

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

FINANCIAL AUDIT

For the Years Ended June 30, 2005 and 2004

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

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

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State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

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 Chief of Staff for Law and Policy	Mr. Martin Noven
Inspector General	Mr. David Wells
Director of Bright Start College Savings Program	Mr. Bartt Stevens
Manager of Accounting Division	Mr. Chad Dierking
Chief Internal Auditor	Ms. Barbara Ringler

The Office of the Treasurer maintains four office locations:

- Executive Office

State Capitol
219 State House
Springfield, Illinois 62702

- 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
Suites 15-600 and 4-100
Chicago, Illinois 60601

FINANCIAL STATEMENT REPORT

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Bright Start College Savings Program of the State of Illinois, Office of the Treasurer was performed by Crowe Chizek and Company LLC as of and for the year ended June 30, 2005.

Based on their audit, the auditors expressed an unqualified opinion on the Bright Start College Savings Program 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 Bright Start College Savings Program (a fiduciary fund) of the State of Illinois, Office of the Treasurer as of and for the year ended June 30, 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 audit. The financial statements of the Bright Start College Savings program of the State of Illinois, Office of the Treasurer as of and for the year ended June 30, 2004 were audited by other auditors whose report dated October 15, 2004, 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 the 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.

As discussed in Note A, the financial statements present only the Bright Start College Savings Program 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, 2005 and 2004, 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 Bright Start College Savings Program of the State of

Illinois, Office of the Treasurer as of June 30, 2005, and the changes in financial position thereof for the year 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 October 14, 2005, on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of the Bright Start College Savings Plan and on our tests of the State of Illinois, Office of the Treasurer's 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bright Start College Savings Program of the State of Illinois, Office of the Treasurer. The statement of fiduciary net assets by portfolio, statement of changes in fiduciary net assets by portfolio, key performance measures, and investment policy, listed in the Table of Contents on pages 20–36, are presented for purposes of additional analysis and are not a required part of the financial statements. The statement of fiduciary net assets by portfolio and the statement of changes in fiduciary net assets by portfolio have been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The key performance measures and the investment policy have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Oak Brook, Illinois
October 14, 2005



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 Bright Start College Savings Program of the State of Illinois, Office of the Treasurer as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. 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 Bright Start College Savings Program 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 Bright Start College Savings Program's 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, and the State of Illinois, Office of the Treasurer, Bright Start College Savings Program's 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

Oak Brook, Illinois
October 14, 2005

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENTS OF FIDUCIARY NET ASSETS

June 30

	ASSETS	
	<u>2005</u>	<u>2004</u>
Deposits and investments, at market		
Cash and cash equivalents	\$ 2,993,448	\$ 2,506,173
Dividends receivable	4,431,826	3,137,635
Mutual funds	<u>1,441,130,761</u>	<u>1,057,803,558</u>
Total assets	<u>\$ 1,448,556,035</u>	<u>\$ 1,063,447,366</u>

LIABILITIES AND NET ASSETS

Accrued liabilities		
Payable for securities purchased	\$ 1,626,561	\$ 2,764,182
Insurance Fees	22,972	14,861
Advisory fees	<u>400,148</u>	<u>274,128</u>
Total liabilities	2,049,681	3,053,171
Net assets	<u>1,446,506,354</u>	<u>1,060,394,195</u>
Total liabilities and net assets	<u>\$ 1,448,556,035</u>	<u>\$ 1,063,447,366</u>

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

For the years ended June 30

Operations	<u>2005</u>	<u>2004</u>
Revenues (expenditures)		
Investment earnings	\$ 22,534,210	\$ 13,586,611
Gain (loss) on sale of securities	39,389,627	(14,611)
Net change in fair value of investments (unrealized)	(7,890,766)	97,658,492
Insurance Fees	(79,501)	(50,022)
Bank custodial fees	<u>(4,021,363)</u>	<u>(2,706,398)</u>
Net investment earnings	49,932,207	108,474,072
Changes in net assets		
Program contributions	633,730,922	523,364,859
Program distributions	<u>(297,550,970)</u>	<u>(198,822,623)</u>
Net changes in net assets	336,179,952	324,542,236
Net increase in net assets	386,112,159	433,016,308
Net assets, beginning of fiscal year	<u>1,060,394,195</u>	<u>627,377,887</u>
Net assets, end of fiscal year	<u>\$ 1,446,506,354</u>	<u>\$ 1,060,394,195</u>

The accompanying notes are an integral part of these statements.

State of Illinois
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BRIGHT START COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

Background

In May 1999, the General Assembly of the State of Illinois adopted Public Act 91-0607 authorizing the State Treasurer of the State of Illinois (the "*Treasurer*") to establish and administer a program designed to be a "qualified state tuition program" under Section 529 of the Internal Revenue Code of 1986, as amended. The program is known as the Bright Start College Savings Program (Program).

The Program provides an opportunity for investors residing in Illinois or residing anywhere else in the United States of America to invest on a tax-favored basis toward the "qualified higher education expenses" of a designated beneficiary (the "*Beneficiary*") associated with attending an Institution of Higher Education. "*Institutions of Higher Education*" include most community colleges, public and private four-year colleges, universities, graduate and post-graduate programs, and certain proprietary and vocational schools. "*Qualified higher education expenses*" include tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a Beneficiary at an Institution of Higher Education plus, subject to certain limitations, room and board expenses for a student attending such an institution on at least a half time basis.

Under the Program, Program participants (the "*Account Owners*") may make investments in accounts established for the purpose of meeting the qualified higher education expenses of the Beneficiaries designated on the Program accounts (the "*Accounts*"). Amounts contributed to the Program will be invested in the Bright Start College Savings Trust (the "*Trust*"). The Treasurer has selected Citigroup Global Markets, Inc. (the "*Manager*") to advise the Treasurer on the investment of Trust assets, to administer the Trust assets and to provide other services relating to the Program. As such, the Manager will be acting as agent of the Treasurer, as trustee of the Trust. The Treasurer retains ultimate authority to manage the investments of the Trust.

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

1. 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.

