**State of Illinois**
**Office of the Treasurer**

# FISCAL OFFICER RESPONSIBILITIES

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

## AND COMPLIANCE EXAMINATION
For the year ended June 30, 2009

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

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

CONTENTS

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

## TREASURER'S OFFICE OFFICIALS

| | |
|---|---|
| Treasurer | Honorable Alexi Giannoulias |
| Chief of Staff | Ms. Robin Kelly |
| Deputy Treasurer/CFO | Mr. Edward Buckles |
| Deputy Chief of Staff/General Counsel | Mr. Paul Miller |
| Chief Legal Counsel | Ms. Gina DeCiani |
| Manager of Banking | Ms. Rhonda Poeschel |
| Manager of Accounting | Ms. Mary Baksys |
| Inspector General | Mr. David Wells |
| Chief Internal Auditor | Ms. Barbara Ringler |

The Office of the Treasurer maintains nine office locations:

- Executive Office
  State Capitol
  219 State House
  Springfield, Illinois 62706
- Operational divisions
  Illinois Business Center
  400 West Monroe
  Springfield, Illinois 62704
- Unclaimed Property & other
  Divisions
  Myers Building
  1 W. Old State Capitol Plaza
  Springfield, Illinois 62701
- Chicago Office &
  Personnel/Legal/Programmatic
  James R. Thompson Center
  100 West Randolph Street
  Suite 15-600
  Chicago, Illinois 60601
- Programmatic
  Effingham Office
  401 Industrial Drive, Suite E
  Effingham, Illinois 62401
- Programmatic
  Mt. Vernon Office
  200 West Potomac Boulevard
  Mt. Vernon, Illinois 62864
- Programmatic
  Riverdale Office
  13725 South Wabash Ave
  Riverdale, Illinois 60827
- Programmatic
  Rock Island Office
  Rock Island County Office Bldg.
  1504 Third Avenue
  Rock Island, Illinois 61201
- Programmatic
  Rockford Office
  E.J. Zeke Giorgi Building
  200 South Wyman Street
  Rockford, Illinois 61101

OFFICE OF THE ILLINOIS STATE TREASURER
ALEXI GIANNOULIAS

## MANAGEMENT ASSERTION LETTER

April 30, 2010

Crowe Horwath LLP
Certified Public Accountants
3201 West White Oaks Drive, Suite 202
Springfield, Illinois 62704

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Office of the Treasurer (Treasurer) Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Treasurer's compliance with the following assertions during the one-year period ended June 30, 2009. Based on this evaluation, we assert that during the year ended June 30, 2009, the Treasurer has materially complied with the assertions below.

A. The Treasurer has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Treasurer has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

State Capitol
Room 219
Springfield, IL 62706
Phone: (217) 782-2211
Fax: (217) 785-2777

James R. Thompson Center
100 West Randolph Street
Suite 15-600
Chicago, IL 60601
Phone: (312) 814-1700
Fax: (312) 814-5930

Illinois Business Center
400 West Monroe Street
Suite 401
Springfield, IL 62704
Phone: (217) 782-6540
Fax: (217) 524-3822

Myers Building
One West Old State Capitol Plaza
Suite 400
Springfield, IL 62701
Phone: (217) 785-6998
Fax: (217) 557-9365

Municipal Building West
200 Potomac Boulevard
Mt. Vernon, IL 62864
Phone: (618) 244-8369
Fax: (618) 244-8370



WWW.TREASURER.IL.GOV

E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

State of Illinois, Office of the Treasurer

Honorable Alexi Giannoulias
State Treasurer

Edward W. Buckles
Deputy Treasurer/Chief Fiscal Officer

Paul A. Miller

Paul Miller
Chief Legal Counsel

FISCAL OFFICER RESPONSIBILITIES

## COMPLIANCE REPORT

## SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

### ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language.

### SUMMARY OF FINDINGS

| Number of | Current Report | Prior Report |
|---|---|---|
| Findings | 1 | 1 |
| Repeated findings | 1 | 1 |
| Prior recommendations implemented or not repeated | 0 | 0 |

Details of the finding are presented in a separately tabbed report section.

### SCHEDULE OF FINDINGS

| Item No. | Page | Description | Finding Type |
|---|---|---|---|
| | | FINDINGS (*GOVERNMENT AUDITING STANDARDS)* | |
| 09-1 | 11 | Weakness in Financial Reporting of Securities Lending Transactions | Material Weakness |

## EXIT CONFERENCE

The finding and recommendation appearing in this report was discussed with Treasurer personnel at an exit conference on April 1, 2010. Attending from the Office of the Treasurer were Barb Ringler (Chief Internal Auditor), Nicholas Barnard (Internal Audit), Mary Baksys (Accounting Manager), Rhonda Poeschel (Banking Manager), Ed Buckles (Deputy Treasurer/CFO), Paul Miller (Deputy Chief of Staff/General Counsel) via phone, Gina DeCiani (Chief Legal Counsel) via phone, Colleen Daley (Director of Legislative Affairs) via phone, and Shirley Yang (Director of College Savings Program) via phone. Attending from the Office of the Auditor General was Mr. Paul Usherwood (Audit Manager). Attending from Crowe Horwath LLP – Special Assistant Auditors were John Weber (Partner) via phone, Chris Mower (Partner), Lisa Stinson (Manager), and Brandon Reed (In-Charge) via phone. The response to the recommendation was provided by Ms. Barb Ringler in an email dated April 15, 2010.

Crowe Horwath™

Crowe Horwath LLP
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Independent Accountants' Report on State
Compliance and on Internal Control Over Compliance

Honorable William G. Holland
Auditor General
State of Illinois

**Compliance**

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities' (the Treasurer) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2009. The management of the Treasurer is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

A. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Treasurer's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasurer's compliance with specified requirements.

In our opinion, the Treasurer complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2009.

