

**State of Illinois  
Office of the Treasurer**

**THE ILLINOIS FUNDS**

**FINANCIAL AUDIT**

For the years ended June 30, 2010 and 2009

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, 2010 and 2009

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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 ten office locations:

- Executive Office  
State Capitol  
219 State House  
Springfield, Illinois 62706
- Operational Divisions  
Illinois Business Center  
400 West Monroe  
Springfield, Illinois 62704
- 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
- Programmatic  
Collinsville Office  
420 East Main St.  
Collinsville, IL 62234

## **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, 2010 and 2009.

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.

## 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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 January 4, 2011 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 and budgetary comparison information 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 audit was 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 16 to 36 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 statement of 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 the 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  
January 4, 2011

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

June 30, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash equivalents		
Repurchase agreements, including accrued interest of \$1,167 and \$2,128, in 2010 and 2009, respectively	\$ 2,375,001,167	\$ 2,320,002,128
Commercial paper, net of unamortized discount of \$172,271 and \$4,278, in 2010 and 2009, respectively	1,474,827,729	199,995,722
Certificates of deposit, including accrued interest of \$0 and \$11,709, in 2010 and 2009, respectively	-	6,511,709
Money market mutual funds	562,002,301	545,495,021
U.S. agency obligations		
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$0 and \$8,182, in 2010 and 2009, respectively	-	242,991,818
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$0 and \$30,772, in 2010 and 2009, respectively	-	<u>2,232,969,228</u>
Total cash equivalents	4,411,831,197	5,547,965,626
Deposits and investments		
Commercial paper, net of unamortized discount of \$11,667 and \$0, in 2010 and 2009, respectively	249,988,333	-
Certificates of deposit, including accrued interest of \$71,504 and \$232,160, in 2010 and 2009, respectively	44,236,504	125,622,160
U.S. agency obligations		
Federal Home Loan Bank Debentures, net of unamortized discount of \$1,573 and \$38,549, in 2010 and 2009, respectively	324,998,427	74,961,452
Federal Home Loan Mortgage Corporation Callable Notes	-	35,000,000
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$9,757 and \$2,517, in 2010 and 2009, respectively	74,990,243	51,197,483

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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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS - CONTINUED</b>		
U.S. agency obligations - Continued		
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$0 and \$334,306, in 2010 and 2009, respectively	\$ -	\$ 149,665,695
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$8,278 and \$123,750, in 2010 and 2009, respectively	149,991,722	24,876,250
Federal Agricultural Mortgage Corporation Notes	60,000,000	-
Federal Agricultural Mortgage Corporation Discount Notes, net of unamortized discount of \$35,000 and \$0, in 2010 and 2009, respectively	24,965,000	-
Federal Deposit Insurance Corporation Guaranteed Floating Rate Notes	<u>25,000,000</u>	<u>25,000,000</u>
Total deposits and investments	954,170,229	486,323,040
Accrued interest receivable	<u>475,515</u>	<u>449,414</u>
Total assets	<u>\$ 5,366,476,941</u>	<u>\$ 6,034,738,080</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accrued liabilities		
Bank custodial fees	\$ 143,064	\$ 162,209
State management fees	<u>260,345</u>	<u>292,464</u>
Total liabilities	<u>403,409</u>	<u>454,673</u>
Net assets available to participants	<u>\$ 5,366,073,532</u>	<u>\$ 6,034,283,407</u>
The pricing of shares		
Participant shares outstanding, (\$1.00 par, unlimited shares authorized)	<u>\$ 5,366,073,532</u>	<u>\$ 6,034,283,407</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, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Operations		
Revenues		
Investment earnings	\$ 11,840,855	\$ 66,418,655
Expenses		
Bank custodial fees	1,752,116	2,050,236
State management fees	<u>3,196,903</u>	<u>3,793,530</u>
Total expenses	<u>4,949,019</u>	<u>5,843,766</u>
Net investment earnings	<u>6,891,836</u>	<u>60,574,889</u>
Dividends to shareholders from net investment income	(6,891,836)	(60,574,889)
Share transactions (dollar amounts and number of shares are the same)		
Subscriptions	18,352,916,349	18,920,893,296
Reinvestments	6,902,854	61,206,843
Redemptions	<u>(19,028,029,078)</u>	<u>(20,078,680,789)</u>
Net decrease in net assets and shares resulting from share transactions	<u>(668,209,875)</u>	<u>(1,096,580,650)</u>
Net assets, beginning of year	<u>6,034,283,407</u>	<u>7,130,864,057</u>
Net assets, end of year	<u>\$ 5,366,073,532</u>	<u>\$ 6,034,283,407</u>

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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, 2010 and 2009

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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.

