McGladrey & Pullen
Certified Public Accountants

ILLINOIS STATE BOARD OF INVESTMENT
An Internal Investment Pool of the State of Illinois

Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)

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

ILLINOIS STATE BOARD OF INVESTMENT
An Internal Investment Pool of the State of Illinois

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ILLINOIS STATE BOARD OF INVESTMENT
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Financial Statement Report

Summary

The audit of the accompanying financial statements of the Illinois State Board of Investment (Board) was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Board's basic financial statements.

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
Illinois State Board of Investment:

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of net assets of the Illinois State Board of Investment (Board), an internal investment pool of the State of Illinois, as of June 30, 2008, and the related statement of changes in net assets for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the Illinois State Board of Investment for the year ended June 30, 2007 were audited by other auditors whose report dated January 15, 2008 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois State Board of Investment as of June 30, 2008, and the changes in its net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, the fair value of the investment portfolio as of June 30, 2008, has experienced a significant decline due to unprecedented unfavorable market conditions that have occurred subsequent to June 30, 2008. The information presented in Note 6 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated December 12, 2008 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 5 and 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 12, 2008

McGladrey & Pullen
Certified Public Accountants

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

Board of Directors
Illinois State Board of Investment

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois State Board of Investment (the Board), an internal investment pool of the State of Illinois, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. 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 Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 Illinois State Board of Investment Board of Directors, and the Board's management and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 12, 2008

In October 1969, the Illinois State Board of Investment was created by enactment of Article 22A of the Illinois Pension Code by the 76th General Assembly of Illinois. By statute, the Board was given responsibility for management of the assets of the General Assembly Retirement System, the Judges' Retirement System of Illinois, and the State Employees' Retirement System of Illinois. Board membership consists of five members appointed by the Governor and four ex officio members consisting of the State Treasurer and the Chairman of the Board of Trustees of each of the retirement systems. The Board maintains their office in Chicago, IL.

The following Management Discussion and Analysis (MD&A) provides an introduction and overview of the Illinois State Board of Investment (ISBI or Board) financial activities for the fiscal years ended June 30, 2008 and 2007.

Financial Highlights

The net assets of the Board totaled approximately $11.3 billion at fiscal year end June 30, 2008. The decrease from the previous year is primarily the result of investment losses.

General Market Risk

ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on ISBI's investment portfolio depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact ISBI's financial condition. The readers of these financial statements are advised that financial markets continue to be volatile and are experiencing significant changes on almost a daily basis.

Overview of the Financial Statements

The Board's financial statements are prepared on an accrual basis in accordance with U. S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and are comprised of the Statement of Net Assets, the Statement of Changes in Net Assets, and Notes to Financial Statements.

The Statement of Net Assets presents information on the Board's assets and liabilities and the resulting net assets. This statement also reflects the Board's investments along with the cash and short-term investments, receivables, and other assets and liabilities.

The decrease in investments at June 30, 2008 is a result of an investment loss of 6.2% for the fiscal year, net of expenses which are shown in the Statement of Changes in Net Assets. The decrease in liabilities for fiscal 2008 compared with 2007 consisted mainly of a decrease in unsettled investment purchases.

Condensed Summary of Net Assets

	June 30			2008/2007	2007/2006
	2008	2007	2006	Change	Change
	$	$	$	$	$
Cash and cash receivables	43,667,005	42,916,419	80,644,137	750,586	(37,727,718)
Receivables	187,106,001	548,269,714	184,529,093	(361,163,713)	363,740,621
Investments	11,429,528,114	12,805,770,746	11,434,818,360	(1,376,242,632)	1,370,952,386
Securities lending collateral	1,703,959,890	2,084,820,497	1,530,783,382	(380,860,607)	554,037,115
Prepaid expenses	16,242	14,740	18,984	1,502	(4,244)
Capital assets	52,797	49,283	45,348	3,514	3,935
Total assets	13,364,330,049	15,481,841,399	13,230,839,304	(2,117,511,350)	2,251,002,095
Liabilities	2,049,276,888	2,929,645,238	1,914,354,450	(880,368,350)	1,015,290,788
Net assets	11,315,053,161	12,552,196,161	11,316,484,854	(1,237,143,000)	1,235,711,307

The Statement of Changes of Net Assets presents information regarding changes during the fiscal year ended June 30, 2008. This statement reflects additions and deductions, which include the investment income and losses derived from realized and unrealized gains/losses, member system contributions, and income received from securities lending activities. Also reflected in the statement is deductions, which include withdrawals from the member systems and operating expenses of the Board.