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

NOTE A – SIGNIFICANT ACCOUNTING POLICIES – Continued

1. Financial Reporting Entity - Continued

The Bright Start College Savings Program is not legally separate from the State of Illinois, and is, therefore, determined to be part of the primary government. The Bright Start College Savings Program is included in the Illinois Comprehensive Annual Financial Report as an investment trust fund. The scope of the Bright Start College Savings Program financial statements presented herein is limited to the financial position of the Bright Start College Savings Program investment trust fund.

2. Basis of Accounting and Measurement Focus

The accounts of the Bright Start College Savings Program are maintained and reported using the accrual basis of accounting. Under the accrual basis of accounting, additions are recorded in the accounting period in which they are earned. Deductions are recognized in the accounting period in which the liability is incurred.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of other bank deposits and timing differences associated with the purchase of mutual fund shares.

4. Investment Earnings

Investment earnings are a combination of dividend income, interest income and short and long-term capital gains both realized and unrealized, generated from mutual fund investments and cash deposits. Mutual fund yields are subject to market rate fluctuations.

5. Fiduciary Fund

The College Savings Fund is classified as an investment trust fund. This investment trust fund is used to account for assets held by the Treasurer in a trustee capacity. This investment trust fund is not held in the State Treasury and is a non-appropriated fund.

6. 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 reporting period. These estimates may differ from actual results.

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

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 Bright Start College Savings Program has been designed as a qualified state tuition program under Section 529 of the Internal Revenue Code.

1. Permitted Deposits and Investments

The Treasurer's Bright Start investment activities are governed by the Treasurer's published Bright Start investment policy, which was developed in accordance with the State statute. In addition, the Treasurer's Office has adopted its own investment practices, which supplement the statutory requirements.

2. Investment Options

General Information

The Program offers several investment options. If a participant opens an account through a financial institution that has chosen to accept deposits under the Program, there are two investment options: Age-Based Option and Fixed Income Option.

If a participant opens an account through a financial institution that has chosen not to accept deposits, there are five different investment options: Age-Based Option, Fixed Income Option, Equity Option, the Principal Protection Income Option, and the Balanced Option.

The Age-Based Option for accounts opened through financial institutions accepting deposits and the Age-Based Option for accounts opened through financial institutions not accepting deposits are distinct and different investment options as a result of differing non-equity investment components. The Fixed Income Option for accounts opened through financial institutions accepting deposits and the Fixed Income Option for accounts opened through financial institutions not accepting deposits are also distinct and different investment options as a result of differing investment components. The financial institution at which a participant opens an account and its acceptance or rejection of deposits under the Act will affect a program participant's choice of investment options. Choice of investment options may be based on the age of the beneficiary and tolerance for investment risk, among other factors. Under federal tax law, however, participants are not permitted to direct the actual investment of their account assets. Consequently, participants may not choose the particular investments in which a portfolio invests. Participants may move their investment from one investment option to another for the same account once per year.

State of Illinois
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BRIGHT START COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

NOTE B – DEPOSITS AND INVESTMENTS – Continued

2. Investment Options - Continued

The Equity Option is an investment portfolio which seeks long-term capital appreciation through investments in equity mutual funds. It is only appropriate for investors with longer time horizons, who are comfortable with an increased level of risk or who use this investment option as part of an overall college savings strategy that includes less aggressive investments.

The Principal Protection Income Option is a conservative investment portfolio which may be appropriate for investors who are seeking current returns with stability of principal and who are willing to forego the return potential that the stock market offers. Its objective is to provide a current return that is typically higher than most money market mutual funds, while protecting an investor's principal investment (including previously accrued income) from fluctuations in value typically associated with bond portfolios. The portfolio will enter into contracts ("wrapper agreements") with financial institutions enabling it to value its fixed income securities at book value (cost). It may also be appropriate as part of an overall college savings strategy that includes more aggressive investments.

The Balanced Option is an investment portfolio which seeks to provide attractive total return with reasonable safety of principal through investment in equity and fixed income mutual funds.

The Manager will invest the assets of each portfolio in certain mutual funds managed by affiliates of the Manager (the "*Smith Barney Funds*"), in certain deposits (in the case of an account opened through a financial institution accepting deposits under the Act) or in other investments as directed by the Treasurer in accordance with the policy statement, which sets forth the policies, objectives and guidelines that govern the investment of such assets. The Treasurer may amend or supplement the policy statement from time to time in accordance with the College Savings Program Services Agreement between the Treasurer and the Manager. In allocating portfolio assets among the Smith Barney Funds, the deposits or other investments, the Manager may not deviate from the policy statement.

Description of the Funds

At the direction of the Treasurer and in accordance with the Policy Statement, the Manager intends to invest the Portfolios in whole or in part in the Smith Barney Funds. The assets of each Portfolio will be invested according to the target asset allocations discussed in the Bright Start Investment Policy.

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BRIGHT START COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

NOTE B – DEPOSITS AND INVESTMENTS – Continued

2. Investment Options - Continued

Equity Funds

The Salomon Brothers Investors Value Fund primarily seeks long-term growth of capital, and secondarily seeks current income. Under normal circumstances, the fund invests primarily in common stocks of established U.S. companies having market capitalizations of at least \$5 billion at the time of investment, but may also invest in other equity securities and, to a lesser degree, in debt securities. The Manager of the Fund emphasizes individual security selection while diversifying such Fund's investments across industries in an effort to help to reduce risk. The Manager of such Fund seeks to identify companies with favorable valuations and attractive growth potential, and employs fundamental analysis to analyze each company in detail, ranking its management, strategy and competitive market position.