## Internal Control

The management of the Treasurer is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Treasurer's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings (item 09-1) to be a material weakness.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Springfield, Illinois
April 30, 2010

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements as listed in the table of contents of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the year ended June 30, 2009, and have issued our report thereon dated April 30, 2010. Our report included an explanatory paragraph referencing Note L to the financial statements that explains the June 30, 2008 financial statements included securities lending collateral of $1,570,346,250, but should have been $1,520,104,060. The previously issued financial statements have been restated to reflect this correction. 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 Treasurer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in finding 09-1 in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in finding 09-1 in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Treasurer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

We also noted certain matters which we have reported to management of the Treasurer in a separate letter dated April 30, 2010.

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

Crowe Horwath LLP

Crowe Horwath LLP

Springfield, Illinois
April 30, 2010

CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 09-1** (Weakness in Financial Reporting of Securities Lending Transactions)

The Office of the Treasurer's (Office) internal control over securities lending transaction reporting did not identify an error during the preparation of the June 30, 2008 Fiscal Officer Responsibilities financial statements and notes to the financial statements.

During preparation of the Fiscal Officer Responsibilities June 30, 2009 financial statements, the Office's securities lending activities were reformatted to a more detailed presentation. The Fiscal Officer Responsibilities financial statements are two-year comparative statements; therefore, the June 30, 2008 securities lending activity also required reformatting. During this process, Office management discovered an error in the June 30, 2008 Fiscal Officer Responsibilities financial statements that caused an overstatement of $50,242,190. The error was the result of including two non-cash investments received as collateral for securities lending activities that the Office did not have the ability to pledge or sell. The error resulted in the amounts reported in Other Assets as securities lending collateral and Other Liabilities as obligations under securities lending to be overstated by $50,242,190 at June 30, 2008.

To summarize how the error in the June 30, 2008 financial statements occurred, during testing of the securities lending transactions for the previous audit the auditors posed a question to the Office regarding a difference between the securities lending collateral confirmed by the securities lending agent and the amount the Office had included in their financial statements. The auditors and Office staff determined the difference between the confirmation and the amount reported on the financial statements was the result of collateral from two lent securities not being included in the financial statements. The auditors inquired of Office staff if the two securities should be included in the amount reported on the financial statements. Office staff responded to the auditors that their file used to generate the financial statement amount was incorrect and provided an updated file including the two securities as well as revising the securities lending year end adjustment to reflect the amounts in the revised file. The auditors agreed with the Office's staff regarding the amount reported in the financial statements as collateral from securities lending activities. As noted in the previous paragraph, upon the reformatting of the securities lending presentation for the June 30, 2009 financial statements it was identified the collateral from the two securities lent should not have been included in the June 30, 2008 financial statements.

Strong management controls require procedures to include proper checks and balances and adequate supervision of all fiscal related activities to ensure proper financial reporting. Governmental Accounting Standards Board (GASB) Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, states "Securities lending transactions collateralized by letters of credit or by securities that the governmental entity does not have the ability to pledge or sell unless the borrower defaults should not be reported as assets and liabilities in the balance sheet."

CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 09-1** (Weakness in Financial Reporting of Securities Lending Transactions - Continued)

Office Management attributed the above error to incomplete information regarding financial reports provided by the Securities Lending Agent.

Failure to maintain adequate controls over the financial reporting process led to the June 30, 2008 financial statements being materially misstated. (Finding Code No. 09-1, 08-1, 07-1)

**RECOMMENDATION:**

We recommend the Office improve its internal control over the financial reporting process to ensure the accurate preparation of financial statements and disclosures.

**TREASURER'S RESPONSE:**

The Treasurer agrees with the recommendation.

The Treasurer will continue to evaluate and strengthen controls over the financial reporting process to ensure the accurate preparation of financial statements and disclosures.

# FINANCIAL STATEMENT REPORT

FISCAL OFFICER RESPONSIBILITIES

## FINANCIAL STATEMENT REPORT

## SUMMARY

The audits of the accompanying statements of assets, liabilities and accountabilities of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer) as of June 30, 2009 and 2008 and the statements of investment income for the years then ended were performed by Crowe Horwath LLP.

Based on their audits, the auditors expressed an unqualified opinion on the Treasurer's financial statements. The financial statements of the Treasurer's Fiscal Officer Responsibilities have been prepared on a basis of accounting other than accounting principles generally accepted in the United States of America.

# AUDITORS' REPORTS

Crowe Horwath

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# 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 State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the years ended June 30, 2009 and 2008, as listed in the Table of Contents. These financial statements are the responsibility of the management of the Treasurer. Our responsibility is to express an opinion on these financial statements based on our audits. The June 30, 2008 financial statements are presented for comparative purposes and, in our report dated March 25, 2009, we expressed an unqualified opinion on the respective statements. However, as discussed in the sixth paragraph of this report, the June 30, 2008 financial statements have been restated to reflect the correction of an error in those previously issued financial statements.

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 B, the financial statements of the Treasurer have been prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements referred to above have been prepared on the basis of the State of Illinois Fiscal Regulations and the reporting requirements of the Auditor General of the State of Illinois. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Treasurer as of June 30, 2009 and 2008.

In our opinion, the financial statements referred to above, revised as described in Note L, present fairly, in all material respects, the assets, liabilities and accountabilities of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities, as of June 30, 2009 and 2008, and the results of its investment activity for the years then ended in conformity with the basis of presentation described in the Summary of Significant Accounting Policies-Basis of Presentation footnote.

As discussed in Note L to the financial statements, the Treasurer's June 30, 2008 financial statements reported securities lending collateral as $1,570,346,250, but should have been $1,520,104,060. This discovery was made subsequent to the issuance of the financial statements. The previously issued financial statements have been restated to reflect this correction. The previously issued auditors' report dated March 25, 2009 should not be relied on because the previously issued financial statements were materially misstated and is hereby replaced by the report on the restated financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2010 on our consideration 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. Finding 09-1, referenced within our report (page 9) contains a discussion of a material weakness in internal control over financial reporting which resulted in the restatement of the June 30, 2008 financial statements, as discussed in the preceding paragraph of this report.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Fiscal Officer Responsibilities of the State of Illinois, Office of the Treasurer. The schedules of assets, liabilities and accountabilities, the assets detail, the liabilities and accountabilities detail, the investment income, the administrative responsibilities detail for the protest trust fund, inheritance and estate taxes, and the tobacco settlement recovery fund, the key performance measures, and the investment policy listed in the Table of Contents on pages 44 to 74 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of assets, liabilities and accountabilities, the assets detail, the liabilities and accountabilities detail, the investment income, the administrative responsibilities detail for the protest trust fund, inheritance and estate taxes, and the tobacco settlement recovery fund 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 audits of the financial statements, and accordingly, we express no opinion on them.

