list will be maintained of approved security broker/dealers selected according to their creditworthiness, and their financial significance in the State. Broker/dealers will be evaluated on the basis of the location of their corporate office and the extent to which the broker/dealer has a labor or economic impact on the State. This list may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following or equivalent acceptable to the Treasurer, where applicable:

- audited financial statements
- proof of National Association of Security Dealers certification
- trading resolutions
- proof of registration in the State of Illinois
- completed broker/dealer questionnaire
- certification of having read The Prime Fund's investment policy
- depository contracts
- published reports from rating agencies for brokers with investment grade ratings
- proof of emerging broker status
- Consolidated Reports of Condition and Income

An annual review of the financial condition and registration of qualified parties and investments will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

A current audited financial statement or equivalent acceptable to the Treasurer is required to be on file for each financial institution and broker/dealer with which The Prime Fund establishes a depository, trading, or safekeeping relationship. Qualified parties will submit updated financial statements or equivalent acceptable to the Treasurer when a material change in any of the above occurs.

5.0 Authorized and Suitable Investments: The following investments are permitted investments of state funds according to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2) and are authorized to the extent they are approved by Standard & Poor's for AAAM rated funds:

- In bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
 - In bonds, notes, debentures, or similar obligations of the United States of America or its agencies; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
 - Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of that Act and the regulations issues there under; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
 - In short term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the 2 highest classifications established by at least 2 standard rating services and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations, (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations
 - The Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
-

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

- In money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio of any such money market mutual fund is limited to United States Treasury and United States Agency Securities and agreements to repurchase such obligations provided the funds are rated AAA; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
- Bonds, notes, debentures, or similar obligations 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, but only if the foreign government has not defaulted and has met its payment obligations for a period of at least 25 years immediately before the time of acquiring those obligations; Deposit of State Moneys Act (15 ILCS 520/22.5)
- Bonds issued by counties or municipal corporations of the State of Illinois; Deposit of State Moneys Act (15 ILCS 520/22.5)
- Interest bearing savings accounts, interest-bearing certificates of deposits or interest bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)

Suitable securities in the Prime Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines.

6.0 Investment Restrictions: The following restrictions will apply to all Prime Fund investment transactions:

- Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited.
 - Repurchase agreements may only be executed with financial institutions or broker/dealers meeting the Treasurer's standards, which will include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
 - There will be no investments in mortgage-backed securities of any kind.
 - There will be no investments in asset-backed securities of any kind.
 - There will be no investments in Bankers' Acceptances of any kind.
-

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

7.0 Collateralization: All Prime Fund deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations 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.

8.0 Safekeeping and Custody: All direct treasury, agency and instrumentality security transactions entered into by The Prime Fund will be conducted on a delivery-versus-payment (DVP) or receipt-versus-payment (RVP) basis. Securities will be held by a safekeeping agent designated by the Treasurer, and evidenced by safekeeping receipts. Commercial Paper will settle daily with the Depository Trust Company.

9.0 Diversification: The primary purpose of diversification in general is to control credit and market risk. The Prime Fund portfolio will 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. The majority of Prime Fund investments will be in direct obligations of the United States Treasury and United States Government Agencies and Instrumentalities as listed in section 5.0. In order to properly manage any risk that may be attendant to the investment of Prime Fund assets, The Prime Fund portfolio will observe the following diversification limits:

- The Prime Fund will invest no more than 50 percent of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality.
- The Prime Fund will invest no more than 5 percent of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase).
- A maximum of 33.3 percent of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity.
- A maximum of 25 percent of total assets may be invested in any approved AAAM Money Market Fund.

The Prime Fund will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, issuers and broker/dealers.

10.0 Internal Controls: The Treasurer will establish a system of internal controls, which will be documented in writing and filed with the Inspector General of the Treasurer's Office for review as an adjunct to the annual independent examination of the financial statements of The Prime Fund. The controls will be designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2009 and 2008
(Unaudited)

or imprudent actions by authorized investment staff of The Prime Fund. The Treasurer will publish the current investment policy annually in a newspaper of general circulation in both Springfield and Chicago.