The net investment losses for the year ended June 30, 2008 were the result of a downward movement in the securities markets. There was a decrease in withdrawals by the member systems. Fiscal year 2008 withdrawals were $499.5 million compared with $642 million in fiscal year 2007. Withdrawals are determined by the member retirement systems based on the State's funding and the systems' benefit payment needs. The increase in operating expenses for fiscal year 2008 versus 2007 was mainly a result of increased fees for investments in new asset classes within the alternative investments portfolio and investment by ISBI in new systems to upgrade an aging technology structure.

The increase in investments at June 30, 2007 was a result of an investment gain of 17.1% for the fiscal year, net of expenses, offset by member withdrawals which are shown in the Statement of Changes in Net Assets. The gain reflects double digit returns in private equity, international and domestic equities and real estate. Distributions received from private equity and real estate partnerships resulted in an increase in the cash for fiscal year 2007. The increase in liabilities for fiscal 2007 compared with 2006 consisted mainly of security lending collateral obligations and an increase in unsettled investment purchases.

The Notes to the Financial Statements provide additional information, which is necessary to fully understand the data provided in the financial statements.

Condensed Summary of Changes in Net Assets

	Fiscal Years Ended June 30			2008/2007	2007/2006
	2008	2007	2006	Change	Change
	$	$	$	$	$
Additions:					
Net investment income (loss)	(695,792,364)	1,918,274,641	1,203,147,819	(2,614,067,005)	715,126,822
Member systems' contributions	0	0	0	0	0
Total additions	(695,792,364)	1,918,274,641	1,203,147,819	(2,614,067,005)	715,126,822
Deductions:					
Member systems' withdrawals	499,500,000	642,000,000	759,000,000	(142,500,000)	(117,000,000)
Administrative expenses	41,850,636	40,563,334	30,142,632	1,287,302	10,420,702
Total deductions	541,350,636	682,563,334	789,142,632	(141,212,698)	(106,579,298)
Increase/(decrease) in net assets	(1,237,143,000)	1,235,711,307	414,005,187	(2,472,854,307)	821,706,120

Statement Of Net Assets

JUNE 30, 2008

	2008	2007
	$	$
ASSETS		
Cash	43,667,005	42,916,419
Receivables:		
Foreign taxes	2,336,921	1,071,202
Accounts receivable	2,057,953	940,118
Investments sold	146,645,830	509,107,369
Interest & dividends	36,065,297	37,151,025
Total receivables	187,106,001	548,269,714
Prepaid expenses	16,242	14,740
Capital assets	52,797	49,283
Investments at fair value:		
Government and agency obligations	852,045,701	1,184,275,884
Foreign obligations	113,005,430	72,189,687
Corporate obligations	1,058,164,332	1,228,970,012
Common stock and equity funds	4,241,685,933	6,059,409,027
Preferred stock	4,491,500	1,865,020
Foreign equity securities	1,984,314,463	1,365,647,941
Foreign preferred stock	603,032	0
Hedge funds	598,985,402	496,404,578
Real estate funds	1,332,081,349	1,189,614,911
Private equity	524,628,589	563,366,021
Money market instruments	307,481,504	535,699,912
Infrastructure funds	209,975,518	108,436,449
Bank loans	202,137,983	0
Forward foreign currency contracts	(72,622)	(108,696)
Total investments	11,429,528,114	12,805,770,746
Securities lending collateral	1,703,959,890	2,084,820,497
Total assets	13,364,330,049	15,481,841,399
LIABILITIES		
Payables:		
Investments purchased	338,215,349	837,252,239
Operating expenses	7,101,649	7,572,502
Securities lending cash collateral obligation	1,703,959,890	2,084,820,497
Total liabilities	2,049,276,888	2,929,645,238
Net assets	11,315,053,161	12,552,196,161

See notes to financial statements, pages 9-19.