Crowe Horwath LLP

Crowe Horwath LLP

Springfield, Illinois
April 30, 2010

# FINANCIAL STATEMENTS

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
STATEMENTS OF ASSETS, LIABILITIES AND ACCOUNTABILITIES
June 30

| | 2009 | 2008 (restated) |
|---|---|---|
| ASSETS AND OTHER DEBITS | | |
| CASH AND CASH EQUIVALENTS | | |
| Demand deposits | $ 203,677,383 | $ 3,165,146 |
| Clearing account deposits and deposits in transit | 62,880,119 | 46,016,122 |
| Total cash | 266,557,502 | 49,181,268 |
| Time deposits | 1,585,000 | 15,450,000 |
| Repurchase Agreements | 750,886,440 | 1,845,761,672 |
| Commercial Paper | 899,996,209 | 1,297,283,528 |
| The Illinois Funds | 1,017,510,305 | 1,048,351,860 |
| Money Market Mutual Funds | 3,053,445,996 | 899,550,147 |
| Mortgage Reserve Fund | 532 | 12,408 |
| Total cash and cash equivalents | 5,989,981,984 | 5,155,590,883 |
| DEPOSITS AND INVESTMENTS | | |
| Short-term investments | | |
| Time deposits | 846,466,157 | 1,483,959,038 |
| Commercial Paper | 499,208,111 | 246,325,028 |
| Federal Farm Credit Bank Bond | 591,000 | 340,483,000 |
| Federal Home Loan Mortgage Corporation | 12,834,100 | 70,342,431 |
| Federal Home Loan Bank | 76,015,088 | 321,689,675 |
| Federal National Mortgage Association | 25,519,862 | 9,888,326 |
| Foreign Investments | 10,000,000 | 19,998,551 |
| Long-term investments | | |
| Time deposits | 63,420,988 | 108,291,215 |
| Federal Farm Credit Bank Bond | - | 84,000 |
| Federal Farm Credit Bank Notes | 99,701,586 | 25,183,153 |
| Federal Home Loan Mortgage Corporation | 277,815,546 | 430,767,539 |
| Federal Home Loan Bank | 51,368,972 | 391,422,203 |
| Federal National Mortgage Association | 413,044,626 | 626,573,727 |
| Federal Deposit Insurance Corporation Guarantee Notes | 100,876,050 | - |
| State of Illinois Secondary Pool Investment Program | 579,180 | 628,625 |
| Illinois Technology Development | 18,689,216 | 16,495,666 |
| Foreign Investments | 10,000,000 | 10,000,000 |
| Total deposits and investments | 2,506,130,482 | 4,102,132,177 |
| SECURITIES LENDING COLLATERAL | | |
| Invested in Repurchase Agreements | 961,058,174 | 1,520,104,060 |
| Cash | 499,228 | - |
| Total Securities Lending Collateral | 961,557,402 | 1,520,104,060 |
| OTHER ASSETS | | |
| Warrants cashed, but not canceled | 2,762,541 | 2,490,771 |
| Receivables from universities, agencies and retirement systems for monies advanced and securities purchased | 384,967 | 403,271 |
| Receivable from City of Edwardsville | 288,982 | 295,875 |
| Investment income earned, but not received | 15,081,009 | 24,564,811 |
| Illinois Insured Mortgage Pilot Program Trust | 1,543,393 | 6,438,919 |
| Total other assets | 20,060,892 | 34,193,647 |

The accompanying notes are an integral part of these statements.

| | 2009 | 2008 (restated) |
|---|---|---|
| OTHER DEBITS | | |
| Amount of future general revenue obligated for debt service | 33,485,887,771 | 33,598,442,201 |
| Total assets and other debits | $ 42,963,618,531 | $ 44,410,462,968 |
| LIABILITIES AND ACCOUNTABILITIES | | |
| LIABILITIES FOR BALANCES ON DEPOSIT | | |
| Comptroller | | |
| Protested taxes | $ 436,093,830 | $ 414,881,860 |
| Available for appropriation or expenditure | 6,166,660,781 | 6,480,054,125 |
| Agencies' deposits outside the State Treasury | 702,686,565 | 871,900,032 |
| Comptroller's warrants outstanding | 557,061,122 | 871,289,866 |
| Total liabilities for balances on deposit | 7,862,502,298 | 8,638,125,883 |
| OTHER LIABILITITES | | |
| Obligations under securities lending | 961,557,402 | 1,520,104,060 |
| Total Other Liabilities | 961,557,402 | 1,520,104,060 |
| GENERAL OBLIGATION INDEBTEDNESS | | |
| Principal and interest due within one year | 2,734,718,625 | 1,705,228,129 |
| Thereafter | 31,390,372,513 | 32,528,130,553 |
| Total general obligation indebtedness | 34,125,091,138 | 34,233,358,682 |
| ACCOUNTABILITIES | | |
| Receivable from City of Edwardsville | 288,982 | 295,875 |
| Investment income earned, but not received (net of cumulative market adjustments) | 14,176,222 | 18,564,098 |
| Federal Reserve Bank settlement account reserve | 1,957 | 1,962 |
| Mortgage Reserve Fund | 532 | 12,408 |
| Total accountabilities | 14,467,693 | 18,874,343 |
| Total liabilities and accountabilities | $ 42,963,618,531 | $ 44,410,462,968 |

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
STATEMENTS OF INVESTMENT INCOME
For the Years Ended June 30

| | 2009 | 2008 |
|---|---|---|
| Investment income earned | $ 165,518,156 | $ 375,516,199 |

The accompanying notes are an integral part of these statements.