11.0 Asset Allocation: The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this Investment Policy.

12.0 Competitive Bidding: Authorized investment staff will obtain competitive bids from at least three broker/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States Government Agency or Instrumentality securities or Commercial Paper from a broker/dealer. Notwithstanding the foregoing, authorized investment staff may tender bids directly through a single broker/dealer for the original auction of individual U.S. Treasury obligations without obtaining competitive bids.

13.0 Liability: Authorized investment staff, acting in accordance with written procedures and this investment policy and exercising due diligence, will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The Treasurer is bonded to a level of \$150,000 for the faithful performance of duties in relation to The Illinois Funds.

14.0 Reporting: A quarterly report will be presented by the Director of The Illinois Funds to the Treasurer and the Treasurer's Investment Policy Committee. The quarterly report will contain the following:

- performance as compared to established benchmarks
- asset allocation
- any deviation from the standards established in Section 9.0 above
- any change in investment policy adopted during the quarter
- the weighted portfolio average days to maturity

An external audit listing all securities marked to market will be provided to the Treasurer and all participants annually.



Crowe Horwath LLP
Independent Member Crowe 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 of The Illinois Funds of the State of Illinois, Office of the Treasurer as of and for the year ended June 30, 2009, and have issued our report thereon dated March 30, 2010. 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 State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Office of the Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Office of the Treasurer's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies

in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in finding 09-1 in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Office of 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*.

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

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


Crowe Horwath LLP

Springfield, Illinois
March 30, 2010

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
CURRENT FINDINGS AND RECOMMENDATIONS
For the years ended June 30, 2009 and 2008

FINDING 09-1 (Internal Control Weaknesses)

Weaknesses were identified in the Office of the Treasurer (Office) Illinois Funds Program internal control structure.

During testing of the Office's Illinois Funds Program, weaknesses were identified in the Office's internal controls, particularly in the following areas:

- Weaknesses were noted in the Office's internal control over the financial statement process for the Illinois Funds Program, specifically:
 - a) Bank custodial fees and State management fees were deducted twice from Investment Earnings to arrive at Net Investment Earnings on the financial statements. It was noted that this error also occurred with the preparation of the June 30, 2008 Illinois Funds financial statements. Because of the error, Net Investment Earnings were understated by \$5.8 million and \$6.4 million at June 30, 2009 and 2008, respectively. The materiality of the misstatements did not necessitate the auditors to propose a correcting adjustment. Office management upon being made aware of the misstatements adjusted both the June 2009 and 2008 financial statements for the errors.
 - b) The amount reported in the June 30, 2009 financial statements for reinvestments exceeded the amount of dividends to shareholders from net investment income by approximately \$600 thousand. The difference was not considered a material misstatement to the financial statements and did not require the auditors to propose an adjustment. The Office was unable to provide an explanation for the difference until the end of the engagement. Office management determined the difference was the result of errors in amounts being reported as investment income.
- The Office's Illinois Funds Program utilizes service organizations for certain record keeping and transaction processing for their operations. Due to the significance of the service organizations operations and functions, their controls are considered to be significant to the Office's Illinois Funds Program financial reporting controls. The service organizations utilize independent auditors to test their controls and issue a Statement on Auditing Standards (SAS) 70 Report on the results of the testing.

During testing of controls governing the Office's Illinois Funds Program, it was noted the Office did not obtain and perform a review of the SAS 70 Report for the service organization used to administer the E-pay program which accounts for a significant amount of transactions within the Illinois Funds Program.

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FINDING 09-1 (Internal Control Weaknesses – Continued)

Strong management controls, due diligence and fiduciary responsibility require procedures to include proper checks and balances and adequate supervision to ensure safeguarding of assets and proper financial reporting. Management should maintain a system, or systems, of internal fiscal and administrative controls including reviewing controls of service organizations to provide assurance that financial information is properly recorded and accounted for.

Office management attributed the above conditions to consistent application of procedures year to year.

