

**State of Illinois
Office of the Treasurer**

THE ILLINOIS FUNDS

FINANCIAL AUDIT

For the years ended June 30, 2006 and 2005

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

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS

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State of Illinois
Office of the Treasurer

THE ILLINOIS FUNDS

TREASURER'S OFFICE OFFICIALS

Treasurer	Honorable Judy Baar Topinka
Chief of Staff	Ms. Nancy Kimme
Chief Fiscal Officer/ Deputy Chief of Staff for Operations	Mr. Edward Buckles
Deputy Treasurer	Mr. Martin Noven
Chief Legal Counsel	Ms. Alissa Camp
Director of Economic Opportunity	Mr. Rick Hackler
Assistant 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 four office locations:

- Executive Office
State Capitol
219 State House
Springfield, Illinois 62706
- Operational divisions
Jefferson Terrace
300 West Jefferson Street
Springfield, Illinois 62702
- Unclaimed Property and other divisions
Myers Building
1 W. Old State Capitol Plaza
Springfield, Illinois 62701
- Chicago Office and Personnel/Legal/Programmatic
James R. Thompson Center
100 West Randolph Street
Suite 15-600
Chicago, Illinois 60601

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 was performed by Crowe Chizek and Company LLC as of and for the years ended June 30, 2006 and 2005.

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.



Crowe Chizek and Company LLC
Member Horwath International

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of The Illinois Funds (a fiduciary fund) of the State of Illinois, Office of the Treasurer as of and for the years ended June 30, 2006 and 2005, as listed in the Table of Contents. These financial statements are the responsibility of the 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, 2006 and 2005, and its changes in 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, 2006 and 2005, 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 September 8, 2006 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer. The portfolio of investments, the statement of fiduciary net assets by investor type, the statement of changes in fiduciary net assets by investor type, and the investment policies listed in the Table of Contents on pages 19 to 41 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 the 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 investment policies have not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on them.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Springfield, Illinois
September 8, 2006



Crowe Chizek and Company LLC
Member Horwath International

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited The Illinois Funds of the State of Illinois, Office of the Treasurer as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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, The Illinois Funds' management and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Springfield, Illinois
September 8, 2006

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
STATEMENTS OF FIDUCIARY NET ASSETS
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash equivalents		
Repurchase agreements, including accrued interest of \$ 1,743,694 and \$ 344,062, in 2006 and 2005, respectively	\$ 4,626,743,694	\$ 4,040,344,062
Commercial paper, net of unamortized discount of \$ 816,757 in 2006	274,183,243	-
Certificates of deposit, including accrued interest of \$ 3,550 in 2006	893,550	-
Money market mutual funds	324,653,490	842,595,202
U.S. agency obligations		
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$ 16,519 and \$ 185, in 2006 and 2005, respectively	1,736,481	549,815
Federal Home Loan Bank Discount Notes, net of unamortized discount of \$ 1,678 in 2005	-	3,998,322
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$ 0 in 2005	-	2,350,000
Total cash equivalents	5,228,210,458	4,889,837,401
Deposits and investments		
Certificates of deposit, including accrued interest of \$ 800,195 and \$ 504,991, in 2006 and 2005, respectively	217,340,195	218,212,991
U.S. Treasury obligations		
Treasury Bills, net of unamortized discount of \$ 842,554 in 2005	-	179,157,446
Treasury Notes, net of unamortized discount of \$ 1,140,934 in 2006	223,859,066	-
U.S. Agency obligations		
Federal Home Loan Bank Debentures, net of unamortized discount of \$ 208 in 2006	11,999,792	-
Federal Home Loan Mortgage Corporation interest bearing notes	8,000,000	2,000,000

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS - CONTINUED		
U.S. agency obligations - Continued		
Federal Home Loan Mortgage Corporation Discount Notes, net of unamortized discount of \$ 93,268 and \$ 66,090, in 2006 and 2005, respectively	\$ 5,906,732	\$ 24,933,910
Federal National Mortgage Association interest bearing notes	4,000,000	2,000,000
Federal National Mortgage Association Discount Notes, net of unamortized discount of \$ 137,096 and \$ 118,866, in 2006 and 2005, respectively	11,844,904	15,881,134
Total deposits and investments	482,950,689	442,185,481
Accrued interest receivable	4,092,216	1,039,353
Total assets	\$ 5,715,253,363	\$ 5,333,062,235
 LIABILITIES AND NET ASSETS		
Accrued liabilities		
Bank custodial fees	\$ 171,899	\$ 160,722
State management fees	285,449	259,787
Total liabilities	457,348	420,509
Net assets available to participants	\$ 5,714,796,015	\$ 5,332,641,726
The pricing of shares		
Participant shares outstanding, (\$ 1.00 par, unlimited shares authorized)	\$ 5,714,796,015	\$ 5,332,641,726
Participant net asset value, offering and redemption price per share	\$ 1.00	\$ 1.00

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operations		
Revenues		
Investment earnings	\$ 218,045,763	\$ 105,244,187
Expenses		
Bank custodial fees	1,989,178	1,849,515
State management fees	3,233,368	2,893,575
	<u>5,222,546</u>	<u>4,743,090</u>
Total expenses		
Net investment earnings	<u>212,823,217</u>	<u>100,501,097</u>
Dividends to shareholders from net investment income	(212,823,217)	(100,501,097)
Share transactions (dollar amounts and number of shares are the same)		
Subscriptions	16,186,213,067	14,868,120,369
Reinvestments	219,317,066	98,309,924
Redemptions	<u>(16,023,375,844)</u>	<u>(14,820,818,528)</u>
Net increase in net assets and shares resulting from share transactions	382,154,289	145,611,765
Net assets, beginning of year	<u>5,332,641,726</u>	<u>5,187,029,961</u>
Net assets, end of year	<u>\$ 5,714,796,015</u>	<u>\$ 5,332,641,726</u>

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2006 and 2005

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 U.S. Bank to all Illinois Funds' participants at a discounted fee.