## NOTE A - AUTHORIZING LEGISLATION

The State of Illinois, Office of the Treasurer, is authorized by the State Treasurer Act (15 ILCS 505/et seq.). The State Treasurer shall receive the revenue and all other public monies of the State, and all monies authorized by law to be paid to it and safely keep the same.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: The State of Illinois, Office of the Treasurer is not a legally separate entity. It is an office of the primary government, which is the State of Illinois (the State) and is considered part of the State financial reporting entity. As such, it is included in the State of Illinois reporting entity. The Treasurer is custodian of the State's cash and investments comprised of the balances in the separate funds, which are considered to be either in the State Treasury or outside the State Treasury. Accounting control for funds outside the State Treasury is the responsibility of other State agencies. Further, the Treasurer is not responsible for determining that all cash received by State agencies is deposited in the State Treasury.

Basis of Presentation: The accompanying statements of assets, liabilities and accountabilities and of investment income have been prepared on the basis of State of Illinois fiscal regulations and the reporting requirements of the Auditor General. These statements do not present the financial position of the Treasurer and results of investment activity in accordance with accounting principles generally accepted in the United States of America because, with three exceptions, the statements only present those assets and activities for which the Treasurer is held accountable by statute in its fiscal officer responsibilities. The exceptions are the securities, funds and other assets of The Illinois Funds and College Savings Program and amounts receivable from inheritance tax assessments. The financial statements of The Illinois Funds and College Savings Program are audited annually and reported upon separately. See Administrative Responsibilities in the Supplementary Information section for inheritance and estate taxes.

State Treasury Funds: The accounting for the State Treasury Fund group, with the exception of general obligation indebtedness and the related amount of future general revenue obligated for debt service, is presented on a basis whereby: (a) assets in the State Treasury and the related liability to the Comptroller for available balances on deposit are recognized at the time the Comptroller "orders" cash into the State Treasury; (b) the liability to the Comptroller is reduced as warrants are presented to the Treasurer for countersignature; and (c) the cash in the State Treasury is reduced as warrants are paid by the Treasurer.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Funds Outside the State Treasury: Funds outside the State Treasury consist of State assets held by the Treasurer, primarily deposits in clearing accounts, demand deposits and temporary investments, which are not under the accounting control of the Comptroller. Such funds and the related liabilities or accountabilities to the depositing State agencies are recognized when the funds are deposited in clearing accounts or certain demand deposit accounts with the Treasurer. This liability or accountability is transferred to funds available for appropriation or expenditure when the Comptroller orders the funds into the State Treasury.

General Obligation Indebtedness: The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The amount to be derived from future revenue for debt service is the difference between the currently outstanding certificates and bonded indebtedness and available balances in the bond redemption and interest fund. The expenditures from the proceeds of the certificates and bond issues are accounted for by other State agencies. This balance represents a liability that is not in compliance with accounting principles generally accepted in the United States of America. It represents the future revenue that will be needed to provide for future debt service.

Investment Income: Investment income is recorded by the Treasurer using the accrual basis of accounting whereby income is recognized and an accountability established as income is earned. Investment income is adjusted for the change in fair value before the income is allocated to the funds. Funds participating in the investment pool are allocated income monthly based on their proportionate share of the pooled investment base. As authorized by statute, segregated funds are individually invested and specifically credited with the income earned on those investments.

Cash and Cash Equivalents: Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

Use of Estimates: In preparing financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities during the reporting period. Actual results could differ from those estimates.

**NOTE C - COMPENSATING BANKS FOR SERVICES**

The principal method of payment for receipt and disbursement processing services provided by banks is by warrant from the Treasurer's Bank Services Trust Fund appropriation.

## NOTE D - DEPOSITS AND INVESTMENTS

Overview: The Treasurer's investment activities are governed by the Treasurer's published investment policy that was developed in accordance with the State statute. Investments are recorded at fair market value, with the exception of Commercial Paper and investments in the Illinois Technology Program which are valued at amortized cost. Short-term investments have a maturity date of less than one year. Unrealized gains and losses are accounted for in the investment in which the change in fair value occurred. In addition, the Treasurer's Office has adopted its own investment practices that supplement the statutory requirements.

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 Treasurer's investment policy limits the investment portfolio to maturities not to exceed five years with the majority required to be in authorized investments with less than one-year maturity. No more than 10% of the investment portfolio shall be allocated to investments with a 2 to 4 year maturity band. No more than 10% of the investment portfolio shall be allocated to investments with a 4 to 5 year maturity band. The portfolio shall not deviate from these guidelines unless specifically authorized by the Treasurer in writing. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Cash received by the Treasurer is initially deposited in clearing accounts maintained in banks located in Illinois that are insured by the Federal Deposit Insurance Corporation (FDIC). Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase. Surplus funds, as determined by the Treasurer, may be invested in time deposits, certificates of deposit and other interest-bearing accounts in FDIC-insured banks and savings and loan associations located in the State, credit unions whose principal office is located in Illinois, short-term obligations of corporations whose obligations (i.e. commercial paper) are rated by two or more standard rating services at a level that is at least as high as the following: A-1 by Standard & Poor's, P-1 by Moody's Investor Service, F-1 by Fitch, D-1 by Duff & Phelps Credit Rating Company, A1 by IBCA, and TBW-1 by Thompson Bank Watch, repurchase agreements or other investments approved by State law. As of June 30, 2009, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard and Poor's Ratings, except for those issued by General Electric, which were rated A-1+ by Standard and Poor's Ratings. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, are rated P-1 by Moody's Investors Service or F1+ by Fitch Ratings. The Treasurer's long-term investments in all U.S. Agency obligations are rated Aaa by Moody's Investors Service or AAA by Fitch Ratings. The Treasurer's short-term investment in foreign debt securities is rated A-1+ by Standard & Poor's.

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

The Treasurer's long-term investment in foreign debt securities is rated A1 by Moody's Investors Service and AA- by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds is rated AAAm by Standard & Poor's. The Treasurer's investments in money market mutual funds are rated Aaa by Moody's Investors Service and AAAm by Standard & Poor's, except for those issued by American Freedom Funds and Allegiant Funds, which were not rated by Moody's Investors Service or Fitch Ratings. The Treasurer's securities lending collateral investments in repurchase agreements are rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's, except for BNP Paribus Securities Corporation which is rated A-1+ by Standard and Poor's.