Smith Barney Large Capitalization Growth Fund seeks long-term growth of capital by investing in equity securities of companies with large market capitalizations. Such Fund attempts to achieve its investment objective by investing primarily in equity securities consisting of common stocks that are believed to afford attractive opportunities for investment growth. The core holdings of such Fund are large capitalization companies that are dominant in their industries, global in scope and have a long history of performance. Such Fund normally invests at least 65% of its total assets in these securities. Such Fund does have the flexibility, however, to invest the balance of its assets in companies with other market capitalizations. Such Fund defines large market capitalization companies as those having \$5 billion or more market capitalization at the time of such Fund's investment. Companies whose capitalization falls below this level after purchase will continue to be considered large market capitalization companies for purposes of the 65% policy. Such Fund may invest in securities of foreign issuers in the form of ADRs, European Depositary Receipts ("EDRs") or similar securities representing interests in the common stock of foreign issuers. Management intends to limit such Fund's investment in these types of securities to 10% of such Fund's assets.

Oppenheimer Main Street Small Cap Fund seeks capital appreciation by investing primarily in the common stocks of United States companies with relatively small market capitalizations at the time of investment. Companies with relatively small market capitalizations are defined as those that have up to \$3 billion in capitalization.

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NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

NOTE B – DEPOSITS AND INVESTMENTS – Continued

2. Investment Options - Continued

MFS Institutional International Research Equity Fund seeks capital appreciation. Under normal market conditions, such Fund invests at least 80% of its assets in equity securities of foreign corporations, including common stocks, preferred stocks, convertible securities and depositary receipts for those securities. The Fund focuses on foreign companies (including emerging market issuers) that the manager of the Fund believes have favorable growth prospects and attractive valuations based on current and expected earnings or cash flow. The Fund does not emphasize any particular country, but from time to time focus its investments in individual countries or regions. The Fund's investments may include securities traded on securities exchanges or in the over-the-counter markets.

Fixed Income Funds

Smith Barney Investment Grade Bond Fund seeks to provide as high a level of current income as is consistent with prudent investment management and preservation of capital. Except when in a temporary defensive investment position, such Fund intends to maintain at least 65% of its assets invested in bonds. Such Fund seeks to achieve its objective by investing in any of the following securities: corporate bonds rated Baa or better by Moody's Investors Service, Inc. ("Moody's") or BBB or better by Standard & Poor's Ratings Service, a Division of the McGraw-Hill Companies, Inc. ("S&P"); United States government securities; commercial paper issued by domestic corporations and rated Prime-1 or Prime-2 by Moody's or A-1 or A-2 by S&P, or, if not rated, issued by a corporation having an outstanding debt issue rated Aa or better by Moody's or AA or better by S&P; negotiable bank certificates of deposit and bankers' acceptances issued by domestic banks (but not their foreign branches) having total assets in excess of \$ 1 billion; and high-yielding common stocks and warrants. A reduction in the rating of a security does not require the sale of the security by such Fund.

Smith Barney U.S. Government Securities Fund seeks high current income consistent with liquidity and security of capital. Under normal circumstances, the Fund will invest at least 80% of its assets in debt securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, and in related investments. The United States government securities in which the Fund invests primarily consist of mortgage-related securities and U.S. Treasury securities.

State of Illinois
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BRIGHT START COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

NOTE B – DEPOSITS AND INVESTMENTS – Continued

2. Investment Options - Continued

Fixed Income Funds - Continued

Smith Barney Short-Term Investment Grade Bond Fund seeks current income, preservation of capital and liquidity. Under normal circumstances, the fund invests at least 80% of its net assets in “investment grade” fixed income securities. These are securities rated by a national ratings organization at the time of purchase within one of the top four categories or, if unrated, are judged by the investment adviser to be of comparable credit quality. Securities in which the Fund invests include corporate debt securities, bank obligations, mortgage and asset-backed securities and securities issued by the United States government and its agencies and instrumentalities. Such Fund may also invest in United States dollar denominated fixed income securities of foreign issuers. The Fund maintains an average dollar-weighted portfolio maturity of between one and four years; the duration of the portfolio of such Fund will normally be no greater than 3.5 years.

Smith Barney Core Plus Bud Fund Inc. seeks maximum total return consisting of capital appreciation and income, consistent with the preservation of capital. Under normal market conditions, the fund invests at least 80% of its net assets in investment grade fixed income securities of U.S. issuers or other investments with similar economic characteristics. The fund may invest in U.S. government obligations, Investment grade U.S. corporate debt, Mortgage-backed securities, and up to 20% of net assets in high yield, high risk corporate and government debt securities rated below investment grade or, if unrated, determined by the fund’s manager to be of comparable quality, and in U.S. dollar denominated and non-U.S. dollar denominated debt issued by foreign corporations and foreign governments, their agencies or instrumentalities, of which no more than 10% of the fund’s assets may be invested in fixed income securities of emerging market issuers.

Smith Barney Money Funds Cash Portfolio is a money market fund that seeks maximum current income and preservation of capital. The Fund invests in high quality U.S. dollar denominated short-term debt securities. These may include obligations issued by U.S. and foreign banks, the U.S. government, its agencies and instrumentalities, U.S. states and municipalities and U.S. and foreign corporate issuers. The Fund may invest in all types of money market instruments, including commercial paper, certificates of deposit, bankers’ acceptances, mortgage-backed and asset-backed securities, repurchase agreements, and other short-term debt securities. The Fund will invest at least 25% of its total assets in obligations of domestic and foreign banks. Shares of such Fund are not insured or guaranteed by the United States government.

State of Illinois
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BRIGHT START COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

NOTE B – DEPOSITS AND INVESTMENTS – Continued

2. Investment Options - Continued

Investment Risk

As of June 30, 2005 the Bright Start College Savings plan had holdings in mutual bond funds valued at \$345.9 million. Of this, \$235.5 million had effective durations of one to five years and \$110.4 million had durations of six to ten years. These funds are not rated.

In its investment policy the Treasurer's Office has adopted a long-term total return strategy. A long-term diversified asset allocation strategy based on (1) asset classes (stock, bonds, cash, etc.), (2) geography/country, (3) industry, and (4) maturity will be the primary method of risk control.

NOTE C – ADMINISTRATIVE FEES

To administer the Bright Start College Savings Program, the Treasurer has established a division entitled, "The Bright Start College Savings Program Administrative Office." This division had five employees at June 30, 2005 and four employees at June 30, 2004. The revenues and expenses of the division are recorded in a proprietary fund maintained by the Treasurer entitled Bright Start College Savings Program Administrative Trust Fund No. 668 ("Enterprise").