Statement Of Changes In Net Assets

JUNE 30, 2008

	2008	2007
	$	$
ADDITIONS		
Investment income (loss)		
Net increase (decrease) in fair value of investments	(1,029,242,365)	1,594,268,871
Interest	154,620,159	172,400,021
Dividends	162,205,372	147,112,290
Securities lending income	91,663,587	93,596,872
Less securities lending rebates	(72,105,009)	(88,310,386)
Less securities lending expenses	(2,934,108)	(793,027)
Total investment income (loss)	(695,792,364)	1,918,274,641
Total additions	(695,792,364)	1,918,274,641
DEDUCTIONS		
Expenses:		
Salaries and benefits:		
Salaries	1,009,739	932,787
Benefits	412,515	344,237
Operating expenses:		
Rent and utilities	160,170	153,559
Audit	140,399	132,630
Other	267,119	161,867
External support:		
Custody	212,604	239,800
Consulting and professional	1,471,182	1,133,726
Investment advisors/managers	38,008,970	37,297,370
Investment services and research	167,938	167,358
Total expenses	41,850,636	40,563,334
Member systems' withdrawals	499,500,000	642,000,000
Total deductions	541,350,636	682,563,334
Increase (decrease) in net assets	(1,237,143,000)	1,235,711,307
Net assets at beginning of year	12,552,196,161	11,316,484,854
Net assets at end of year	11,315,053,161	12,552,196,161

See notes to financial statements, pages 9-19.

Note 1
Summary of Significant Accounting Policies

Reporting Entity
The Illinois State Board of Investment (ISBI or Board) is considered to be an internal investment pool of the State of Illinois, operating solely from investment income. The ISBI manages and invests the pension assets of three separate public employee retirement systems: General Assembly Retirement System, the Judges' Retirement System of Illinois, and State Employees' Retirement System of Illinois.

The assets of the member systems are accounted for in a single Commingled Fund. Separate information on each system's participation is presented in Note 3.

Basis of Accounting
Accounting records are maintained on an accrual basis. Units are allocated monthly to member systems based upon percentage of ownership. Management expenses are deducted monthly from income before distribution.

Valuation of Investments
Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities, Forward Foreign Currency Contracts and Options: (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Investments – fair values as determined by ISBI and its investment managers; (5) Alternative Investments (Private Equity, Hedge Funds and Infrastructure Funds) – fair values as determined by ISBI and its investment managers.

Investment Transactions and Investment Income
Investment transactions are accounted for on a trade date (date order to buy or sell is executed) and dividend income is recognized on the ex-dividend date. Interest income is recognized on an accrual basis.

Custody and Investment Management Fees
There are no base charges for custody fees. Investment management fees for all accounts, except real estate and alternative investments, are computed quarterly as a percentage of each manager's portfolio market value. Management fees for real estate and alternative investments are not directly charged but are included in the investment income for these investments.

Risk Management
The ISBI, as part of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The ISBI obtains commercial insurance for fidelity and surety and property. There have been no commercial insurance claims in the past five years.

Risks and Uncertainties
ISBI invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported in the statement of net assets.

Use of Estimates
In preparing financial statements in conformity with U. S. generally accepted accounting principles, the Board makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates and assumptions and the differences may be material.

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, ISBI's deposits may not be returned. All non-investment related bank balances at year-end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. Cash held in the investment related bank account is neither insured nor collateralized for amounts in excess of $100,000. During fiscal year 2007, a Credit Risk Policy was implemented by ISBI staff and formally adopted by the Board in July of 2007. The policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of State Street Bank and Trust. State Street Bank and Trust has a AA Long-term Deposit/Debt rating by Standards & Poor and an AA1 rating by Moody. Certain investments of ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U. S. Treasury bills with maturities of 90 days or less. For financial statement presentation and investment purposes, ISBI reports these types of cash equivalents as Money Market Instruments in the Statements of Net Assets.

	2008	2007
	$	$
Carrying amounts at June 30		
Cash	43,667,005	42,916,419
Bank balances at June 30		
Total	43,743,825	43,068,157
Amount exposed to custodial credit risk	43,455,200	42,920,664

Investment Policy

ISBI's investment authority and responsibilities are specified in the Illinois Compiled Statutes, 40ILCS 5/22A. These statutes provide ISBI with the authority to manage and invest the assets of any Illinois pension or education fund.

As described in Note 1, ISBI currently manages and invests the assets of the General Assembly Retirement System, Judges' Retirement System, and State Employees' Retirement System. All investments undertaken by ISBI are governed by 40ILCS 5 adopted by the General Assembly in 1982, and other standards codified in the above reference to the statutes.