The amount of the deposit not covered by Federal deposit insurance for all time deposits is required to be collateralized. Securities pledged as collateral to secure these deposits are required to have a market value at an established percentage of the deposit based on the type of security pledged. Securities that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts, which require a market value of at least 105% of the deposit. If the obligation of the United States and its agencies is a mortgage backed security, the securities pledged as collateral are required to have a market value of at least 110% of the deposit. Other securities that may be pledged as collateral to secure time deposits are MBIA Certificates (issued by the Municipal Bond Investors Assurance Corporation), Letters of Credit (issued by Federal Home Loan Bank (FHLB)), and Share Certificates (issued by credit unions), which require a market value of at least 102% of the deposit.

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit was made. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial bank. Prior to placing the deposit and at least monthly thereafter, the Treasurer determines that the collateral has a market value adequate to secure the deposit.

The Treasurer has established accounts with The Illinois Funds for investment of State funds. The Illinois Funds participation provides comparable yields, a source of liquidity and requires less administrative intervention than other short-term investments. The management, custodianship and operation of The Illinois Funds are under the supervision of the State of Illinois, Office of the Treasurer.

The Treasurer purchased investments in fourteen mutual funds. These mutual funds provide a comparable yield to other investments, particularly during times of falling interest rates and are a source of liquidity when cash is needed. Investments to the mutual funds can be made daily and interest income is received monthly.

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

Repurchase agreements are purchased from various financial institutions and rated brokerage firms located in the State. 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 on underlying securities to ensure the agreements are adequately collateralized. The Treasurer accepts only obligations of the United States government or its sponsored agencies as collateral for repurchase agreements.

All securities pledged to secure repurchase agreements are required to be delivered to a bank other than the institution from whom the investment was acquired. A written custodial agreement with the banks that hold the Treasurer's repurchase agreement collateral requires, among other things, that the collateral securities be held separately from the assets of the bank.

Commercial paper is purchased from various brokerage firms located in the State and is held in safekeeping by a bank for the Treasurer. A written custodial agreement requires, among other things, that the safekeeping bank hold the commercial paper separately from the assets of the bank.

Federal Farm Credit Banks Consolidated Systemwide Bonds are purchased from AgriBank, St. Paul, Minnesota. These bonds are held in book entry form in the Treasurer's account at the Federal Reserve Bank of Chicago. Bond proceeds are loaned to Illinois farmers through participating Production Credit Associations. Timely payments of interest and ultimate repayment of principal are 100% guaranteed by the AgriBank, a U.S. Government corporation.

The Treasurer's investment in the State of Illinois Secondary Pool Investment Program was deposited in a trust to purchase a security interest in a pool of Small Business Administration (SBA), Federal Home Loan Mortgage Corporation Adjustable Rate Mortgage (FHLMC ARM), and Federal National Mortgage Association Adjustable Rate Mortgage (FNMA ARM) loans. The securities have a floating rate indexed to the prime rate as quoted in *The Wall Street Journal* and are adjusted quarterly. The pool is guaranteed by the U.S. Government and/or the respective agency. The Trustee for the program is JP Morgan. The primary pool assembler is Meridian Capital Markets, Inc. Dana Investment Advisors, Inc. works with Meridian to assemble the SBA pools and to establish a fair market price. The pool's investment advisor is Mesirow Advanced Strategies, Inc.

The Treasurer has purchased investments in U.S. Treasury Agencies. These Treasury purchases permit greater portfolio diversification, provide comparable yields to other investment options, and provide liquidity due to the active secondary market.

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

Deposits: The carrying amount of all the Treasurer's demand and time deposits at June 30, 2009, was $ 266,557,502 and $ 911,472,145, respectively. The carrying amount of all the Treasurer's demand and time deposits at June 30, 2008, was $ 49,181,268 and $ 1,607,700,253, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2009, was $ 265,410,891 and $ 911,472,145, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2008, was $ 47,082,814 and $ 1,607,700,253, respectively.

Investments: Excluding Time Deposits, the Treasurer had the following investments, stated at market value except for Commercial Paper and Federal Farm Credit Bank Bond, and maturities as of June 30. (Amounts are in thousands.)

2009

| | Cash Equivalents | Less than 1 year | 1 - 5 years | 6 - 10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| Commercial Paper | $ 899,996 | $ 499,208 | $ - | $ - | $ - | $ 1,399,204 |
| Repurchase Agreements | 750,886 | - | - | - | - | 750,886 |
| Federal Farm Credit Bank Bond* | - | 591 | - | - | - | 591 |
| Federal Farm Credit Bank Notes | - | - | 99,702 | - | - | 99,702 |
| Federal Home Loan Bank | - | 76,015 | 51,369 | - | - | 127,384 |
| Federal Home Loan Mortgage Corporation | - | 12,834 | 277,815 | - | - | 290,649 |
| Federal National Mortgage Association | - | 25,520 | 413,045 | - | - | 438,565 |
| Federal Deposit Insurance Corporation Guarantee Notes | - | - | 100,876 | - | - | 100,876 |
| State of Illinois Secondary Pool Investment Program | - | - | | 128 | 451 | 579 |
| Foreign Investments** | - | 10,000 | 10,000 | - | - | 20,000 |
| Securities Lending Collateral invested in Repurchase Agreements | 661,058 | 300,000 | - | - | - | 961,058 |
| Subtotal | $ 2,311,940 | $ 924,168 | $ 952,807 | $ 128 | $ 451 | 4,189,494 |
| Illinois Technology Development | | | | | | 18,689 |
| The Illinois Funds | | | | | | 1,017,511 |
| Money Market Mutual Funds | | | | | | 3,053,446 |
| Mortgage Reserve Fund | | | | | | 1 |
| Total Investments, excluding Time Deposits | | | | | | $ 8,279,141 |