The Manager performs the custodial responsibilities for the administration of the Bright Start College Savings Program. The Manager calculates the administrative and custodial fees, which are reviewed by Treasurer personnel. The fees are paid from a charge based on the net asset value of the Bright Start College Savings Program. The fee is accrued daily and withdrawn monthly from Bright Start College Savings Program. The custodian's fee is calculated at 0.99% of the total net asset value.

The custodial/advisory fees paid from the pool and the Administrative Trust Fund expenditures are as follows:

	<u>2005</u>	<u>2004</u>
Custodial/advisory fees	\$4,021,363	\$2,706,398
Expenditures	525,781	538,339

State of Illinois
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BRIGHT START COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2005 and 2004

NOTE D – NET ASSETS AVAILABLE TO PARTICIPANTS

The net assets available to participants represent the total value of all participant deposits including market fluctuations, dividend and interest income.

SUPPLEMENTARY INFORMATION

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENT OF FIDUCIARY NET ASSETS BY PORTFOLIO

June 30, 2005

	<u>Portfolio One</u>	<u>Portfolio Two</u>	<u>Portfolio Three</u>	<u>Portfolio Four</u>	<u>Portfolio Five</u>
ASSETS					
Deposits and investments					
Cash and cash equivalents	\$ 934,726	\$ 122,315	\$ 164,520	\$ 127,981	\$ 231,812
Dividends receivable	-	-	-	35,520	71,050
Mutual funds	<u>316,639,543</u>	<u>155,194,256</u>	<u>102,292,616</u>	<u>148,460,551</u>	<u>119,297,519</u>
Total assets	<u>\$ 317,574,269</u>	<u>\$ 155,316,571</u>	<u>\$ 102,457,136</u>	<u>\$ 148,624,052</u>	<u>\$ 119,600,381</u>
LIABILITIES AND NET ASSETS					
Accrued liabilities					
Payable for securities purchased	\$ 143,225	\$ 33,201	\$ 30,768	\$ 86,998	\$ 178,585
Insurance Fees					
Advisory fees	<u>72,994</u>	<u>36,720</u>	<u>24,439</u>	<u>39,190</u>	<u>37,683</u>
Total liabilities	216,219	69,921	55,207	126,188	216,268
Net assets	<u>317,358,050</u>	<u>155,246,650</u>	<u>102,401,929</u>	<u>148,497,864</u>	<u>119,384,113</u>
Total liabilities and net assets	<u>\$ 317,574,269</u>	<u>\$ 155,316,571</u>	<u>\$ 102,457,136</u>	<u>\$ 148,624,052</u>	<u>\$ 119,600,381</u>

State of Illinois
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BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENT OF FIDUCIARY NET ASSETS BY PORTFOLIO - CONTINUED

June 30, 2005

	<u>Portfolio Six</u>	<u>All Equity</u>	<u>Fixed Income</u>	<u>Principal Prot Inc</u>	<u>Balanced Option</u>	<u>Total</u>
ASSETS						
Deposits and investments						
Cash and cash equivalents	\$ 193,938	\$ 989,792	\$ (40,454)	\$ 265,212	\$ 3,606	\$ 2,993,448
Dividends receivable	75,290	-	33,022	4,216,944	-	4,431,826
Mutual funds	54,061,206	413,513,878	57,257,221	67,076,523	7,337,448	1,441,130,761
	<u>54,330,434</u>	<u>413,513,878</u>	<u>57,257,221</u>	<u>67,076,523</u>	<u>7,337,448</u>	<u>1,441,130,761</u>
Total assets	<u>\$ 54,330,434</u>	<u>\$ 414,503,670</u>	<u>\$ 57,249,789</u>	<u>\$ 71,558,679</u>	<u>\$ 7,341,054</u>	<u>\$ 1,448,556,035</u>
LIABILITIES AND NET ASSETS						
Accrued liabilities						
Payable for securities purchased	\$ 57,813	\$ 985,716	\$ 7,755	\$ 99,645	\$ 2,855	\$ 1,626,561
Insurance Fees				22,972	-	22,972
Advisory fees	21,938	94,695	13,023	57,825	1,641	400,148
	<u>79,751</u>	<u>1,080,411</u>	<u>20,778</u>	<u>180,442</u>	<u>4,496</u>	<u>2,049,681</u>
Total liabilities	79,751	1,080,411	20,778	180,442	4,496	2,049,681
Net assets	<u>54,250,683</u>	<u>413,423,259</u>	<u>57,229,011</u>	<u>71,378,237</u>	<u>7,336,558</u>	<u>1,446,506,354</u>
Total liabilities and net assets	<u>\$ 54,330,434</u>	<u>\$ 414,503,670</u>	<u>\$ 57,249,789</u>	<u>\$ 71,558,679</u>	<u>\$ 7,341,054</u>	<u>\$ 1,448,556,035</u>

State of Illinois
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BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENT OF FIDUCIARY NET ASSETS BY PORTFOLIO

June 30, 2004

	<u>Portfolio One</u>	<u>Portfolio Two</u>	<u>Portfolio Three</u>	<u>Portfolio Four</u>	<u>Portfolio Five</u>
ASSETS					
Deposits and investments					
Cash and cash equivalents	\$ 650,285	\$ 281,095	\$ 125,332	\$ 168,995	\$ 169,582
Dividends receivable	232,282	105,229	57,178	101,006	69,789
Mutual funds	<u>240,981,774</u>	<u>109,026,769</u>	<u>73,763,855</u>	<u>103,922,201</u>	<u>77,314,770</u>
Total assets	<u>\$ 241,864,341</u>	<u>\$ 109,413,093</u>	<u>\$ 73,946,365</u>	<u>\$ 104,192,202</u>	<u>\$ 77,554,141</u>
LIABILITIES AND NET ASSETS					
Accrued liabilities					
Payable for securities purchased	\$ 668,635	\$ 232,022	\$ 191,275	\$ 185,000	\$ 186,523
Insurance Fees	-	-	-	-	-
Advisory fees	<u>46,557</u>	<u>23,694</u>	<u>16,337</u>	<u>26,475</u>	<u>24,250</u>
Total liabilities	715,192	255,716	207,612	211,475	210,773
Net assets	<u>241,149,149</u>	<u>109,157,377</u>	<u>73,738,753</u>	<u>103,980,727</u>	<u>77,343,368</u>
Total liabilities and net assets	<u>\$ 241,864,341</u>	<u>\$ 109,413,093</u>	<u>\$ 73,946,365</u>	<u>\$ 104,192,202</u>	<u>\$ 77,554,141</u>