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

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

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2006 and 2005

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.

Time deposits, including 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 discount notes utilize the constant yield method and all others use straight-line amortization. It is the intent of management to hold U.S. agency securities to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

U.S. Treasury obligations are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Treasury notes utilize the constant yield method and strips and bills use straight-line amortization. It is the intent of management to hold U.S. Treasury 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
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2006 and 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 market value.

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

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

For the Money Market Fund, the Treasurer may invest in time deposits and other interest-bearing accounts in banks and savings and loan associations located in Illinois that are insured by the Federal Deposit Insurance Corporation ("FDIC"), credit unions whose principal office is located in Illinois, obligations of the United States and its agencies, short-term obligations of corporations whose obligations are rated among the three highest classifications established by at least two standard rating services, repurchase agreements, or other investments approved by State law. The Treasurer's current investment practice for the Money Market Fund does not include any investment in short-term obligations of corporations (commercial paper).

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2006 and 2005

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

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

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Illinois Funds' long-term investments in U.S. agency obligations were rated Aaa by Moody's Investors Service and AAA by Fitch Ratings. The Illinois Funds' short-term investments in U.S. agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service and F1+ by Fitch Ratings. Its short-term investments in commercial paper were rated P-1 by Moody's Investor's Service and A-1+ by Standard and Poor's Ratings, except for those issued by Bear Stearns and Morgan Stanley, which were rated A-1. Its investments in money market mutual funds were rated Aaa by Moody's Investor's Service and AAAM by Standard and Poor's Ratings.

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 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 market 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 held in safekeeping by the appointed Custodian of The Illinois Funds.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2006 and 2005

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Deposits: Certificates of deposit had both carrying values and bank balances (excluding accrued interest) of \$217,430,000 and \$217,708,000, at June 30, 2006 and 2005, respectively. These deposits were fully insured or collateralized by securities held by the Treasurer or by her agent in the name of The Illinois Funds at June 30, 2006 and 2005.

Investments: At June 30, 2006 and 2005, in accordance with Governmental Accounting Standards Board Statement 40, *Deposit and Investment Risk Disclosures* (GASB 40), there is no custodial credit risk assumed by The Illinois Funds because the investments are represented by specific identifiable investment securities, are insured or registered, or are securities held by the Treasurer or her agent in the name of The Illinois Funds. Excluding time deposits, The Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2006 and 2005. (Amounts are in thousands.)

	-----2006-----				-----2005-----		
	Cash <u>Equivalents</u>	Less Than <u>One Year</u>	One to <u>Five Years</u>	<u>Total</u>	Cash <u>Equivalents</u>	Less Than <u>One Year</u>	<u>Total</u>
Repurchase agreements	\$ 4,626,744	\$ -	\$ -	\$ 4,626,744	\$ 4,040,344	\$ -	\$ 4,040,344
Commercial paper	274,183	-	-	274,183	-	-	-
U.S. Treasury obligations	-	223,859	-	223,859	-	179,158	179,158
U.S. agency securities	<u>1,736</u>	<u>37,752</u>	<u>4,000</u>	<u>43,488</u>	<u>6,898</u>	<u>44,815</u>	<u>51,713</u>
Subtotal	<u>\$ 4,902,663</u>	<u>\$ 261,611</u>	<u>\$ 4,000</u>	5,168,274	<u>\$ 4,047,242</u>	<u>\$ 223,973</u>	4,271,215
Treasury-only money market mutual funds				<u>324,653</u>			<u>842,595</u>
Total investments, excluding time deposits				<u>\$ 5,492,927</u>			<u>\$ 5,113,810</u>

The master repurchase agreements utilized by The Illinois Funds require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount of the repurchase agreements (excluding accrued interest) was \$4,625,000,000 and \$4,040,000,000 as of June 30, 2006 and 2005, respectively. The market value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was approximately \$4,734,494,963 and \$4,129,818,573 as of June 30, 2006 and 2005, respectively.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2006 and 2005

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk: Interest Rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the investment policies limit the investment portfolio maturities. The Money Market Fund investment policy limits its investment portfolio to maturities not to exceed two years with a minimum of 75% required to be in authorized investments with less than one-year maturity. Additionally, certificates of deposit held in the Money Market Fund's portfolio cannot constitute more than 10% of any single financial institution's total deposits and no investment category shall exceed 25% of the portfolio, with the exception of cash equivalents and U.S. Treasury securities. The Prime Fund investment policy subjects its investment portfolio to the same limitations as those provided for the investment funds of the State Treasury. Therefore, the Prime Fund investment policy limits the investment portfolio to maturities not to exceed three years. However, the Prime Fund investment policy specifically requires that no more than 50% of total assets can be invested in securities with maturities greater than 30 days issued by any single permissible United States government agency or instrumentality; no more than 5% of total assets can be invested in securities issued by any single commercial paper issuer (calculated at the time of purchase); and, a maximum of 33.3% of the portfolio may be invested in direct commercial paper obligations that do not exceed 180 days to maturity. Additionally, a maximum of 25% of the Prime Fund's total assets may be invested in any approved AAAM Money Market Fund (i.e., The Illinois Funds Money Market Fund).