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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**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.

When applicable, 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 obligations 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.

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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**NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets Available to Participants: The net assets available to participants represent the total value of all participant deposits including late deposits held in an overnight investment account as of June 30, 2010 and 2009.

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 were \$5,366,073,532 and \$5,016,158,632, as of June 30, 2010 and 2009, respectively. Net assets for the Prime Fund were \$1,018,124,775 as of June 30, 2009. On July 1, 2009, the State Treasurer's Office merged the Prime Fund into the Money Market Fund.

**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.

Beginning July 1, 2009, the Illinois Funds only offers one investment option: the Money Market 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 two highest classifications established by at

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

least two standard rating services, repurchase agreements, or other investments approved by State law.

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 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 market 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 \$44,165,000 and \$131,890,000, at June 30, 2010 and 2009 respectively. These 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, 2010 and 2009.

State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

Investments: At June 30, 2010 and 2009, excluding time deposits, the Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2010 and 2009. (Amounts are in thousands.)

	2010				2009		
	Cash Equivalents	Less Than One Year	One to Five Years	Total	Cash Equivalents	Less Than One Year	Total
Repurchase agreements	\$ 2,375,001	\$ -	\$ -	\$ 2,375,001	\$ 2,320,002	\$ -	\$ 2,320,002
Commercial paper	1,474,828	249,988	-	1,724,816	199,996	-	199,996
U.S. agency obligations	-	<u>649,945</u>	<u>10,000</u>	<u>659,945</u>	<u>2,475,961</u>	<u>360,701</u>	<u>2,836,662</u>
Subtotal	<u>\$ 3,849,829</u>	<u>\$ 899,933</u>	<u>\$ 10,000</u>	4,759,762	<u>\$ 4,995,959</u>	<u>\$ 360,701</u>	5,356,660
Treasury-only money market mutual funds				<u>562,002</u>			<u>545,495</u>
Investments, excluding time deposits				<u>\$ 5,321,764</u>			<u>\$ 5,902,155</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 \$2,375,000,000 and \$2,320,000,000 as of June 30, 2010 and 2009, respectively. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was \$2,424,514,926 and \$2,368,121,624 as of June 30, 2010 and 2009, respectively.

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 investment policy specifically requires that

State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

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, 2010 and 2009. (Amounts are in thousands.)

	2010		2009	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
Repurchase agreements:				
Barclay's Capital	\$ -	-%	\$625,000	10.36%
BMO Capital Markets	700,000	13.05	-	-
HSBC	800,000	14.91	850,001	14.09
Morgan Stanley	325,001	6.06	545,000	9.03

Certificates of deposit held in the Money Market Fund's portfolio cannot constitute more than 10% of any single financial institution's total deposits. 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 total assets may be invested in any approved AAAM Money Market Fund.

**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.

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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**NOTE C - INVESTMENT INCOME (Continued)**

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 2010 and 2009, 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 full time equivalent employees for the years ended June 30, 2010 and 2009. 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. 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 \$10,000,000,000 per annum of the market value of the total amount of The Illinois Funds.

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 2010 and 2009.

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

	<u>2010</u>	<u>2009</u>
Fees received	\$ 3,197,000	\$ 3,794,000
Expenditures	2,861,000	2,949,000

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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**NOTE D - ADMINISTRATIVE FEES (Continued)**

The State Finance Act (30 ILCS 105/8.49) permitted the Governor of Illinois to order the transfer of money from the Administrative Trust Fund No. 195 to the General Revenue Fund No. 001. As ordered, \$500,000 was transferred from the Administrative Fund in fiscal year 2010. The State Finance Act (30 ILCS 105/8.46) directed the transfer 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.