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BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENT OF FIDUCIARY NET ASSETS BY PORTFOLIO - CONTINUED

June 30, 2004

	<u>Portfolio Six</u>	<u>All Equity</u>	<u>Fixed Income</u>	<u>Principal Protection Income Portfolio</u>	<u>Total</u>
ASSETS					
Deposits and investments					
Cash and cash equivalents	\$ 60,027	\$ 644,767	\$ 215,780	\$ 190,310	\$ 2,506,173
Dividends receivable	34,185	503,935	40,262	1,993,769	3,137,635
Mutual funds	<u>31,528,177</u>	<u>324,174,715</u>	<u>49,645,023</u>	<u>47,446,274</u>	<u>1,057,803,558</u>
Total assets	<u><u>\$ 31,622,389</u></u>	<u><u>\$ 325,323,417</u></u>	<u><u>\$ 49,901,065</u></u>	<u><u>\$ 49,630,353</u></u>	<u><u>\$ 1,063,447,366</u></u>
LIABILITIES AND NET ASSETS					
Accrued liabilities					
Payable for securities purchased	\$ 54,758	\$ 951,203	\$ 250,130	\$ 44,636	\$ 2,764,182
Insurance Fees	-	-	-	14,861	14,861
Advisory fees	<u>12,563</u>	<u>67,113</u>	<u>15,065</u>	<u>42,074</u>	<u>274,128</u>
Total liabilities	67,321	1,018,316	265,195	101,571	3,053,171
Net assets	<u>31,555,068</u>	<u>324,305,101</u>	<u>49,635,870</u>	<u>49,528,782</u>	<u>1,060,394,195</u>
Total liabilities and net assets	<u><u>\$ 31,622,389</u></u>	<u><u>\$ 325,323,417</u></u>	<u><u>\$ 49,901,065</u></u>	<u><u>\$ 49,630,353</u></u>	<u><u>\$ 1,063,447,366</u></u>

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BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO

June 30, 2005

	<u>Portfolio One</u>	<u>Portfolio Two</u>	<u>Portfolio Three</u>	<u>Portfolio Four</u>	<u>Portfolio Five</u>
Operations					
Revenues (expenditures)					
Investment earnings	\$ 3,338,759	\$ 2,623,258	\$ 2,098,447	\$ 3,225,522	\$ 2,592,836
Gain (loss) on sale of securities	17,500,762	4,489,340	3,079,849	2,469,664	292,928
Net change in fair value of investments	(5,284,483)	(405,400)	50,447	476,464	723,742
Insurance Fees	-				
Bank custodial fees	<u>(730,128)</u>	<u>(365,731)</u>	<u>(249,672)</u>	<u>(406,197)</u>	<u>(375,680)</u>
Net investment earnings	14,824,910	6,341,467	4,979,071	5,765,453	3,233,826
Changes in net assets					
Program contributions	114,192,090	86,655,263	70,890,193	83,032,875	67,795,385
Program distributions	<u>(52,808,099)</u>	<u>(46,907,457)</u>	<u>(47,206,088)</u>	<u>(44,281,191)</u>	<u>(28,988,466)</u>
Net changes in net assets	61,383,991	39,747,806	23,684,105	38,751,684	38,806,919
Net increase in net assets	76,208,901	46,089,273	28,663,176	44,517,137	42,040,745
Net assets, June 30, 2004	<u>241,149,149</u>	<u>109,157,377</u>	<u>73,738,753</u>	<u>103,980,727</u>	<u>77,343,368</u>
Net assets, June 30, 2005	<u>\$ 317,358,050</u>	<u>\$ 155,246,650</u>	<u>\$ 102,401,929</u>	<u>\$ 148,497,864</u>	<u>\$ 119,384,113</u>

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BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO -CONTINUED

June 30, 2005

	<u>Portfolio Six</u>	<u>All Equity</u>	<u>Fixed Income</u>	<u>Principal Prot Inc</u>	<u>Balanced Option</u>	<u>Total</u>
Operations						
Revenues (expenses)						
Investment earnings	\$ 1,042,433	\$ 3,142,418	\$ 2,137,571	\$ 2,255,536	\$ 77,430	\$ 22,534,210
Gain (loss) on sale of securities	(71,662)	11,419,275	239,679	-	(30,208)	39,389,627
Net change in fair value of investments	50,193	(4,039,466)	519,428	-	18,309	(7,890,766)
Insurance Fees				(79,501)		(79,501)
Bank custodial fees	(205,011)	(975,631)	(182,724)	(521,763)	(8,826)	(4,021,363)
Net investment earnings	815,953	9,546,596	2,713,954	1,654,272	56,705	49,932,207
Changes in net assets						
Program contributions	37,248,779	107,661,150	15,834,494	42,722,247	7,698,446	633,730,922
Program distributions	(15,369,117)	(28,089,588)	(10,955,307)	(22,527,064)	(418,593)	(297,550,970)
Net changes in net assets	21,879,662	79,571,562	4,879,187	20,195,183	7,279,853	336,179,952
Net increase in net assets	22,695,615	89,118,158	7,593,141	21,849,455	7,336,558	386,112,159
Net assets, June 30, 2004	31,555,068	324,305,101	49,635,870	49,528,782	-	1,060,394,195
Net assets, June 30, 2005	<u>\$ 54,250,683</u>	<u>\$ 413,423,259</u>	<u>\$ 57,229,011</u>	<u>\$ 71,378,237</u>	<u>\$ 7,336,558</u>	<u>\$ 1,446,506,354</u>