40ILCS 5/1-109 requires all members of the Board and other fiduciaries to "… discharge his or her duties with respect to the retirement system or pension fund solely in the interest of the participants and beneficiaries and: With the care, skill, prudence and diligence…By diversifying the investments of the retirement system or pension fund so as to minimize the risk of large losses…"

Investment Commitments

Real estate and private equity investment portfolios consist of passive interests in limited partnerships. ISBI had outstanding commitments to these limited partnerships of approximately $515 million and $369 million as of June 30, 2008 and 2007, respectively. Also, at the end of fiscal year 2008 and 2007, the Board had outstanding commitments of $165 million and $311 million to separate real estate accounts respectively.

Investment Summary

The following table presents a summary of the Board's investments at fair value by type at June 30, 2008 and 2007:

	2008	2007
	$	$
Government and agency obligations	852,045,701	1,184,275,884
Foreign obligations	113,005,430	72,189,687
Corporate obligations	1,058,164,332	1,228,970,012
Common stock & equity funds	4,241,685,933	6,059,409,027
Preferred stock	4,491,500	1,865,020
Foreign equity securities	1,984,314,463	1,365,647,941
Foreign preferred stock	603,032	0
Hedge funds	598,985,402	496,404,578
Real estate investments	1,332,081,349	1,189,614,911
Private equity	524,628,589	563,366,021
Money market instruments	307,481,504	535,699,912
Infrastructure funds	209,975,518	108,436,449
Bank loans	202,137,983	0
Forward foreign currency contracts	(72,622)	(108,696)
Total investments	11,429,528,114	12,805,770,746

ISBI's investments in Private Equity and Real Estate represent investment vehicles used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund. Investment strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital, growth capital and mezzanine capital.

Note 2 (continued)
Deposits, Investments, and Investment Risk

Investment strategies of Real Estate investments include, but are not limited to, the purchase, development, ownership, management, rental and/or sale or real estate for profit.

ISBI's investments in Infrastructure funds represent pooled investment vehicles used to seek capital appreciation and current income by acquiring, holding, financing, refinancing and disposing of infrastructure investments and related assets. Infrastructure assets include various public works (e.g. bridges, tunnels, toll roads, airports, public transportation and other public works) that are made typically as a part of a privatization initiative on the part of a government entity.

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, ISBI will not be able to recover the value of investments or collateral securities that are in the possession of a counterparty. As of June 30, 2008 and 2007, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Board's name:

	2008	2007
	$	$
Common stock	2,024,444	3,423,509
Government and agency obligations	9,695,067	28,351,415
Corporate obligations	0	2,152,096
Total	11,719,511	33,927,020

Concentration of Credit Risk and Credit Risk for Investments

The portfolio is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. The Board did not have any single issuer investment that exceeded 5% of the total net assets of the Board as of June 30 2008 and 2007. The following table presents the quality ratings of debt securities held by ISBI as of June 30, 2008 and 2007:

	Moody's Quality Rating	2008	2007
		$	$
Government and agency obligations			
U.S. Government obligations	AAA	235,753,279	317,358,768
Federal agency obligations	AAA	616,292,422	866,917,116
Total Government and agency obligations		852,045,701	1,184,275,884
Foreign obligations	AAA	8,105,833	16,064,111
	AA	3,578,088	4,407,275
	A	12,247,911	5,363,202
	BAA	27,477,167	17,202,270
	BA	30,930,973	15,153,571
	B	10,807,260	3,348,055
	Not rated	19,858,198	10,651,203
Total foreign obligations		113,005,430	72,189,687
Corporate obligations	AAA	129,745,414	254,534,185
	AA	125,292,897	122,242,182
	A	132,759,541	132,484,746
	BAA	148,019,604	111,327,503
	BA	111,315,582	183,959,419
	B	280,234,046	262,208,497
	CAA	64,919,149	50,779,805
	CA	530,341	907,309
	C	556,527	683,890
	Not rated	64,791,231	109,842,476
Total corporate obligations		1,058,164,332	1,228,970,012

Interest Rate Risk

ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted average rate between 80% and 120% of the benchmark index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. ISBI benchmarks its debt security portfolio to Lehman Brothers Aggregate. At June 30, 2008 and 2007, the effective duration of the Lehman Brothers Aggregate was 3.8 and 3.7 years, respectively. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2008 and 2007 was 4.2 and 3.3 years, respectively.