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, 2006 and 2005. (Amounts are in thousands.)

	----- 2006 -----		----- 2005 -----	
	<u>Carrying</u> <u>Value</u>	<u>% of Total</u> <u>Investments</u>	<u>Carrying</u> <u>Value</u>	<u>% of Total</u> <u>Investments</u>
Repurchase agreements:				
Bear Stearns	\$ 550,070	10.01	\$ 665,053	13.01
Goldman Sachs	-	-	650,050	12.71
Greenwich Capital	1,200,370	21.85	-	-
HSBC	800,538	14.57	350,028	6.84
Morgan Stanley	1,200,319	21.85	1,175,096	22.98
Nesbitt Burns	-	-	800,065	15.65
UBS	725,425	13.21	-	-
Money Market Mutual Funds:				
Milestone	-	-	331,951	6.49

State of Illinois
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THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2006 and 2005

NOTE C - INVESTMENT INCOME

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

Periodically, throughout the fiscal year, market conditions may enable The Illinois Funds to realize capital gains by selling securities, which have appreciated in value. These gains are placed in a separate account within The Illinois Funds' portfolio. These gains may be distributed to participants during the fiscal year based on average daily account balance. During fiscal years 2006 and 2005, there were none of these sales.

NOTE D - ADMINISTRATIVE FEES

To administer The Illinois Funds, the Treasurer has established a division entitled the "The Illinois Funds' Administrative Office." This division had 30 and 20 employees as of June 30, 2006 and 2005, respectively. The revenues and expenditures of the division are recorded in an enterprise fund maintained by the Treasurer entitled The Illinois Funds' Administrative Trust Fund No. 195.

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

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2006 and 2005

NOTE D - ADMINISTRATIVE FEES (Continued)

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 2006 and 2005.

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

	<u>2006</u>	<u>2005</u>
Fees received	\$ 3,233,000	\$ 2,894,000
Expenditures	3,085,000	2,620,000

Additionally, 30 ILCS 105/8h permits the Governor to order the transference of money from the Administrative Trust Fund No. 195 to the General Revenue Fund No. 001. The Governor ordered funds transferred from the Administrative Fund as follows:

FY2006: \$ 552,982 FY2005: \$ 0

NOTE E - NET ASSETS AVAILABLE TO PARTICIPANTS

The net assets available to participants represents the total value of all participant deposits including late deposits held in an overnight investment account as of June 30, 2006 and 2005.

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 \$4,860,098,268 and \$4,623,955,494, as of June 30, 2006 and 2005, respectively. Net assets for the Prime Fund were \$854,697,747 and \$708,686,232 as of June 30, 2006 and 2005, respectively.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2006 and 2005

NOTE F - 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 years 2006 and 2005, 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, 2006 and 2005 was approximately \$901,000 and \$1,146,000, respectively.

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

	<u>2006</u>	<u>2005</u>
Total number of participants	2,108	2,056
Number of State of Illinois participants	26	26
Balance of State of Illinois investments	\$ 1,671,074,377	\$ 1,574,730,119

SUPPLEMENTARY INFORMATION

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS
June 30, 2006

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Repurchase Agreements					
BEAR STEARNS	06/30/06	4.450%	07/03/06	\$ 450,000,000	\$ 450,055,625
BEAR STEARNS	06/30/06	5.200%	07/03/06	100,000,000	100,014,444
GREENWICH CAPITAL	06/30/06	4.480%	07/03/06	200,000,000	200,024,889
GREENWICH CAPITAL	06/30/06	5.280%	07/03/06	200,000,000	200,029,333
GREENWICH CAPITAL	06/28/06	4.750%	07/05/06	800,000,000	800,316,667
HSBC	06/26/06	4.850%	07/05/06	800,000,000	800,538,889
MORGAN STANLEY	06/30/06	4.500%	07/03/06	600,000,000	600,075,000
MORGAN STANLEY	06/27/06	4.860%	07/03/06	400,000,000	400,216,000
MORGAN STANLEY	06/30/06	5.200%	07/03/06	200,000,000	200,028,889
SALOMON SMITH BARNEY	06/30/06	4.500%	07/03/06	150,000,000	150,018,750
UBS	06/26/06	4.800%	07/05/06	500,000,000	500,333,333
UBS	06/28/06	4.900%	07/05/06	225,000,000	225,091,875
Total Repurchase Agreements				\$ 4,625,000,000	\$ 4,626,743,694