## NOTE D - DEPOSITS AND INVESTMENTS (Continued)

2008

| | Cash Equivalents | Less than 1 year | 1 - 5 years | 6 - 10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| Commercial Paper | $ 1,297,283 | $ 246,325 | $ - | $ - | $ - | $ 1,543,608 |
| Repurchase Agreements | 1,845,762 | - | - | - | - | 1,845,762 |
| Federal Farm Credit Bank Bond* | - | 340,483 | 84 | - | - | 340,567 |
| Federal Farm Credit Bank Notes | - | - | 25,183 | - | - | 25,183 |
| Federal Home Loan Bank | - | 321,690 | 391,422 | - | - | 713,112 |
| Federal Home Loan Mortgage Corporation | - | 70,342 | 430,768 | - | - | 501,110 |
| Federal National Mortgage Association | - | 9,888 | 626,574 | - | - | 636,462 |
| State of Illinois Secondary Pool Investment Program | - | - | - | 28 | 601 | 629 |
| Foreign Investments** | - | 19,998 | 10,000 | - | - | 29,998 |
| Securities Lending Collateral invested in Repurchase Agreements | 1,520,104 | - | - | - | - | 1,520,104 |
| Subtotal | $ 4,663,149 | $ 1,008,726 | $ 1,484,031 | $ 28 | $ 601 | 7,156,535 |
| Illinois Technology Development | | | | | | 16,496 |
| The Illinois Funds | | | | | | 1,048,352 |
| Money Market Mutual Funds | | | | | | 899,550 |
| Mortgage Reserve Fund | | | | | | 12 |
| Total Investments, excluding Time Deposits | | | | | | $ 9,120,945 |

*These securities are not actively traded on the open market. Furthermore, it is management's intention to hold these investments until maturity. Since these investments are not traded on the open market, establishing a market value as of June 30, at an amount other than the par value is not possible.

**Denominated in US dollars.

The Treasurer's net increase in the fair value of investments during 2009 and 2008 was $ 12,191,801 and $ 10,531,828, respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year.

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount, including accrued interest, was approximately $ 750,886,440 and $ 1,845,761,672, and the market value of the collateral securities to be resold based on

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

commitments under the repurchase agreements was approximately $ 788,320,832 and $ 1,905,957,967, as of June 30, 2009 and 2008, respectively.

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying Value | % of Total Investments | Carrying Value | % of Total Investments |
| Repurchase Agreements: | | | | |
| Bank of America | $ - | - | $ 649,950 | 7.13 |
| Mizuho Securities | 526,150 | 6.36 | - | - |
| Northern Trust | - | - | 545,812 | 5.98 |
| UBS Finance | - | - | 650,000 | 7.13 |
| Commercial Paper: | | | | |
| G.E. Capital | 499,998 | 6.04 | 599,963 | 6.58 |
| Money Market Mutual Fund: | | | | |
| Goldman Sachs MM Treasury Curve | 1,000,000 | 12.08 | 720,000 | 7.89 |
| AIM Institutional Funds | 485,000 | 5.86 | - | - |
| Federated MM Treasury Curve | 973,800 | 11.76 | - | - |
| Securities Lending Collateral invested in Repurchase Agreements: | | | | |
| Goldman Sachs Group | 425,000 | 5.13 | - | - |

Securities Lending Transactions: Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, the State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Dresdner Bank AG, New York Branch (Dresdner) to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2009 and 2008, Dresdner lent U.S. agency securities and received as collateral U.S. dollar denominated cash or U.S. agency securities. The collateral securities cannot be pledged or sold by the Treasurer unless the borrower defaults. Borrowers were required to deliver collateral for each loan equal to at least 102% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 102%.

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

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Dresdner provides the State Treasurer with counterparty default indemnification. In addition, Dresdner is obligated to indemnify the State Treasurer if Dresdner loses any securities, collateral or investments of the State Treasurer in Dresdner's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Dresdner.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Dresdner and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The cash collateral held and the market value of securities on loan for the State Treasurer as of June 30, 2009 were $961,557,402 and $945,946,339, respectively. The total collateral held and the market value of securities on loan for the State Treasurer as of June 30, 2008 were $1,570,346,250 and $1,454,922,491, respectively. The cash collateral held as of June 30, 2008 was $1,520,104,060.

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST**

The Illinois Insured Mortgage Pilot Program Trust (the Trust) was created in October 1982 in order to stimulate construction activity in the State. The State purchased $ 120,000,000 of investment certificates for which the underlying collateral was a pool of mortgage loans issued by American National Bank and Trust Company of Chicago ("Trustee") for the purpose of providing financing to approved construction projects. The principal terms of the loans required "interest only" payments for seven years following the completion of construction with full payment of the outstanding principal balance at the end of the seventh year.

Prior to July 1, 1990, $69,790,000 of loans had been repaid prior to maturity. The remaining balance of $50,210,000 was loaned under seven mortgage agreements. Three mortgage agreements, originally totaling $40,650,000 were secured by hotel properties. The other four mortgage agreements, originally totaling $9,560,000 were secured by commercial properties.

In July 1991, Bank One, Springfield replaced American National Bank and Trust Company as trustee of the Program. On February 24, 1995, Heritage/Pullman Bank & Trust Company replaced Bank One, Springfield as trustee of the program. In 2001, Cosmopolitan Bank & Trust Company bought out Pullman Bank & Trust Company thus becoming trustee of the program. Park National Bank became the trustee of the program in January 2006 as a result of the merger

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST** (Continued)

of Cosmopolitan Bank & Trust Company and four other Illinois banks. In October 2009, US Bank acquired the assets of Park National Bank, becoming the next trustee.

Hotel Properties: The two hotel loans, totaling $ 28,900,000, owned by the Trust, were restructured during fiscal year 1988. The restructured agreements were signed in December 1987, and January 1988. The restructured agreements extended the maturity from November 1990 for the Holiday Inn, Collinsville hotel and from December 1991 for the President Abraham Lincoln Hotel and Conference Center (President Lincoln), formerly the Renaissance, Springfield hotel to January 12, 1995, for both hotels. Monthly interest payments were required and all principal was due upon maturity. The average interest rates were reduced from 12 1/4% to 8% per annum retroactive to January 12, 1987. Annual interest rates were to increase from 2% to 14% during the 8-year period. Under the terms of the agreements, $ 4,339,000 of past-due interest was capitalized. It was the Treasurer's position that collection of the capitalized interest was uncertain and thus, was not added to the recorded value. Additionally, portions of the loan balances, including the capitalized interest, were guaranteed by a surety bond and letters of credit.