**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 2010 and 2009, 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, 2010 and 2009, was approximately \$2,744,000 and \$2,853,000, respectively.

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

	<u>2010</u>	<u>2009</u>
Total number of participants	2,280	2,291
Number of State of Illinois participants	29	30
Balance of State of Illinois investments	\$ 1,414,512,872	\$ 1,412,068,363

**SUPPLEMENTARY INFORMATION**

State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PORTFOLIO OF INVESTMENTS  
June 30, 2010

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	<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	6/30/2010	0.010%	7/1/2010	\$ 200,000,000	\$ 200,000,056
BARCLAY'S CAPITAL MARKETS	6/30/2010	0.010%	7/1/2010	100,000,000	100,000,028
BMO CAPITAL MARKETS	6/30/2010	0.010%	7/1/2010	700,000,000	700,000,194
HSBC	6/30/2010	0.010%	7/1/2010	800,000,000	800,000,222
MORGAN STANLEY	6/30/2010	0.010%	7/1/2010	150,000,000	150,000,042
MORGAN STANLEY	6/30/2010	0.100%	7/1/2010	175,000,000	175,000,486
RBS GREENWICH CAPITAL	6/30/2010	0.020%	7/1/2010	<u>250,000,000</u>	<u>250,000,139</u>
 Total Repurchase Agreements				 <u>\$ 2,375,000,000</u>	 <u>\$ 2,375,001,167</u>

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PORTFOLIO OF INVESTMENTS - CONTINUED  
June 30, 2010

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	<u>Execution Date</u>	<u>Effective Yield</u>	<u>Maturity Date</u>	<u>Fair Value**</u>	<u>Amortized Cost</u>
Commercial Paper					
BANK OF AMERICA	04/21/10	0.300%	07/20/10	\$ 249,945,000	\$ 249,960,417
BARCLAY'S	06/21/10	0.180%	07/07/10	199,986,000	199,994,000
CITIGLOBAL TERM CP	04/06/10	0.280%	07/07/10	249,982,500	249,988,333
DEUTSCHE TERM CP	04/07/10	0.240%	07/06/10	249,985,000	249,991,667
HEWLETT-PACKARD INTERNATIONAL BUSINESS MACHINES	06/23/10	0.170%	07/22/10	24,994,000	24,997,521
JP MORGAN	06/28/10	0.130%	07/08/10	24,998,000	24,999,368
RBS HOLDINGS USA	06/07/10	0.250%	07/07/10	249,982,500	249,989,583
UBS FINANCE	04/27/10	0.370%	07/26/10	199,944,000	199,948,611
UBS FINANCE	06/04/10	0.290%	07/06/10	149,991,000	149,993,958
UBS FINANCE	06/08/10	0.425%	08/09/10	99,945,000	99,953,958
WALMART	06/28/10	0.150%	07/14/10	<u>24,996,250</u>	<u>24,998,646</u>
Total Commercial Paper				<u>\$ 1,724,749,250</u>	<u>\$ 1,724,816,062</u>

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PORTFOLIO OF INVESTMENTS - CONTINUED  
June 30, 2010