Failure to maintain adequate controls over the financial reporting process may lead to errors not being identified in the financial statements. In addition, it is fundamental to obtain and review an independent assessment, SAS 70 Report, of a service organization's operations and functions. Reviews of SAS 70 Reports provide a method to evaluate the service organizations controls to determine if they are adequate as they relate to operations and functions affecting the Illinois Funds Program, or if compensating controls are required. (Finding Code No. 09-1)

RECOMMENDATION

We recommend the Office improve controls over the financial reporting process of the Illinois Funds Program, specifically:

- Reports used to generate information for financial reporting should be adequately reviewed to ensure amounts are properly computed and reported in the financial statements.
- Analytical procedures should be performed on financial statement amounts to identify any unusual variances or relationships.

We also recommend Office management improve their internal controls to document the assessment of the control environment of the service organizations associated with the Illinois Funds Program. This due diligence process should include obtaining and reviewing a service organization's SAS 70 Report. The review should be a documented formal assessment and at a minimum should include:

- Reading of the independent auditors' opinion issued with the SAS 70 Report. If the opinion is other than unqualified, the Office should consider the potential impact to the Illinois Funds Program.
- Evaluating any exceptions noted in the SAS 70 Report and their potential impact to the Illinois Funds Program.
- Evaluating user controls in the SAS 70 Report to ensure the controls are in place and operating effectively.
- Evaluating the SAS 70 Report for any changes in policies and procedures placed in operation at the service organization. If changes are noted, consider the potential impact on information processed by the service organization.

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FINDING 09-1 (Internal Control Weaknesses – Continued)

OFFICE RESPONSE:

The Treasurer does not agree that the weaknesses identified in this finding rise to the level of a significant deficiency. The auditors have agreed, as reflected in their finding, that the identified weaknesses are individually immaterial, but they attempt to aggregate them to create a significant deficiency, pursuant to Statement on Auditing Standards (SAS) 112.

The Treasurer contends that the auditor's reliance on SAS 112 is misplaced. SAS 112 cannot be used to justify aggregating the particular immaterial findings identified by the auditors. SAS 112 paragraph 13 states "Multiple control deficiencies that affect the same financial statement account balance or disclosure increase the likelihood of misstatement and may, in combination, constitute a significant deficiency or material weakness, even though such deficiencies are individually insignificant. Therefore, the auditor should evaluate individual control deficiencies that affect the same account balance, disclosure, relevant assertion, or component of internal control, to determine whether they collectively result in a significant deficiency or material weakness." The Treasurer asserts that the individual control deficiencies do not affect the same account balance, disclosure, relevant assertion, or component of internal control and, therefore, should not be combined to result in a significant deficiency.

Moreover, the Treasurer asserts that there were no significant control weaknesses identified by the auditors, as indicated below.

- With respect to internal control over the financial statement process:
 - a) The Treasurer agrees that fees were deducted twice to arrive at Net Investment Earnings on the financial statements. The methodology for arriving at Net Investment Earnings has been in place for several years, and has been used consistently without exception. Nevertheless, when this discrepancy was pointed out by the auditors, the Treasurer immediately changed its financial statements.
 - b) The Treasurer reviewed the difference between reinvestments and dividends and found the information provided by the Custodial Bank contained errors totaling approximately \$435,418, leaving an immaterial difference of \$196,535, which is 0.32% of the over \$60 million reported in the financials. The amount originally reported as dividends to shareholders was properly stated.

Nonetheless, the Treasurer has implemented procedures to verify the Custodial Bank's Investment Income reporting through a review of reports of daily activity and recalculations of monthly totals.

The Treasurer asserts that all responses to audit inquiries were timely, given that staff that responds to audit inquiries must also complete daily duties. This difference was brought to the Treasurer's attention after fieldwork had been completed. Staff allocates

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extra time during the normal audit engagement time frame to respond to audit issues. It becomes more difficult to take time away from projects to work on external audit inquiries after the completion of fieldwork.

- The E-Pay contract does not require the vendor to provide an SAS70 report. The Treasurer received an SAS70 report after successfully negotiating a Non-Disclosure Agreement with the vendor. We have developed procedures to obtain and review the SAS70 report annually.

AUDITOR'S COMMENT:

Officials in the Office of the State Treasurer do not disagree with the Auditors' recommendation.