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BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO

For the year ended June 30, 2004

	<u>Portfolio One</u>	<u>Portfolio Two</u>	<u>Portfolio Three</u>	<u>Portfolio Four</u>	<u>Portfolio Five</u>
Operations					
Revenues (expenditures)					
Investment earnings	\$ 2,093,771	\$ 1,521,358	\$ 1,254,906	\$ 1,872,953	\$ 1,301,132
Gain (loss) on sale of securities	24,464	(56,242)	3,964	11,845	(4,585)
Net change in fair value of investments	31,815,125	9,603,636	5,448,697	5,568,082	1,808,599
Insurance Fees	-	-	-	-	-
Bank custodial fees	(478,216)	(237,376)	(164,139)	(262,076)	(231,159)
Net investment earnings	33,455,144	10,831,376	6,543,428	7,190,804	2,873,987
Changes in net assets					
Program contributions	106,449,957	69,632,779	56,079,623	66,634,460	48,991,935
Program distributions	(36,017,186)	(32,847,966)	(31,541,422)	(28,587,097)	(16,479,531)
Net changes in net assets	70,432,771	36,784,813	24,538,201	38,047,363	32,512,404
Net increase in net assets	103,887,915	47,616,189	31,081,629	45,238,167	35,386,391
Net assets, June 30, 2004	137,261,234	61,541,188	42,657,124	58,742,560	41,956,977
Net assets, June 30, 2005	<u>\$ 241,149,149</u>	<u>\$ 109,157,377</u>	<u>\$ 73,738,753</u>	<u>\$ 103,980,727</u>	<u>\$ 77,343,368</u>

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BRIGHT START COLLEGE SAVINGS PROGRAM

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO -CONTINUED

For the year ended June 30, 2004

	<u>Portfolio Six</u>	<u>All Equity</u>	<u>Fixed Income</u>	<u>Principal Protection Income Portfolio</u>	<u>Total</u>
Operations					
Revenues (expenses)					
Investment earnings	\$ 488,103	\$ 1,838,280	\$ 1,752,341	\$ 1,463,767	\$ 13,586,611
Gain (loss) on sale of securities	(18,874)	129,940	(105,123)	-	(14,611)
Net change in fair value of investments	13,673	44,957,028	(1,556,348)	-	97,658,492
Insurance Fees	-	-	-	(50,022)	(50,022)
Bank custodial fees	(111,514)	(716,330)	(175,461)	(330,127)	(2,706,398)
	<u>371,388</u>	<u>46,208,918</u>	<u>(84,591)</u>	<u>1,083,618</u>	<u>108,474,072</u>
Net investment earnings					
Program contributions	22,126,511	103,096,261	18,054,160	32,299,173	523,364,859
Program distributions	(8,060,535)	(14,989,892)	(16,838,910)	(13,460,084)	(198,822,623)
	<u>14,065,976</u>	<u>88,106,369</u>	<u>1,215,250</u>	<u>18,839,089</u>	<u>324,542,236</u>
Net changes in net assets					
Net increase in net assets	14,437,364	134,315,287	1,130,659	19,922,707	433,016,308
Net assets, June 30, 2004	<u>17,117,704</u>	<u>189,989,814</u>	<u>48,505,211</u>	<u>29,606,075</u>	<u>627,377,887</u>
Net assets, June 30, 2005	<u>\$ 31,555,068</u>	<u>\$ 324,305,101</u>	<u>\$ 49,635,870</u>	<u>\$ 49,528,782</u>	<u>\$ 1,060,394,195</u>

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BRIGHT START COLLEGE SAVINGS PROGRAM

Key Performance Measures
(unaudited)

	Illinois Residents		Out of State		Total	
	2005	2004	2005	2004	2005	2004
Number of Participant Accounts	86,546	73,302	36,096	34,021	122,642	107,323
Dollar amount	\$ 1,064,964,563	\$ 752,661,522	\$ 380,533,461	\$ 306,962,986	\$ 1,445,498,024	\$ 1,059,624,508

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BRIGHT START COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY

For the year ended June 30, 2005 and 2004

Unaudited

1.0 Statement of Purpose of Investment Policy: The purpose of this Statement is to assist contractors retained by the Treasurer to provide services related to the management of the assets of the Bright Start College Savings Pool (the "Pool") and to assist the Treasurer's office in evaluating the performance of such contractors by:

- Describing the Treasurer's investment objectives;
- Providing general guidelines for the investment of assets of the Pool;
- Describing the Treasurer's long-term investment strategy;
- Describing the process of evaluating the performance of employees or contractors that provide investment management services to the Pool; and
- Specifying the responsibilities of any contractors that provide investment management services to the Pool.

This is the official Investment Policy Statement of the Pool. Deviation from this Policy is not permitted without prior, explicit, written permission from the Treasurer.

2.0 Establishment and Authority of Entity: The Bright StartSM College Savings Pool has been established as a "qualified State tuition program" in accordance with Section 529 of the Internal Revenue Code of 1986, as amended. It was established to provide families with a new opportunity to invest toward future college education expenses.

3.0 Participating Financial Institutions: Any financial institution insured by the Federal Deposit Insurance Corporation and all credit unions, lawfully doing business in the State, may participate in the Pool to the extent permitted by applicable law.

4.0 Investment Philosophy: The Treasurer has adopted a long-term total return strategy regarding the Pool and its investments. In order to achieve the Pool's objectives, investments shall be diversified so as to minimize the risk of loss. While some asset classes may experience short-term and intermediate-term volatility, their long-term return assumptions justify their inclusion. A long-term focus on investment results as well as prudent diversification across public security markets will be the primary risk control mechanisms.

In its investment strategy, the Treasurer has relied on prevailing financial theory, which currently utilizes a long-term diversified asset allocation strategy. A prudently allocated investment program possesses a significant level of diversification, which produces risk reduction. In terms of impact, diversification shall be considered along the following lines: (1) asset classes (stocks, bonds, cash, etc.), (2) geography/country, (3) industry, and (4) maturity.