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	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Current Value*</u>
Certificates of Deposit					
BANK OF DWIGHT	05/21/10	2.000%	05/20/11	\$ 1,000,000	\$ 1,001,644
BANKORION	11/06/09	2.000%	11/05/10	150,000	150,247
CARLINVILLE NATIONAL BANK	12/03/09	2.000%	12/03/10	1,000,000	1,001,644
CARLINVILLE NATIONAL BANK	09/11/09	2.000%	09/10/10	95,000	95,156
COLLINSVILLE BUI	01/05/10	2.000%	01/05/11	95,000	95,156
CROSSROADS BANK - EFFINGHAM	06/11/10	2.000%	06/10/11	1,000,000	1,001,644
FARMERS STATE BANK	12/11/09	2.000%	12/10/10	600,000	600,986
FEDERAL SAVINGS BANK MASCOUTAH	06/24/10	2.000%	06/24/11	95,000	95,156
FIRST NATIONAL BANK	03/04/10	2.000%	03/04/11	300,000	300,493
FIRST NATIONAL BANK AND TRUST	10/27/09	2.000%	10/26/10	2,000,000	2,003,288
FIRST NATIONAL BANK AND TRUST	03/12/10	2.000%	03/11/11	600,000	600,986
FIRST NATIONAL BANK DIETERICH	03/10/10	2.000%	03/10/11	800,000	801,315
FIRST NATIONAL BANK TAYLORVILLE	11/04/09	2.000%	11/04/10	800,000	801,315
FIRST SAVANNA SAVINGS BANK	10/08/09	2.000%	10/08/10	100,000	100,164
FNB TAYLORVILLE (FNB AUBURN 6-1)	06/04/10	2.000%	06/03/11	300,000	300,493
GALENA STATE BANK AND TRUST GALENA	07/03/09	2.000%	07/02/10	1,000,000	1,001,644
GERMANTOWN TRUST AND SAVINGS	07/02/09	2.000%	07/02/10	500,000	500,822
GUARDIAN SVGS BANK GRANITE CITY	09/24/09	2.000%	09/24/10	100,000	100,164
IROQUOIS FARMERS STATE BANK	07/10/09	2.000%	07/09/10	300,000	300,493
IROQUOIS FARMERS STATE BANK	04/01/10	2.000%	10/05/10	700,000	701,151
IROQUOIS FARMERS STATE BANK	10/15/09	2.000%	10/15/10	500,000	500,822
MARINE BANK SPRINGFIELD	06/11/10	2.000%	06/10/11	2,000,000	2,002,192
MILLENIUM BANK	07/08/09	2.000%	07/08/10	100,000	100,164
NATIONAL BANK AND TRUST SYCAMORE	03/18/10	2.000%	03/18/11	1,250,000	1,252,055

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PORTFOLIO OF INVESTMENTS - CONTINUED  
June 30, 2010

	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Current Value*</u>
Certificates of Deposit - Continued					
NATIONAL BANK OF EARLVILLE	06/04/10	2.000%	06/30/11	\$ 400,000	\$ 400,657
NORTH COUNTY SAVINGS BANK	02/05/10	2.000%	02/04/11	95,000	95,156
OLD EXCHANGE NATIONAL OKAWVILLE	04/02/10	2.000%	04/04/11	600,000	600,986
PULASKI SAVINGS BANK CHICAGO	05/04/10	2.000%	05/04/11	95,000	95,156
SEAWAY BANK AND TRUST CO - CHICAGO	07/09/09	2.000%	07/09/10	3,000,000	3,004,931
SOUTH CENTRAL BANK - CHICAGO	02/05/10	2.000%	02/04/11	1,500,000	1,502,466
SOUTH CENTRAL BANK - CHICAGO	08/05/09	2.000%	08/05/10	2,000,000	2,003,288
SOUTH CENTRAL BANK - CHICAGO	08/06/09	2.000%	08/06/10	1,000,000	1,001,644
SOUTH CENTRAL BANK - CHICAGO	11/09/09	2.000%	11/09/10	2,000,000	2,003,288
SOUTH CENTRAL BANK - CHICAGO	12/07/09	2.000%	12/07/10	1,500,000	1,502,466
SOUTH CENTRAL BANK - CHICAGO	05/11/10	2.000%	05/11/11	1,500,000	1,502,466
SOUTH CENTRAL BANK - CHICAGO	06/04/10	2.000%	06/03/11	1,500,000	1,502,466
SOUTH CENTRAL BANK NA	12/29/09	2.000%	12/28/10	1,000,000	1,001,644
SOUTH SIDE BANK AND TRUST PEORIA	03/24/10	2.000%	03/24/11	2,000,000	2,003,288
SOUTH SIDE BANK PEORIA	07/21/09	2.000%	07/21/10	2,000,000	2,003,288
SOUTH SIDE TRUST AND SAVINGS PEORIA	10/21/09	2.000%	10/21/10	2,400,000	2,403,945
TOWN AND COUNTRY BANK QUINCY	03/12/10	2.000%	03/11/11	1,000,000	1,001,644
UNITED COMMUNITY BANK - CHATHAM	09/02/09	2.000%	09/02/10	5,000,000	5,008,219
WABASH SAVINGS BANK MT CARMEL	06/02/10	2.000%	06/02/11	95,000	95,156
WASHINGTON FEDERAL	07/17/09	2.000%	07/16/10	<u>95,000</u>	<u>95,156</u>
 Total Certificates of Deposit				 <u>\$ 44,165,000</u>	 <u>\$ 44,236,504</u>