	2008		2007	
	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
Investment Type	$		$	
Government & agency obligations				
U.S. Government	235,753,279	5.3	317,358,768	4.8
Federal Agency	616,292,422	3.4	866,917,116	1.6
Foreign Obligations	113,005,430	5.1	72,189,687	4.5
Corporate Obligations				
Bank and Finance	159,397,789	3.8	256,092,972	3.7
Collateralized Mortgage Obligations	136,048,371	1.4	170,384,277	2.4
Industrials	593,294,641	4.9	531,051,552	5.1
Commingled	0	N/A	23,679,106	N/A
Other	169,423,531	5.1	247,762,105	3.6
	2,023,215,463		2,485,435,583	

Note 2 (continued)
Deposits, Investments, and Investment Risk

Foreign Currency Risk

The international portfolio is constructed on the principles of diversification, quality growth, and value. Risk of loss arises from changes in currency exchange rates. International managers may also engage in transactions to hedge currency at their discretion. The following table presents the foreign currency risk by type of investment as of June 30, 2008 and 2007.

	2008		2007	
	Foreign Equity Securities	Foreign Obligations	Foreign Equity Securities	Foreign Obligations
	$	$	$	$
Australian Dollar	122,273,518	0	72,095,189	0
Brazilian Real	9,912,719	822,627	0	0
Canadian Dollar	67,312,081	640,243	25,401,638	671,932
Danish Krone	20,127,457	0	14,131,867	0
Egyptian Pound	315,568	0	0	0
English Pound Sterling	360,797,972	355,913	245,374,152	0
Euro Currency	579,718,291	3,464,132	434,344,665	0
Hong Kong Dollar	54,097,173	0	49,855,829	0
Iceland Krona	0	4,149,151	0	2,274,574
Japanese Yen	278,817,201	0	276,514,350	4,526,106
Malaysian Ringgit	0	6,031,886	0	5,818,897
Mexican Peso	2,383,899	9,829,450	0	4,468,150
New Zealand Dollar	1,093,179	0	0	1,492,263
Norwegian Krone	33,771,404	0	13,319,542	0
Singapore Dollar	33,616,147	6,136,820	24,082,058	5,774,393
South African Rand	3,038,970	0	0	2,954,509
South Korean Won	22,322,531	0	29,407,763	0
Swedish Krona	38,232,833	0	33,723,011	0
Swiss Franc	129,364,946	0	69,190,076	0
Foreign Investments denominated in U.S. dollars	227,721,606	81,575,208	78,207,801	44,208,863
	1,984,917,495	113,005,430	1,365,647,941	72,189,687

Securities Lending

ISBI participates in a securities lending program with State Street who acts as securities lending agent. Securities are loaned to brokers and, in return, ISBI has rights to a portion of a collateral pool. All of the securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper, and government securities having a fair value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, State Street provides ISBI with counterparty default indemnification. ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities loaned. As of June 30, 2008 and 2007, there were outstanding loaned investment securities having fair values of $1,851,952,625 and $2,129,513,426, respectively; against which collateral was received with a fair value of $1,912,742,552 and $2,189,767,674, respectively. Collateral received at June 30, 2008 and 2007 consisted of $1,703,959,890 and $2,084,820,497, respectively, in cash and $208,782,662 and $104,947,177, respectively, in securities for which ISBI does not have the ability to pledge or sell.

Derivative Securities

Some of ISBI's managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. The Board and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, derivative investments included forward foreign currency contracts, collateralized mortgage obligations (CMO's), futures, and options. The remaining derivative securities are used to improve the yields or to hedge changes in interest rates.

Forward foreign currency contracts are used to hedge against the currency risk in ISBI's foreign stock and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the fair value of the forward contracts varies, ISBI records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The fair value of forward foreign currency contracts outstanding at June 30, 2008 and 2007 were as follows:

	Cost $	Fair Value $	Gain (Loss) $
June 30, 2008			
Forward currency purchases	6,018,928	6,025,470	6,542
Forward currency sales	5,890,350	5,969,514	(79,164)
Total gain (loss)			(72,622)
June 30, 2007			
Forward currency purchases	1,559,632	1,550,171	(9,461)
Forward currency sales	7,691,150	7,790,385	(99,235)
Total gain (loss)			(108,696)

Note 2 (continued)
Deposits, Investments, and Investment Risk

ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. The value, liquidity and related income of these securities are sensitive to prepayments by mortgagees, changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and insurers and changes in interest rates. As of June 30, 2008 and 2007, the fair value of ISBI CMO holdings totaled $165,456,226 and $170,384,277, respectively.

ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price. The fair values of the futures contracts vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

ISBI investment managers utilize options in an effort to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. As the writer of financial options, ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. As the purchaser, ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

The following table shows the foreign and domestic futures and options positions held by ISBI as of June 30, 2008 and 2007:

Investment Liquidity

ISBI holds investments in hedge funds, real estate funds, private equity funds and infrastructure funds that are considered illiquid by the very nature of the investments. Market risk exists with respect to these investments as the ISBI may not be able to exit from the investments during periods of significant market value declines.

	2008		2007	
	Number of Contracts	Contract Principal* $	Number of Contracts	Contract Principal* $
Equity futures purchased	1,892	122,985,600	2,169	168,891,330
Fixed income futures purchased	3	599,694	609	77,268,953
Fixed income futures sold	790	167,444,230	1,333	248,776,093
Fixed income written put options	347	34,700,000	78	33,000,000
Fixed income written call options	283	28,300,000	209	74,900,000
Fixed income purchased call options	0	0	241	241,000,000

* Contract principal amounts shown represent the market value of the underlying assets the contracts control. Contract principal is shown to present the volume of the transactions but does not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual balance sheet values.

Note 3 ***Member Systems' Participation***	General Assembly	Judges'	State Employees'	Combined*
Member Systems' Income and Expenses Fiscal Year Ended June 30, 2008	$	$	$	$
Interest and dividends	2,056,927	16,497,137	298,271,467	316,825,531
Net securities lending income	107,307	864,473	15,652,690	16,624,470
Net decrease in fair value of investments	(6,734,639)	(53,819,542)	(968,688,184)	(1,029,242,365)
Total Investment income/(loss)	(4,570,405)	(36,457,932)	(654,764,027)	(695,792,364)
Management expenses	(270,594)	(2,180,095)	(39,399,947)	(41,850,636)
Net investment income/(loss)	(4,840,999)	(38,638,027)	(694,163,974)	(737,643,000)
Member Systems' Changes in Net Assets Fiscal Year Ended June 30, 2008				
Net assets at beginning of year	83,864,942	658,193,724	11,810,137,495	12,552,196,161
Member systems' net (withdrawals)	(7,100,000)	(30,400,000)	(462,000,000)	(499,500,000)
Net investment income/(loss)	(4,840,999)	(38,638,027)	(694,163,974)	(737,643,000)
Net assets at end of year	71,923,943	589,155,697	10,653,973,521	11,315,053,161

The source of net assets of the member systems since inception at June 30, 2008, is as follows:

	General Assembly	Judges'	State Employees'	Combined*
Member systems' net (withdrawals)	(45,259,495)	(70,332,730)	(1,308,086,756)	(1,423,678,981)
Accumulated net investment income	117,183,438	659,488,427	11,962,060,277	12,738,732,142
Net assets at fair value	71,923,943	589,155,697	10,653,973,521	11,315,053,161

** Combined column for the member systems is presented for information purposes only and does not indicate that the assets of one system may be used for another system.*

Note 3 *Member Systems' Participation*	General Assembly	Judges'	State Employees'	Combined*
Member Systems' Income and Expenses Fiscal Year Ended June 30, 2007	$	$	$	$
Interest and dividends	2,178,065	16,622,551	300,711,695	319,512,311
Net securities lending income	30,586	233,876	4,228,997	4,493,459
Net increase in fair value of investments	10,914,976	82,846,751	1,500,507,144	1,594,268,871
Total Investment income	13,123,627	99,703,178	1,805,447,836	1,918,274,641
Management expenses	(275,426)	(2,113,844)	(38,174,064)	(40,563,334)
Net investment income	12,848,201	97,589,334	1,767,273,772	1,877,711,307
Member Systems' Changes in Net Assets Fiscal Year Ended June 30, 2007				
Net assets at beginning of year	79,016,741	582,604,390	10,654,863,723	11,316,484,854
Member systems' net (withdrawals)	(8,000,000)	(22,000,000)	(612,000,000)	(642,000,000)
Net investment income	12,848,201	97,589,334	1,767,273,772	1,877,711,307
Net assets at end of year	83,864,942	658,193,724	11,810,137,495	12,552,196,161