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BRIGHT START COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY – CONTINUED

For the years ended June 30, 2005 and 2004

Unaudited

4.0 Investment Philosophy - Continued: Contributions to the Pool will be directed to one of sixteen underlying portfolios (the “Underlying Portfolios”), each with a designated mix of investments. The determination of the investment parameters of each Underlying Portfolio shall be made by the Treasurer and shall take into account the financial characteristics of the investments in the Pool. The investment parameters will also give due consideration to the fact that the investment horizon for participants will vary from a few months to over 18 years.

The Treasurer will review the investment performance of each Underlying Portfolio at least quarterly and shall review this Investment Policy Statement at least annually.

The holdings of the Pool and the Underlying Portfolios are divided into the following broad asset categories:

- A. Short-term Investments
- B. Fixed-Income Securities
- C. Large Capitalization U.S. Stocks
- D. Small Capitalization U.S. Stocks
- E. International Stocks

The Treasurer will establish reasonable guidelines for each Underlying Portfolio, specifying (as applicable) limits on asset and asset class exposures, risk constraints and investment return objectives. While the investment parameters offered under the Pool are developed by the Treasurer, participants bear the risk of investment results. Individual participants who seek investments materially different from those offered may wish to select an investment alternative outside of the Pool.

The administration and offering of the Pool should not be relied upon as a guarantee to participants. Each participant should seek appropriate advice, as he or she deems necessary.

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BRIGHT START COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY – CONTINUED

For the years ended June 30, 2005 and 2004

Unaudited

5.0 Investment Objectives: The overall investment program for the Pool and, as applicable, the individual Underlying Portfolios provided to the participants shall seek to achieve the following long-term investment objectives:

- A. A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section VII hereof.
- B. A long-term rate of return that is not only equal, but over time exceeds the growth in the costs of higher education as calculated by the United States Department of Education.
- C. An investment program flexible enough to meet the needs of participants based upon their age or investment objective and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

6.0 Investment Responsibilities: The Treasurer is responsible for the investment policy, the direction of investments and administration of the assets of the Pool. In order to properly carry out her responsibilities, the Treasurer may rely on one or more contractors to assist in the administration of the Pool. The Treasurer has engaged, and plans to rely heavily on Citigroup Global Markets, Inc. (the “*Manager*”) for various investment management and administrative services. Among the current responsibilities of the Manager is the implementation of the investment strategy outlined in this Policy and the rebalancing of the Underlying Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. The Treasurer’s Office and the Manager shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

In managing the investments of the College Savings Pool and the Underlying Portfolios, the Manager agrees that it will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives.

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BRIGHT START COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY – CONTINUED

For the years ended June 30, 2005 and 2004

Unaudited

7.0 Investment Parameters: Contributions will be invested in one of sixteen Underlying Portfolios, each with a designated mix of investments which is appropriate for the age of the participant or the investment objective of the Portfolio. Each Underlying Portfolio allocates assets in a combination of large capitalization U.S. stocks, small capitalization U.S. stocks, international stocks, fixed-income and short-term investments. The asset allocation of each Underlying Portfolio will be established by the Treasurer and managed by the Manager. The Treasurer may adjust the weighting in stocks, bonds and cash in each Underlying Portfolio and may change the mutual funds within the Underlying Portfolios consistent with this Investment Policy Statement.

The policy target asset allocations and benchmarks for the mutual funds within the Underlying Portfolios are shown below. There is a permissible range of plus or minus 5% around the target allocation for each mutual fund.

Age Based Portfolios – Bank Accepts Deposits

		#1	#2	#3	#4	#5	#6
	<u>Benchmark</u>	<u>Portfolio</u>	<u>Portfolio</u>	<u>Portfolio</u>	<u>Portfolio</u>	<u>Portfolio</u>	<u>Portfolio</u>
		<u>(0-6 yrs)</u>	<u>(7-9 yrs)</u>	<u>(10-11 yrs)</u>	<u>(12-14 yrs)</u>	<u>(15-17 yrs)</u>	<u>(18+ yrs)</u>
Large Cap Value	Russell 1000 Value	25%	25%	20%	20%	15%	5%
Large Cap Growth	Russell 1000 Growth	25%	25%	20%	20%	15%	5%
Small Cap Blend	Russell 2000 Stock	20%	10%	10%	5%	0%	0%
International Equity	MS EAFE	20%	10%	10%	5%	0%	0%
Investment Grade Bond	Salomon Corp 10+ yr	0%	10%	20%	0%	10%	0%
Managed Government	ML GNMA Master	0%	0%	0%	0%	10%	0%
Short-term High Grade	Sal Govt/Corp 1-5 yr	0%	0%	0%	0%	0%	40%
Bank Deposits		10%	20%	20%	50%	50%	50%

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BRIGHT START COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY – CONTINUED

For the years ended June 30, 2005 and 2004

Unaudited

7.0 Investment Parameters - Continued

Age Based Portfolios – Bank Rejects Deposits

	<u>Benchmark</u>	<u>#1 Portfolio (0-6 yrs)</u>	<u>#2 Portfolio (7-9 yrs)</u>	<u>#3 Portfolio (10-11 yrs)</u>	<u>#4 Portfolio (12-14 yrs)</u>	<u>#5 Portfolio (15-17 yrs)</u>	<u>#6 Portfolio (18+ yrs)</u>
Large Cap Value	Russell 1000 Value	25%	25%	20%	20%	15%	5%
Large Cap Growth	Russell 1000 Growth	25%	25%	20%	20%	15%	5%
Small Cap Blend	Russell 2000 Stock	20%	10%	10%	5%	0%	0%
International Equity	MSCI EAFE	20%	10%	10%	5%	0%	0%
Investment Grade Bond	Salomon Corp 10+ yr	10%	15%	20%	15%	10%	0%
Managed Government	ML GNMA Master	0%	15%	20%	20%	20%	0%
Short-term High Grade	Sal Govt/Corp 1-5 yr	0%	0%	0%	15%	20%	60%
Money Market: Cash	ML 3-mo T-Bills	0%	0%	0%	0%	20%	30%