State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PORTFOLIO OF INVESTMENTS - CONTINUED  
June 30, 2010

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	<u>Cost</u>
Money Market Mutual Funds	
Milestone Money Market Fund	\$ 154,510,526
First American Government Sweep	15,853,688
Goldman Government Fund #465	73,638,087
Western Asset Instl Govt	150,000,000
Federated Government #005	27,000,000
AIM Government & Agency Portfolio	<u>141,000,000</u>
 Total Money Market Mutual Funds	 <u>\$ 562,002,301</u>

State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PORTFOLIO OF INVESTMENTS - CONTINUED  
June 30, 2010

	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Amortized Cost</u>
United States Agency Obligations***					
Federal Home Loan Bank Debentures					
Federal Home Loan Bank Debentures	08/04/09	0.550%	08/04/10	\$ 25,007,750	\$ 24,998,427
Federal Home Loan Bank Debentures	09/25/09	0.500%	10/25/10	25,039,000	25,000,000
Federal Home Loan Bank Debentures	12/30/09	0.400%	12/30/10	25,015,750	25,000,000
Federal Home Loan Bank Debentures	02/25/10	0.450%	02/25/11	25,000,000	25,000,000
Federal Home Loan Bank Debentures	02/25/10	0.500%	03/14/11	25,000,000	25,000,000
Federal Home Loan Bank Debentures	02/26/10	0.500%	03/14/11	25,007,750	25,000,000
Federal Home Loan Bank Debentures	03/10/10	0.550%	03/23/11	25,007,750	25,000,000
Federal Home Loan Bank Debentures	05/10/10	0.600%	05/10/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	05/03/10	0.650%	05/25/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	05/10/10	0.690%	06/10/11	10,000,000	10,000,000
Federal Home Loan Bank Debentures	05/19/10	0.700%	05/27/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	05/25/10	0.750%	06/07/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	05/25/10	0.750%	06/07/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	06/02/10	0.750%	06/02/11	10,009,400	10,000,000
Federal Home Loan Bank Debentures	06/01/10	0.700%	07/01/11	10,000,000	10,000,000
Federal Home Loan Bank Debentures	06/03/10	0.700%	06/20/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	06/11/10	0.700%	06/16/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	06/11/10	0.700%	06/16/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	06/11/10	0.700%	06/16/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	06/09/10	0.750%	06/21/11	10,003,100	10,000,000
Federal Home Loan Bank Debentures	06/24/10	0.800%	06/24/11	10,000,000	10,000,000
Federal Home Loan Bank Debentures	05/10/10	0.300%	05/10/11	<u>10,000,000</u>	<u>10,000,000</u>
Total Federal Home Loan Bank Debentures				<u>\$ 325,118,400</u>	<u>\$ 324,998,427</u>

State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PORTFOLIO OF INVESTMENTS - CONTINUED  
June 30, 2010