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution Date	Effective Yield	Maturity Date	Market Value**	Amortized Cost
Commercial Paper					
BARCLAYS	06/01/06	5.263%	08/22/06	\$ 25,000,000	\$ 24,814,750
BEAR STEARNS	06/29/06	5.431%	08/14/06	24,992,750	24,837,444
BOA	06/16/06	5.307%	08/01/06	24,985,250	24,888,056
DEUTSCHE BANK	06/12/06	5.203%	07/12/06	24,974,250	24,960,965
GE CAPITAL	06/30/06	5.335%	07/03/06	24,967,000	24,992,694
GE SERVICES TERM CP	06/21/06	5.334%	08/01/06	24,963,250	24,887,410
HSBC HOUSHOLD	04/27/06	5.144%	07/26/06	24,915,250	24,913,021
MORGAN STANLEY	06/29/06	5.348%	07/05/06	24,893,250	24,985,361
SSB CITI-GLOBAL	06/09/06	5.183%	07/10/06	24,893,250	24,968,187
UBS AMERICAS	06/13/06	5.218%	07/13/06	24,842,750	24,957,292
UBS FINANCIAL TERM CP	06/30/06	5.344%	07/07/06	24,812,750	24,978,063
Total Commercial Paper				\$ 274,239,750	\$ 274,183,243

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Certificates of Deposits					
AM HEARTLAND BK	03/06/06	4.930%	03/06/07	\$ 250,000	\$ 251,013
AMER HEARTLAND BK	10/07/05	4.270%	10/06/06	250,000	250,877
AMER HEARTLAND BK	05/11/06	5.160%	05/11/07	250,000	251,060
AMERICAN EAGLE BANK-S ELGIN	08/12/05	4.110%	08/11/06	100,000	100,338
AMERICAN ENTERPRISE BNK-BUFF GRV	01/06/06	4.560%	01/04/07	750,000	752,811
AMERICAN ENTERPRISE-BUFF GRVE	09/02/05	4.060%	08/28/06	1,000,000	1,003,337
AMERICAN HEARTLAND & TRUST	06/02/06	4.490%	11/02/06	250,000	250,923
AMERICAN HEARTLAND & TRUST SGR	01/06/06	4.600%	01/04/07	250,000	250,945
AMERICAN HEARTLAND AND TRUST	04/25/06	5.090%	04/25/07	250,000	251,046
AMERICAN HEARTLAND BANK & TRUST	09/12/05	3.860%	09/12/06	300,000	300,952
AMERICAN HEARTLAND BANK & TRUST	09/19/05	3.970%	09/19/06	500,000	501,632
AMERICAN HEARTLAND BANK & TRUST	11/02/05	5.160%	05/25/07	250,000	251,049
AMERICAN HEARTLAND BANK & TRUST	08/08/05	4.600%	01/04/07	250,000	250,945
AMERICAN HEARTLAND BANK-SUGAR GR	02/17/06	4.070%	08/16/06	250,000	250,836
AMERICAN HEARTLAND BNK & TRST	08/16/05	4.880%	02/16/07	250,000	251,003
AMERICAN HEARTLAND-SUGAR GROVE	01/06/06	4.030%	08/08/06	250,000	250,828
AMERICAN METRO BANK-CHICAGO	02/06/06	4.780%	09/05/06	100,000	100,393
AMERICAN METRO BANK-CHICAGO	03/24/06	4.920%	03/23/07	100,000	100,404
ANNA NATIONAL BANK OF ANNA	08/10/05	4.110%	08/10/06	400,000	401,351
ARCOLA HOMESTEAD SAVINGS ARCOLA	07/25/05	3.870%	07/25/06	95,000	95,302
ASSOCIATED BANK CHICAGO	09/02/05	3.960%	08/28/06	100,000	100,325
BANCO POPULAR - RIVER GROVE	08/04/05	4.040%	08/04/06	6,000,000	6,019,923
BANK CALUMET CHICAGO HEIGHTS	08/26/05	4.030%	08/25/06	5,400,000	5,417,887
BANK OF DWIGHT	06/02/06	5.150%	05/25/07	1,000,000	1,004,187
BANK OF ILLINOIS CHAMPAIGN	08/11/05	4.110%	08/11/06	2,000,000	2,006,756
BANK OF ILLINOIS-CHAMPAIGN	07/11/05	3.850%	09/08/06	3,000,000	3,009,493