The President Lincoln, Springfield hotel, with an original loan balance of $ 15,500,000 entered into a second restructuring agreement on April 30, 1990, retroactive to January 1, 1990. The agreement requires quarterly payments based on cash flow, as defined therein, applied first to any outstanding principal. Interest is charged at 6% per annum on the outstanding principal; however, this interest is deferred until the principal has been satisfied and no interest is charged on deferred interest. The maturity date was extended to January 1, 2010; however, if the sum of unpaid principal and interest deferrals exceeds $ 18,000,000 at any time after January 1, 1999, the loan becomes immediately due by default. As of June 30, 2009 and 2008, the unpaid principal and interest totaled approximately $ 27,678,606 and $ 30,692,895, respectively.

Under the original restructured agreement effective January 12, 1987, the surety bond primarily covered 15% of the loan and accrued interest up to a maximum of $ 2,245,000. The amended surety bond under the current restructured agreement requires the borrower, at the borrower's expense, to maintain and keep in force during the term of the loan, a surety bond guaranteeing to the lender, in the amounts set forth in Schedule 1 of the Second Mortgage Loan Restructuring Closing Book, all or a portion of the Principal Amount. The lender has 45 days upon default to notify the surety that there is a default and potential claim against the surety bond. Once the lender has obtained merchantable title, it can proceed with a claim against the surety bond. The surety can choose one of three options to determine the amount of its payment to the lender. It may pay: 1) the lesser of the percentage amount of the loss or the Maximum Amount for a claim made (as defined in Endorsement 2, Addendum A of the Agreement), or 2) the entire amount of the loss if the principal sum is in default and if the lender provides the surety with a merchantable title, or 3) the amount of the interest in default and assume the principal's

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST** (Continued)

obligation to pay future interest due and the principal sum provided the lender provides the surety with merchantable title. After lengthy negotiations, on May 1, 2009, the Trust and the surety company settled this issue of the outstanding surety bond for $5.65 million, with title to the hotel remaining with the Trust.

The Holiday Inn, Collinsville hotel, with an original loan balance of $ 13,400,000, signed a second restructuring agreement on January 10, 1991, retroactive to January 1, 1991. The terms of this agreement are similar to those discussed in the preceding paragraph, and results in required payments based on a calculation of defined cash flow, which are applied first to outstanding principal. Accrued and unpaid interest of approximately $ 428,000 was capitalized upon the second restructuring, but was not added to the Treasurer's recorded value. Interest is charged at 6% per annum on the outstanding principal; however, this interest is deferred until the principal has been satisfied and no interest is charged on deferred interest. The maturity date was extended to January 1, 2010; however, if at any time after January 1, 1999, the sum of unpaid principal and interest deferrals exceeds $ 17,700,000, the loan becomes immediately due by default. The unpaid principal and interest totaled approximately $ 2,060,680 and $ 7,302,022 at June 30, 2009 and 2008, respectively.

As additional security for the loan, the borrower, at the borrower's expense, must obtain and deliver to the Trustee, no later than the closing date, and must maintain and keep in force during the term of the loan one or more unconditional, irrevocable, letters of credit in a total amount not less than 15% of the principal amount, issued by institutions which have a net worth of no less then ten million dollars. Furthermore, as described in the agreement regarding additional collateral, the borrower must, in cases when the additional collateral is set to expire within 60 days, deliver to the lender substitute collateral no later than 30 days prior to the date of such scheduled expiration. In the event that the substitute collateral is not received within the specified time, the lender can declare an event of default and immediately draw upon the additional security. The letters of credit expire on either December 15 or December 31 of each year. Provided that the borrower is not in default under the restructured loan documents, the amount of additional collateral can be adjusted to an amount equal to the lesser of: 1) the percentage of the loss or 2) the Maximum Amount, both of which are defined in Schedule 1 of the Second Agreement to Restructure the Loan. At a default date, the borrower has the option of providing additional collateral equal to either the Maximum Amount of $ 3,060,000 or 64% of the loss. The value of the letter of credit equals $ 1,637,375 and $ 1,637,375 as of June 30, 2009 and 2008, respectively. Pursuant to the restructuring agreement, the Collinsville Mortgage is also secured by a personal guarantee in the maximum amount of $ 1,500,000. However, personal financial statements from the guarantors are not readily available, and thus the estimated value of the guarantee is unknown.

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST** (Continued)

The hotel loans are considered to be nonperforming assets and, as such, interest is recorded only if received. If the interest receivable were recorded, the accrued interest balances for the hotels at June 30, 2009 and 2008, would be as follows:

| | (In thousands) | | |
|---|---|---|---|
| | Springfield | Collinsville | Total |
| Accrued interest receivable - June 30, 2009 | $ 373 | $ 62 | $ 435 |
| Accrued interest receivable - June 30, 2008 | $ 1,109 | $ 408 | $ 1,517 |

During 1995, the Treasurer authorized the Trustee, Pullman Bank and Trust Company, to sell the mortgage notes for $ 10 million, an amount that was greater than the most recent independent valuation available at the time. The Illinois Attorney General opined that his consent to the proposed sale was required and he refused to give it. As a consequence, the Treasurer did not proceed with the transaction.

Affiliates of the owners of the Springfield President Lincoln Hotel and the Collinsville Holiday Inn (plaintiffs) filed a lawsuit December 29, 1995, against the Trustee and the Treasurer seeking specific performance of the buy-sell agreement on which the terms agreed.

On March 13, 2000, the Circuit Court in Madison County entered a judgment order requiring the Trustee and Treasurer to sell the mortgage loans on the hotel properties to the plaintiffs. The court found that the plaintiffs were ready, willing and able to perform the buy-sell agreements at the time originally set for closing in 1995. The Trustee and the Treasurer appealed the order. Appellate briefings were completed in February 2001 and oral arguments were heard later that year. The Illinois Appellate Court, Fifth District, affirmed the Circuit Court's decision in all material respects. An appeal of that ruling was petitioned by the Trustee to the Illinois Supreme Court and granted on October 7, 2003. As of June 3, 2005, the Illinois Supreme Court reversed the Appellate Court's decision on the basis of sovereign immunity. The plaintiffs requested that the Illinois Supreme Court reconsider its decision. If the Illinois Supreme Court declined to do so, the case would be remanded to the Madison County Circuit Court and the stays would be vacated.