	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Amortized Cost</u>
Federal Home Loan Mtg Corp Discount Notes					
Federal Home Loan Mtg Corp Discount Notes	02/25/10	0.190%	07/16/10	\$ 25,000,000	\$ 24,998,021
Federal Home Loan Mtg Corp Discount Notes	02/02/10	0.020%	07/23/10	25,000,000	24,996,944
Federal Home Loan Mtg Corp Discount Notes	02/24/10	0.200%	08/04/10	<u>24,997,500</u>	<u>24,995,278</u>
Total Federal Home Loan Mtg Corp Discount Notes				<u>\$ 74,997,500</u>	<u>\$ 74,990,243</u>
Federal National Mortgage Assoc Discount Notes					
Federal National Mortgage Assoc Discount Notes	12/18/09	0.210%	07/01/10	\$ 50,000,000	\$ 50,000,000
Federal National Mortgage Assoc Discount Notes	02/24/10	0.170%	07/06/10	25,000,000	24,999,410
Federal National Mortgage Assoc Discount Notes	02/23/10	0.170%	07/08/10	25,000,000	24,999,173
Federal National Mortgage Assoc Discount Notes	02/18/10	0.180%	07/20/10	25,000,000	24,997,625
Federal National Mortgage Assoc Discount Notes	02/19/10	0.190%	08/04/10	<u>24,997,500</u>	<u>24,995,514</u>
Total Federal National Mortgage Assoc Discount Notes				<u>\$ 149,997,500</u>	<u>\$ 149,991,722</u>
Federal Agricultural Mortgage Corporation Notes					
Federal Agricultural Mortgage Corporation Notes	07/15/09	0.650%	07/15/10	\$ 25,002,250	\$ 25,000,000
Federal Agricultural Mortgage Corporation Notes	12/28/09	0.400%	12/28/10	25,015,250	25,000,000
Federal Agricultural Mortgage Corporation Notes	04/29/10	0.600%	04/29/11	<u>10,000,900</u>	<u>10,000,000</u>
Total Federal Agricultural Mortgage Corporation Notes				<u>\$ 60,018,400</u>	<u>\$ 60,000,000</u>

State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PORTFOLIO OF INVESTMENTS - CONTINUED  
June 30, 2010

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	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Amortized Cost</u>
Federal Agricultural Mortgage Corp Discount Notes					
Federal Agricultural Mortgage Corp Discount Notes	10/29/09	0.450%	10/21/10	\$ <u>24,987,500</u>	\$ <u>24,965,000</u>
Total Federal Agricultural Mortgage Corp Discount Notes				\$ <u>24,987,500</u>	\$ <u>24,965,000</u>
Federal Deposit Insurance Corp Guaranteed Floating Rate Notes					
Federal Deposit Insurance Corp Guaranteed Floating Rate Notes	01/30/09	0.438%	07/30/10	\$ <u>25,006,250</u>	\$ <u>25,000,000</u>
Total Federal Deposit Insurance Corp Guaranteed Floating Rate Notes				\$ <u>25,006,250</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, 2010.

\*\*\* It is the intent of management to hold direct U.S. Agency Obligations 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  
STATEMENT OF FIDUCIARY NET ASSETS BY INVESTOR TYPE AND STATEMENT OF  
CHANGES IN FIDUCIARY NET ASSETS BY INVESTOR TYPE  
June 30, 2010  
(Dollars in thousands)

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STATEMENT OF FIDUCIARY NET ASSETS BY INVESTOR TYPE

	<u>Total</u>	<u>Internal</u>	<u>External</u>
Cash equivalents	\$ 4,411,832	\$ 1,162,972	\$ 3,248,860
Deposits and investments	954,170	251,523	702,647
Interest receivable	<u>476</u>	<u>125</u>	<u>351</u>
	5,366,478	1,414,620	3,951,858
Bank fees	144	38	106
Management fees	<u>260</u>	<u>68</u>	<u>192</u>
Net assets	<u>\$ 5,366,074</u>	<u>\$ 1,414,514</u>	<u>\$ 3,951,560</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY INVESTOR TYPE

	<u>Total</u>	<u>Internal</u>	<u>External</u>
Participant deposits	\$ 18,359,820	\$ 16,285,907	\$ 2,073,913
Interest and other investment income	11,841	3,072	8,769
Investment expense	(4,949)	(1,305)	(3,644)
Redemptions	(19,028,029)	(16,283,482)	(2,744,547)
Dividends to shareholders	<u>(6,892)</u>	<u>(1,746)</u>	<u>(5,146)</u>
	(668,209)	2,446	(670,655)
Beginning net assets	<u>6,034,283</u>	<u>1,412,068</u>	<u>4,622,215</u>
Ending net assets	<u>\$ 5,366,074</u>	<u>\$ 1,414,514</u>	<u>\$ 3,951,560</u>

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
MONEY MARKET FUND INVESTMENT POLICY  
For the years ended June 30, 2010 and 2009  
(Unaudited)

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**1.0 Policy:** The State Treasurer of Illinois (“Treasurer”) 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. It is the policy of the 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. It is the policy of The Illinois Funds to operate in a manner consistent with SEC Rule 2a7.