State of Illinois
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THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Certificates of Deposits - Continued					
BANK OF PONTIAC	03/02/06	4.870%	03/02/07	\$ 750,000	\$ 753,002
BANK ONE - CHICAGO	09/19/05	3.920%	09/19/06	8,000,000	8,025,775
BANK ONE CHICAGO	10/04/05	4.200%	10/04/06	10,500,000	10,536,247
BANK ONE CHICAGO	10/04/05	4.200%	10/04/06	10,000,000	10,034,521
BANK ONE CHICAGO	11/02/05	4.440%	11/02/06	10,000,000	10,036,493
BANK ONE CHICAGO	12/02/05	4.520%	12/04/06	10,500,000	10,539,008
BANK ONE-CHICAGO	10/04/05	4.200%	10/04/06	1,000,000	1,003,452
BANK ONE-CHICAGO	12/02/05	4.520%	12/04/06	5,000,000	5,018,575
BANK ONE-CHICAGO	01/04/06	4.540%	01/04/07	22,850,000	22,935,265
BANKORION	11/10/05	4.540%	11/09/06	1,000,000	1,003,732
CARLINVILLE NATIONAL BANK	12/02/05	4.490%	12/04/06	1,000,000	1,003,690
CENTRAL BANK ASHKUM	05/05/06	5.130%	05/04/07	300,000	301,265
CITIZENS COMMUNITY BANK MASCOUETH	01/04/06	4.860%	07/05/06	1,000,000	1,003,995
CITIZENS FIRST NATIONAL BNK PRIN	09/06/05	3.880%	09/06/06	95,000	95,303
COLLINSVILLE BUILDING & LOAN	01/04/06	4.600%	01/04/07	95,000	95,359
COLUMBUS SAVINGS BANK	07/26/05	3.910%	07/26/06	95,000	95,305
COMMUNITY BANK HOOPESTON	09/02/05	4.870%	07/24/06	300,000	301,201
COMMUNITY BANK HOOPESTON	04/24/06	4.860%	02/02/07	500,000	501,997
COMMUNITY BANK OF HOOPESTON	09/23/05	5.040%	09/22/06	1,000,000	1,004,142
COMMUNITY BANK OF HOOPESTON	04/25/06	5.360%	06/20/07	1,000,000	1,004,088
CORN BELT & TRUST CO PITTSFIELD	07/15/05	3.830%	07/14/06	400,000	401,259
CORN BELT BANK & TRUST	09/27/05	3.970%	09/26/06	200,000	200,653
CORN BELT BANK & TRUST CO PITTSF	09/16/05	3.930%	09/15/06	95,000	95,307
CROSSROADS BANK - EFFINGHAM	12/16/05	4.500%	12/15/06	1,000,000	1,003,699
DEVON BANK-CHICAGO	12/22/05	4.530%	12/22/06	1,000,000	1,003,723
DUPAGE NATIONAL BNK-W CHICAGO	07/05/05	3.620%	07/05/06	100,000	100,298

State of Illinois
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THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Current Value*</u>
Certificates of Deposits - Continued					
DUQUOIN STATE BANK	08/02/05	4.030%	08/02/06	\$ 600,000	\$ 601,987
DUQUOIN STATE BANK	09/13/05	3.910%	09/13/06	1,000,000	1,003,214
DUQUOIN STATE BANK	11/02/05	4.500%	11/02/06	1,800,000	1,806,658
EAST DUBUQUE SAVINGS BANK	09/27/05	3.970%	09/26/06	500,000	501,632
EDGAR COUNTY BANK & TRUST	12/01/05	4.520%	09/05/06	3,000,000	3,011,145
FARMERS & MERCHANT VIRDEN	02/02/06	5.100%	05/03/07	300,000	301,258
FARMERS BANK OF MT PULASKI	08/09/05	4.030%	08/09/06	300,000	300,994
FARMER'S STATE BANK, EMDEN	12/12/05	4.550%	12/12/06	600,000	602,244
FEDERAL SAVINGS BANK MASCOUATAH	09/26/05	3.970%	09/26/06	95,000	95,310
FIRST BANK MONTICELLO	04/04/06	4.860%	07/05/06	2,100,000	2,108,388
FIRST NATIONAL BANK DIETERICH	09/14/05	5.290%	06/14/07	800,000	803,310
FIRST NATIONAL BANK AND TRUST	03/17/06	4.960%	03/16/07	600,000	602,446
FIRST NATIONAL BANK CHRISMAN	07/05/05	4.820%	07/17/06	1,000,000	1,003,962
FIRST NATIONAL BANK CHRISMAN	07/21/05	4.710%	02/02/07	1,000,000	1,003,871
FIRST NATIONAL BANK CHRISMAN	05/23/06	5.160%	02/16/07	700,000	702,969
FIRST NATIONAL BANK DIETERICH	09/22/05	4.850%	02/21/07	300,000	301,196
FIRST NATIONAL BANK DIETERICH	10/04/05	5.100%	05/03/07	300,000	301,258
FIRST NATIONAL BANK LITCHFIELD	08/16/05	4.070%	08/16/06	200,000	200,669
FIRST NATIONAL BANK MT. AUBURN	08/08/05	5.080%	09/05/06	450,000	451,879
FIRST NATIONAL BANK OF GRNT' PARK	07/05/05	5.160%	05/04/07	100,000	100,424
FIRST NATIONAL BANK TAYLORVILLE	11/02/05	5.080%	11/02/06	800,000	803,340
FIRST STATE BANK BLOOMINGTON	01/11/06	5.160%	05/11/07	2,000,000	2,008,482
FIRST STATE BANK OF MONTICELLO	10/20/05	4.300%	08/16/06	1,000,000	1,003,534
GALENA STATE BANK	05/12/06	5.160%	05/11/07	700,000	702,969
GALENA STATE BANK & TRUST GALENA	09/06/05	3.820%	09/06/06	1,000,000	1,003,140
GALENA STATE BANK AND TRUST	12/05/05	4.540%	12/05/06	1,050,000	1,053,918