Fixed Income or Equity Options

		<u>Fixed Income Portfolio</u>		<u>Equity Portfolio</u>
		<u>Bank Accepts</u>	<u>Bank Rejects</u>	<u>Bank Rejects</u>
Large Cap Value	Russell 1000 Value	0%	0%	40%
Large Cap Growth	Russell 1000 Growth	0%	0%	40%
Small Cap Blend	Russell 2000 Stock	0%	0%	10%
International Equity	MSCI EAFE	0%	0%	10%
Investment Grade Bond	Salomon Corp 10+ yr	20%	20%	0%
Managed Government	ML GNMA Master	30%	45%	0%
Short-term High Grade	Sal Govt/Corp 1-5 yr	0%	35%	0%
Bank Deposits		50%	0%	0%

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BRIGHT START COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY – CONTINUED

For the years ended June 30, 2005 and 2004

Unaudited

7.0 Investment Parameters – Continued

Each mutual fund's return objective is to equal or exceed, over a three-year rolling period, the return of the applicable benchmark. Volatility, measured by the standard deviation of quarterly returns over that period, is expected to be similar to the benchmark. Each mutual fund is also expected to perform favorably relative to its peer group.

The Principal Protection Income Option Portfolio is a separate underlying portfolio managed primarily as a diversified portfolio of investment grade readily marketable U.S. government securities, foreign government securities, corporate fixed-income securities, mortgage related securities and asset-backed securities of domestic and foreign issuers, that attempts to reduce significantly under normal circumstances fluctuations in the value of its assets, other than money market securities and money market fund securities, by entering into one or more contracts, each with a financial institution such as an insurance company or a bank whose long-term credit rating is in the highest two categories as determined by Standard and Poor's and Moody's.

To the extent that the assets of an Underlying Portfolio are invested in one or more mutual funds approved by the Treasurer having investment objectives consistent with the above-noted asset allocation categories, the above-noted percentage guidelines shall be deemed satisfied. This shall be the case even if such a mutual fund's underlying assets may not be entirely invested in the asset class in which such fund has been placed.

8.0 Investments in the Bank Deposit Pool:

8.1 Investment Objective of Bank Deposit Pool: The Bank Deposit Pool shall consist of three separate sub-pools: longer-term, medium-term and short-term. All sub-pools shall maintain liquidity reserves, consistent with the projected liquidity needs of the Bank Deposit Pool, which may hinder the attainment of other investment goals. Each sub-pool will have additional investment objectives. The achievement of these objectives is contingent upon the availability of Time Deposits or Certificates of Deposit ("CDs" or "CD") throughout the yield curve. The longer-term sub-pool shall seek to provide a return competitive with Certificates of Deposit with an average maturity of 6 to 10 years. The medium-term sub-pool shall seek to provide a return competitive with Certificates of Deposit with an average maturity of 4 to 6 years. The short-term sub-pool shall seek current income. The investment objectives are subject to the requirements and limitations set forth in and imposed by Illinois Public Act 91-0607.

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BRIGHT START COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY – CONTINUED

For the years ended June 30, 2005 and 2004

Unaudited

8.2 Citigroup Global Markets, Inc. as Manager of Bank Deposit Pool: The Manager will be responsible for managing the assets in the Bank Deposit Pool in accordance with the Bank Deposit Pool's investment objective and subject to the requirements and limitations set forth in and imposed by Illinois Public Act 91-0607.

8.3 Investment Pending Bank Investment Dates: The Manager shall establish at least two annual Bank Investment Dates to enable the Manager to ensure that at least once each year each participating financial institution will receive the amount of deposits that it is entitled to receive under Illinois Public Act 91-0607. The Manager shall invest assets held in the Bank Deposit Pool pending the Bank Investment Dates, with a particular emphasis on providing for the liquidity needs of the Bank Deposit Pool (satisfy redemptions, pay fees, etc.).

All contributions to the Bank Deposit Pool received prior to the Bank Investment Dates shall be invested by the Manager in deposits at one or more of the financial institutions designated in writing by the Treasurer's Office ("Designated Banks") with a maturity date that falls on or before the applicable Bank Investment Date.

All contributions to the Bank Deposit Pool received prior to the Bank Investment Date shall be invested by the Manager taking into consideration the interest rates offered by Designated Banks on instruments having a maturity of up to one year and the Manager's judgment and assessment of current and future interest rate environment.

Once purchased, all CDs will be held to maturity (subject to early termination to satisfy liquidity needs of Bank Deposit Pool). Upon maturity of a CD, the Manager will be responsible for investing proceeds received upon maturity and prior to the applicable Bank Investment Date(s).

8.4 Investment at Bank Investment Dates: The Manager will seek to construct a portfolio designed to meet the Bank Deposit Pool's investment objective (see above) and that takes into account the requirements of the Act, including the annual rebalancing.

The Manager will be responsible for ensuring that the amount invested in deposits will be adjusted on at least an annual basis to provide each participating financial institution with the amount of deposits required by the Act.

State of Illinois
Office of the Treasurer

BRIGHT START COLLEGE SAVINGS PROGRAM

INVESTMENT POLICY – CONTINUED

For the years ended June 30, 2005 and 2004

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8.4 Investment at Bank Investment Dates - Continued

The portfolios will be constructed by the Manager taking into consideration the interest rates offered by the relevant institutions on various types of deposits, the amount to be invested in deposits at each institution, the liquidity needs of the portfolios to provide for withdrawals and the required readjustment of deposits among financial institutions, the ages of the beneficiaries of the account in each portfolio and the projected dates on which such accounts will be transferred from one account to another, and the Manager's judgment and assessment of the current and future interest rate environment.

On Bank Investment Dates or upon maturity of CDs, the Manager will exercise judgment on the current and future interest rate environment when it purchases CDs. However, once purchased, all CDs will be held to maturity (subject to early termination to satisfy liquidity needs of the Bank Deposit Pool).