**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 principal in the portfolio. To obtain this objective, diversification among permissible investments 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 Participant redemption demands that 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 accepted industry benchmarks which best reflects the Money Market Fund’s portfolio and measure performance against certain benchmarks over time. The Treasurer will periodically review benchmarks 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.

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
MONEY MARKET FUND INVESTMENT POLICY - CONTINUED  
For the years ended June 30, 2010 and 2009  
(Unaudited)

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**4.0 Authorized Broker/Dealers and Financial Institutions:** Authorized investment staff shall utilize the Treasurer's approved list of broker/dealers and financial institutions when selecting institutions to provide investment services. 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 registration in the State of Illinois
- completed broker/dealer questionnaire
- certification of having read the Money Market 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.

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:

- 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
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State of Illinois  
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THE ILLINOIS FUNDS  
MONEY MARKET FUND INVESTMENT POLICY - CONTINUED  
For the years ended June 30, 2010 and 2009  
(Unaudited)

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- 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 thereunder; 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, and (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations and (iv) the corporation is not a forbidden entity as defined in Section 22.6 of the Deposit of State Monies Act (effective Jan 27, 2006); 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 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)
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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
MONEY MARKET FUND INVESTMENT POLICY - CONTINUED  
For the years ended June 30, 2010 and 2009  
(Unaudited)

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- 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 Money Market 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 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 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.
- 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.
- There will be no investments prohibited by Section 22.6 of the Deposit of State Moneys Act (effective Jan. 27, 2006).

**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.

**8.0 Safekeeping and Custody:** All direct treasury, agency and instrumentality 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. Commercial Paper will settle daily with the Depository Trust Company.

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State of Illinois  
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THE ILLINOIS FUNDS  
MONEY MARKET FUND INVESTMENT POLICY - CONTINUED  
For the years ended June 30, 2010 and 2009  
(Unaudited)

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**9.0 Diversification:** The primary purpose of diversification in general is to control credit and market risk. The Money Market 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 Money Market 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 Money Market Fund assets, The Money Market Fund portfolio will observe the following diversification limits:

- The Money Market Fund will invest no more than 50% of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality.
- The Money Market Fund will invest no more than 5% of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase).
- A maximum of 33.3% of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity.
- A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund.
- The Money Market Fund will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, issuers and broker/dealers.
- The Money Market Fund shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits.
- 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

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MONEY MARKET FUND INVESTMENT POLICY - CONTINUED  
For the years ended June 30, 2010 and 2009  
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Fund. The Treasurer shall 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 shall 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. 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.

**13.0 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.

**14.0 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.

State of Illinois  
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THE ILLINOIS FUNDS  
PRIME FUND INVESTMENT POLICY  
For the year ended June 30, 2009  
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**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.

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PRIME FUND INVESTMENT POLICY - CONTINUED  
For the year ended June 30, 2009  
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**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.

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State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
PRIME FUND INVESTMENT POLICY - CONTINUED  
For the year ended June 30, 2009  
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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)

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

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**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% 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% of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase).
- A maximum of 33.3% of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity.
- A maximum of 25% 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

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

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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.

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

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements as listed in the table of contents of The Illinois Funds of the State of Illinois, Office of the Treasurer as of and for the year ended June 30, 2010, and have issued our report thereon dated January 4, 2011. 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, but 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 of The Illinois Funds that we consider to be material weaknesses, as defined above.

#### 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*.

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, and 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  
January 4, 2011

State of Illinois  
Office of the Treasurer  
THE ILLINOIS FUNDS  
FINANCIAL AUDIT  
For the years ended June 30, 2010 and 2009

PRIOR FINDING NOT REPEATED

**A** (Internal Control Weaknesses)

During the prior period, weaknesses were identified in the Office of the Treasurer, Illinois Funds Program (Office) internal control structure including control over the financial statement process and service organizations utilized to administer the program.

During the current period, we noted the Office maintained adequate internal control over the financial statement process and service organizations utilized to administer the program. (Finding Code No. 09-1).