State of Illinois
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THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution <u>Date</u>	Interest <u>Rate</u>	Maturity <u>Date</u>	Face <u>Amount</u>	Current <u>Value*</u>
Certificates of Deposits - Continued					
GERMANTOWN TRUST	09/13/05	4.930%	07/10/06	\$ 400,000	\$ 401,621
GERMANTOWN TRUST & SAVINGS	06/09/06	5.000%	07/10/06	500,000	502,038
GREATER NORTH BANK ANTIIOCH	06/07/06	5.030%	09/05/06	390,000	391,512
GREATER NORTH BANK- ANTIIOCH	10/04/05	5.080%	09/05/06	475,000	476,971
GREATER NORTH BANK-ANTIIOCH	09/21/05	4.770%	07/21/06	500,000	501,960
GUARDIAN SVCS BANK GRANITE CITY	09/27/05	3.970%	09/26/06	100,000	100,326
HERITAGE BANK-TRIVOLI	08/26/05	4.010%	08/25/06	200,000	200,659
HERRIN SECURITY BK	03/06/06	4.930%	03/06/07	500,000	502,026
HIGHLAND COMMUNITY BANK CHICAGO	08/05/05	4.710%	02/02/07	100,000	100,387
INTERNATIONAL BANK CHICAGO	11/18/05	4.620%	11/17/06	1,000,000	1,003,797
INTERNATIONAL BANK OF CHICAGO	09/23/05	3.990%	09/22/06	425,000	426,394
INTERNATIONAL BANK OF CHICAGO	11/10/05	4.540%	11/09/06	1,500,000	1,505,597
INTERNATIONAL BANK OF CHICAGO	03/17/06	4.960%	03/16/07	1,500,000	1,506,115
IROQUOIS FARMERS STATE BANK	07/19/05	3.770%	07/12/06	300,000	300,930
IROQUOIS FARMERS STATE BANK	07/12/05	3.850%	07/19/06	200,000	200,633
LABE BANK-CHICAGO	02/06/06	4.810%	02/06/07	100,000	100,395
LAKE BANK CHICAGO	04/05/06	5.040%	04/05/07	8,500,000	8,535,211
LAKE FOREST BANK AND TRUST	04/11/06	5.050%	04/11/07	5,000,000	5,020,753
LAKESIDE BANK-CHICAGO	09/12/05	3.910%	09/12/06	100,000	100,321
MARINE BANK-SPFLD	11/17/05	4.590%	11/17/06	5,000,000	5,018,863
MARSHALL COUNTY STATE BANK VARNA	02/06/06	4.770%	02/06/07	300,000	301,176
MARSHALL COUNTY STATE BANK-VARNA	09/16/05	3.930%	09/15/06	500,000	501,615
MB FINANCIAL BANK CHICAGO	08/03/05	4.050%	08/03/06	5,000,000	5,016,644
MIDWEST BANK WESTERN IL MONMOUTH	08/19/05	5.040%	09/18/06	300,000	301,243
NATIONAL BANK & TRUST CO. SYCMOR	12/09/05	4.550%	12/08/06	1,000,000	1,003,740
NATIONAL BANK AND TRUST SYCAMORE	09/23/05	3.990%	09/22/06	1,250,000	1,254,099

State of Illinois
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THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Certificates of Deposits - Continued					
NATIONAL BANK OF EARLVILLE	06/06/06	5.250%	06/06/07	\$ 400,000	\$ 401,629
NATIONAL BNK & TRST SYCAMORE	10/07/05	4.270%	10/06/06	1,000,000	1,003,510
NORTH COUNTY SAVINGS	10/13/05	4.940%	03/13/07	95,000	95,386
NORTHSHORE COMMUNITY BANK	03/24/06	4.950%	03/23/07	5,000,000	5,020,342
OLD EXCHANGE NATIONAL OKAWVILLE	10/04/05	4.200%	10/04/06	600,000	602,071
PARK NATIONAL BANK (PULLMAN)	12/12/05	4.550%	12/12/06	95,000	95,355
PARKWAY BANK AND TRUST-HARDWAY	05/05/06	5.160%	05/04/07	8,000,000	8,033,929
PARTNERS BANK - GLEN CARBON	02/09/06	4.810%	02/09/07	1,500,000	1,505,930
PEKIN NATIONAL BANK	08/26/05	3.990%	08/25/06	250,000	250,820
PEKIN NATIONAL BANK	08/26/05	4.010%	08/25/06	250,000	250,824
PEKIN NAITL BANK	08/26/05	3.990%	08/25/06	750,000	752,460
PEOPLES NATIONAL BANK MCLFANSBOR	01/04/06	4.540%	01/04/07	100,000	100,373
PLAZA BANK NORRIDGE	03/03/06	4.900%	03/02/07	5,000,000	5,020,137
PRAIRIE NATIONAL BANK STEWARDSON	04/26/06	5.130%	04/25/07	1,000,000	1,004,216
PRAIRIE NATIONAL BNK STEWARDSON	09/06/05	3.820%	09/06/06	1,000,000	1,003,140
PULASKI SAVINGS BANK CHICAGO	05/03/06	5.100%	05/03/07	95,000	95,398
SOUTH SIDE BANK PEORIA	01/27/06	4.670%	01/25/07	2,000,000	2,007,677
SOUTHERN IL BANK WEST FRANKFORT	01/04/06	4.540%	01/04/07	250,000	250,933
SOUTHERN ILLINOIS	09/12/05	3.860%	09/12/06	250,000	250,793
SOUTHERN ILLINOIS BANK	07/15/05	3.830%	07/14/06	250,000	250,787
SOUTHERN ILLINOIS BANK FRANKFORT	12/13/05	4.490%	12/13/06	250,000	250,923
STATE BANK OF BEMENT	12/08/05	4.560%	12/08/06	100,000	100,375
STATE BANK OF CHRISMAN	02/03/06	4.620%	07/19/06	500,000	501,899
STATE BANK OF CHRISMAN	06/07/06	4.770%	02/02/07	600,000	602,352
STATE BANK OF CHRISMAN	01/20/06	5.180%	06/07/07	100,000	100,398
STREATOR HOME BUILDING & ASSOC	12/16/05	4.430%	07/14/06	95,000	95,346