The source of net assets of the member systems since inception at June 30, 2007, is as follows:

	General Assembly	Judges'	State Employees'	Combined*
Member systems' net (withdrawals)	(38,159,495)	(39,932,730)	(846,086,756)	(924,178,981)
Accumulated net investment income	122,024,437	698,126,454	12,656,224,251	13,476,375,142
Net assets at fair value	83,864,942	658,193,724	11,810,137,495	12,552,196,161

** Combined column for the member systems is presented for information purposes only and does not indicate that the assets of one system may be used for another system.*

Note 4
Pensions

Plan Description

All of the ISBI employees participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer, defined-benefit, public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal years 2008 and 2007 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR). The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 Veterans Parkway, Springfield, IL 62794-9255 or by calling 217/785-7202. The State of Illinois CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, IL 62704-1858 or by calling 217/782-2053.

A summary of SERS' benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

Funding Policy

ISBI pays employer retirement contributions based upon an actuarially determined percentage payroll. For fiscal year 2008 and 2007 the employer contribution rates were 16.561% and 11.525%, respectively. ISBI contributions to SERS for fiscal years 2008 and 2007 were $172,154 and $111,777, respectively, and were equal to the required contributions for each fiscal year. Effective for pay periods beginning after December 31, 1991, the Board opted to pay the employee portion of retirement for ISBI employees covered by the State Employees' Retirement System. Generally, this pickup of employee retirement was part of the budget process and was, in part, a substitute for salary increases.

ISBI contributions to SERS for the employee portion for fiscal years 2008 and 2007 were $37,225 and $36,265, respectively.

Post-retirement Benefits

The State provides health, dental, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services.

Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System do not contribute toward health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefits becomes $5,000.

The total cost of the State's portion of health, dental, vision and life insurance benefits of all members including post-employment health, dental, vision and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the cost on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibiliy for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

Note 5
New Governmental Accounting Standards

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets (including certain internally developed software). All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to those intangible assets, as applicable. ISBI is required to implement this Statement for the year ending June 30, 2010.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, is effective for ISBI beginning with its year ending June 30, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by the state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments.

Note 6
Subsequent Events (Unaudited)

Subsequent to the fiscal year end, events in the marketplace caused the value of ISBI's investment portfolio to decline. The chart below represents the most current information available for both public and private market investments as compared to June 30, 2008.

	June 30, 2008	October 31, 2008	Increase (Decrease)	Increase (Decrease)
	$	$	$	%
Government and agency obligations	852,045,701	682,444,652	(169,601,049)	(19.91)
Foreign obligations	113,005,430	74,495,077	(38,510,353)	(34.08)
Corporate obligations	1,058,164,332	848,780,343	(209,383,989)	(19.79)
Common stock & equity funds	4,241,685,933	2,986,418,624	(1,255,267,309)	(29.59)
Preferred stock	4,491,500	448,847	(4,042,653)	(90.01)
Foreign equity securities	1,984,314,463	1,315,715,429	(668,599,034)	(33.69)
Foreign preferred stock	603,032	406,332	(196,700)	(32.62)
Hedge Funds	598,985,402	902,361,982	303,376,580	50.65
Real Estate funds	1,332,081,349	1,264,904,065	(67,177,284)	(5.04)
Private equity	524,628,589	508,122,531	(16,506,058)	(3.15)
Infrastructure funds	209,975,518	223,879,759	13,904,241	6.62
Money market instruments	307,481,504	306,684,298	(797,206)	(0.26)
Bank loans	202,137,983	204,777,277	2,639,294	1.31
Forward foreign currency contracts	(72,622)	7,177,455	7,250,077	9983.31
Total investments	11,429,528,114	9,326,616,671	(2,102,911,443)	(18.40)

Subsequent to June 30, 2008, the Board made certain reallocations of assets and changed investment managers. As a result of the reallocations, certain individual asset categories were increased and others decreased. The significant change in the Hedge Fund category is the result of a reallocation from other categories.