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PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Certificates of Deposits - Continued					
TOWN AND COUNTRY BANK QUINCY	03/17/06	4.960%	03/16/07	\$ 1,000,000	\$ 1,004,077
TOWN AND COUNTRY BANK SPRINGFIELD	11/16/05	4.580%	11/16/06	1,000,000	1,003,764
UNITED COMMUNITY BANK	07/19/05	3.850%	07/19/06	900,000	902,848
UNITED COMMUNITY BANK CHATHAM	08/11/05	4.540%	11/09/06	5,000,000	5,018,658
UNITED COMMUNITY BANK CHATHAM	06/27/06	5.450%	06/26/07	1,000,000	1,003,162
UNITED COMMUNITY BANK-CHATHAM	11/09/05	4.110%	08/11/06	5,000,000	5,016,890
WABASH SAVINGS BANK MT CARMEL	08/02/05	3.980%	08/02/06	95,000	95,311
WASHINGTON FEDERAL BANK SVGS	07/22/05	3.910%	07/21/06	95,000	95,305
WEST SUBURBAN BANK	12/22/05	4.510%	12/22/06	5,000,000	5,018,534
Total Certificates of Deposits				\$ 217,430,000	\$ 218,233,745

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PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution <u>Date</u>	Effective <u>Yield</u>	Maturity <u>Date</u>	Market <u>Value**</u>	Amortized <u>Cost</u>
United States Treasury Notes					
U. S. Treasury Notes	11/07/05	4.404%	07/15/06	\$ 25,009,750	\$ 25,023,687
U. S. Treasury Notes	04/11/06	4.847%	08/31/06	24,893,500	24,896,787
U. S. Treasury Notes	04/27/06	4.932%	08/31/06	24,893,500	24,893,285
U. S. Treasury Notes	03/31/06	4.866%	10/15/06	25,082,000	25,111,895
U. S. Treasury Notes	04/06/06	4.875%	10/31/06	24,784,250	24,804,631
U. S. Treasury Notes	03/30/06	4.860%	11/15/06	24,758,750	24,794,181
U. S. Treasury Notes	04/07/06	4.929%	11/15/06	24,758,750	24,787,943
U. S. Treasury Notes	04/13/06	4.954%	11/30/06	24,757,750	24,787,265
U. S. Treasury Notes	04/12/06	4.983%	12/31/06	24,719,750	24,759,392
Total United States Treasury Notes				\$ 223,658,000	\$ 223,859,066
United States Agency Securities***					
Federal Home Loan Mtg Corp Notes					
Federal Home Loan Mtg Corp Notes	02/14/06	5.020%	02/14/07	\$ 1,992,240	\$ 2,000,000
Federal Home Loan Mtg Corp Notes	02/10/06	4.996%	03/07/07	1,991,220	2,000,000
Federal Home Loan Mtg Corp Notes	05/03/06	5.346%	05/25/07	1,995,340	2,000,000
Federal Home Loan Mtg Corp Notes	05/09/06	5.371%	06/04/07	1,995,240	2,000,000
Total Federal Home Loan Mtg Corp Notes				\$ 7,974,040	\$ 8,000,000

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution Date	Effective Yield	Maturity Date	Market Value**	Amortized Cost
Federal Home Loan Mtg Corp Discount Notes					
Federal Home Loan Mtg Corp Discount Notes	06/14/06	5.202%	09/05/06	\$ 1,736,697	\$ 1,736,481
Federal Home Loan Mtg Corp Discount Notes	04/10/06	5.031%	09/26/06	1,975,400	1,976,244
Federal Home Loan Mtg Corp Discount Notes	04/20/06	5.039%	10/10/06	1,971,200	1,972,393
Federal Home Loan Mtg Corp Discount Notes	04/12/06	5.092%	12/01/06	1,956,000	1,958,095
Total Federal Home Loan Mtg Corp Discount Notes				\$ 7,639,297	\$ 7,643,213
Federal Home Loan Bank Debentures					
Federal Home Loan Bank Debentures	03/01/06	4.995%	01/29/07	\$ 2,490,625	\$ 2,500,000
Federal Home Loan Bank Debentures	03/01/06	4.995%	01/29/07	2,490,625	2,500,000
Federal Home Loan Bank Debentures	03/22/06	5.086%	02/22/07	1,993,760	1,999,792
Federal Home Loan Bank Debentures	06/21/06	5.500%	06/21/07	4,998,450	5,000,000
Total Federal Home Loan Bank Debentures				\$ 11,973,460	\$ 11,999,792
Federal National Mortgage Association Notes					
Federal National Mortgage Association Notes	06/13/06	5.495%	07/10/07	\$ 1,996,880	\$ 2,000,000
Federal National Mortgage Association Notes	06/19/06	5.545%	07/16/07	1,997,500	2,000,000
Total Federal National Mortgage Association Notes				\$ 3,994,380	\$ 4,000,000

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
June 30, 2006

	Execution Date	Effective Yield	Maturity Date	Market Value**	Amortized Cost
Federal National Mortgage Association Discount Notes					
Federal National Mortgage Association Discount Notes	04/20/06	5.027%	08/10/06	\$ 964,665	\$ 964,665
Federal National Mortgage Association Discount Notes	04/11/06	5.001%	09/06/06	3,021,330	3,022,186
Federal National Mortgage Association Discount Notes	04/20/06	2.026%	09/22/06	1,235,250	1,235,821
Federal National Mortgage Association Discount Notes	04/11/06	5.052%	10/04/06	2,324,194	1,973,980
Federal National Mortgage Association Discount Notes	04/27/06	5.114%	10/04/06	2,324,194	2,676,217
Federal National Mortgage Association Discount Notes	04/12/06	5.061%	10/11/06	1,971,000	1,972,035
Total Federal National Mortgage Association Discount Notes				\$ 11,840,633	\$ 11,844,904

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

** Market value represents the closing bid price on June 30, 2006.

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

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
STATEMENTS OF FIDUCIARY NET ASSETS BY INVESTOR TYPE AND
CHANGES IN FIDUCIARY NET ASSETS BY INVESTOR TYPE
June 30, 2006
(Dollars in thousands)

STATEMENT OF FIDUCIARY NET ASSETS BY INVESTOR TYPE

	<u>Total</u>	<u>Internal</u>	<u>External</u>
Cash equivalents	\$ 5,228,210	\$ 1,528,791	\$ 3,699,419
Deposits and investments	482,951	141,221	341,730
Interest receivable	4,092	1,196	2,896
	<u>5,715,253</u>	<u>1,671,208</u>	<u>4,044,045</u>
Bank fees	172	50	122
Management fees	285	84	201
Net assets	<u>\$ 5,714,796</u>	<u>\$ 1,671,074</u>	<u>\$ 4,043,722</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY INVESTOR TYPE

Participant deposits	\$ 16,405,530	\$ 7,620,257	\$ 8,785,273
Interest and other investment income	218,046	62,961	155,085
Investment expense	(5,222)	(1,527)	(3,695)
Redemptions	(16,023,376)	(7,524,792)	(8,498,584)
Dividends to shareholders	(212,823)	(60,555)	(152,268)
	<u>382,155</u>	<u>96,344</u>	<u>285,811</u>
Beginning net assets	<u>5,332,641</u>	<u>1,574,730</u>	<u>3,757,911</u>
Ending net assets	<u>\$ 5,714,796</u>	<u>\$ 1,671,074</u>	<u>\$ 4,043,722</u>

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY
For the years ended June 30, 2006 and 2005
(Unaudited)

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

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

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

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

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

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

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

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

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2006 and 2005
(Unaudited)

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

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

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

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

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

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

- In bonds, notes certificate of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
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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, 2006 and 2005
(Unaudited)

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

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

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

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

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

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

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

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

- Investments in Bankers' Acceptances of any kind.

- Any 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.

State of Illinois
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THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2006 and 2005
(Unaudited)

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

9.0 Diversification: The Money Market Fund portfolio shall be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In order to properly manage any risk attendant to the investment of Money Market Fund assets, the Money Market Fund portfolio shall not exceed the following diversification limits unless specifically authorized by the Treasurer:

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

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

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

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

State of Illinois
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THE ILLINOIS FUNDS
MONEY MARKET FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2006 and 2005
(Unaudited)

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

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

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

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

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

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

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

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY
For the years ended June 30, 2006 and 2005
(Unaudited)

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

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

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

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

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

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

State of Illinois
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THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2006 and 2005
(Unaudited)

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

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

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

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

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

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

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2006 and 2005
(Unaudited)

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

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

- In bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
 - In bonds, notes, debentures, or similar obligations of the United States of America or its agencies; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
 - Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of that Act and the regulations issues 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 purchase do not exceed 10% of the corporations outstanding obligations, (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)
 - 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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State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
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(Unaudited)

- In money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio of any such money market mutual fund is limited to United States Treasury and United States Agency Securities and agreements to repurchase such obligations provided the funds are rated AAA; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
- Bonds, notes, debentures, or similar obligations of a foreign government, other than the Republic of Sudan (effective Jan 27, 2006), that are guaranteed by the full faith and credit of that government as to principal and interest, but only if the foreign government has not defaulted and has met its payment obligations for a period of at least 25 years immediately before the time of acquiring those obligations; Deposit of State Moneys Act (15 ILCS 520/22.5)
- Bonds issued by counties or municipal corporations of the State of Illinois; Deposit of State Moneys Act (15 ILCS 520/22.5)
- Interest bearing savings accounts, interest-bearing certificates of deposits or interest bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act(205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)

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

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

- Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited.
 - Repurchase agreements may only be executed with financial institutions or broker/dealers meeting the Treasurer's standards, which will include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
 - There will be no investments in mortgage-backed securities of any kind.
 - There will be no investments in asset-backed securities of any kind.
 - There will be no investments in Bankers' Acceptances of any kind.
 - There will be no investments prohibited by Section 22.6 of the Deposit of State Moneys Act (effective Jan. 27, 2006).
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THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2006 and 2005
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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 percent of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality.
- The Prime Fund will invest no more than 5 percent of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase).
- A maximum of 33.3 percent of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity.
- A maximum of 25 percent of total assets may be invested in any approved AAAM Money Market Fund.

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

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

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THE ILLINOIS FUNDS
PRIME FUND INVESTMENT POLICY - CONTINUED
For the years ended June 30, 2006 and 2005
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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 (listing of committee members attached). 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.