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST** (Continued)

The Trustee of the Illinois Insured Mortgage Pilot Program at the direction of the Illinois State Treasurer filed two lawsuits on October 31, 1997, one against the Collinsville Hotel Venture and the other against the President Lincoln Hotel Venture, for breaching their cash flow notes by improperly deducting capital expenditures from cash flow in violation of their respective loan agreements. The loan agreements provide that capital expenditures may be deducted from cash flow only to the extent that payments pre-approved by the Trustee are made by the Ventures into a capital reserve account. The Trustee claimed that these violations of the loan agreements, and the failure of the Ventures to pay upon demand money they improperly deducted from cash flow, constituted a default of the notes making them immediately due and payable.

The two lawsuits were filed in Cook County. The borrowers both asked the Court to stay the lawsuits while the Madison County action was pending, and their motions were granted.

After the final judgment was entered in the Madison County case, the Judge in Cook County who presided over the matter related to the default on the Collinsville property lifted his stay. Plaintiffs in the Madison County case then asked the Court to hold the Trustee and its counsel in contempt for pursuing the Cook County case. Eventually, the Trustee petitioned the Illinois Supreme Court for a supervisory order to allow it to proceed prosecuting the Cook County case without being held in contempt by the Madison County Court. The Supreme Court issued such a supervisory order in the fall of 2001, and the Cook County case proceeded. However, the Cook County case against the Springfield Hotel remained stayed.

As a result of discovery in the Collinsville case, the Trustee determined that there had been additional events of default, and as a result it filed an amended complaint. In 2006, the Circuit Court of Cook County entered judgment in favor of the trustee and against the borrowers declaring that the loan was in default and authorizing the Trustee to pursue collection proceedings against the personal guarantee. The borrowers petitioned the Court to reconsider its order. The petition was rejected by the Court and collection proceedings have been commenced against the guarantors. Citations to discover assets of the guarantors have been served. One guarantor's lawyer filed an appearance and a motion to quash certain citations. The other guarantor's lawyer sent a copy of an un-filed appearance and produced some documents in response to the citations. The Trust continues to pursue attempts to collect on the guarantee.

In 1997, the trustee endeavored to draw on the letters of credit then in its possession. That attempt was enjoined by orders entered in the lawsuit filed in 1995 seeking to compel the trustee to sell the borrower's loan documents. As of April 24, 2006, such orders ceased to bind the trustee. In July of 2006, the trustee again presented drafts on all letters of credit and collected $439,625 from The Bank of Edwardsville, $300,000 from U.S. Bank National

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST** (Continued)

Association, and $260,000 from Bank of America. The payments were recorded as a reduction of principal. Regions Bank is refusing to pay the letters of credit it holds, which total $ 1,637,375. A suit against Regions Bank has been filed in federal court. Regions Bank appeared and filed an answer, affirmative defenses, and a third-party complaint. As of June 30, 2009, the Trust's attorneys continue to pursue this matter.

On January 2, 2007, the trustee of the Trust filed foreclosure complaints against the both Collinsville Hotel Venture and the President Lincoln Hotel Venture.

The Collinsville hotel foreclosure complaint was filed in the Madison County Circuit Court following (a) the entry of a judgment order in June 2006 by a Cook County circuit judge declaring the Hotel to be in default of its loan, and also entering a judgment in the amount of $1.5 million against two individuals who partially guaranteed the loan; and (b) the entry of an order in the same court denying the Hotel's motion to reconsider the ruling. The interest rate was changed to reflect the statutory judgment rate of 9% per annum on the outstanding principal plus interest. The foreclosure complaint also requested the court appoint a receiver to operate the Hotel during foreclosure proceedings, and on January 12, 2007, an order appointing a receiver was entered. The receiver assumed management of the property that day. Accrued and unpaid interest of approximately $ 14,315,000 was capitalized upon judgment order, but was not added to the Treasurer's recorded value.

Pursuant to the Judgment of Foreclosure and Sale, which was entered on May 17, 2007, the Madison County Court conducted a foreclosure sale on October 18, 2007. At that sale, the Hotel and all associated property were sold to the trust, as high bidder on the property, for $25,375,654. The sale price was paid in full through the trust's credit of the sale price against the unpaid principal and interest secured by the mortgage on the property. At the time of the sale, the remaining debt on the property amounted to $6,893,991. Judgment interest continues to accrue on the debt. On November 1, 2007, the court issued a judicial deed, and the trust therefore took title to the property.

Through a real estate auction house, the Trust began marketing the property to potential private buyers. After a sealed bid auction, the Trust sold the property to a hotel developer for $5.25 million. The sale closed on August 26, 2008. The parties remain in post-closing phase, sorting through final distribution of outstanding assets that were sold with the hotel and issues such as payment of outstanding property taxes. As of June 30, 2009, the Trust has received approximately $600,000 from an outstanding operating account.

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST** (Continued)

The trustee is concurrently pursuing collection proceedings with respect to the judgment it obtained against the guarantors, and it has filed a lawsuit in the United States District Court for the Northern District of Illinois against Regions Bank to seek payment on four letters of credit, totaling $ 1,637,375, that were additional collateral for the loan. Before settling this litigation, the parties needed to resolve an outstanding lien held by the IRS on one of the properties. On September 29, 2008, the Circuit Court of Cook County confirmed the sale of property located at 1810 Vandalia in Collinsville for $420,000. A portion of the funds will be applied to the cost of sale, and the remainder of the funds were applied to satisfy the IRS lien. The IRS then released its tax lien against the debtor. The parties are in the midst of settling this litigation. At a November 19, 2008 settlement conference, the parties agreed to a settlement in principle and began working on drafting the written settlement agreement and release, which would resolve the litigation. The settlement conference was continued to December 5, 2008. At the December 5, status hearing, counsel for one of the debtors disclosed that the health of the debtor was deteriorating, and the debtor was not capable of signing the settlement agreement. The matter was therefore again continued to January 28, 2009, to allow the parties some time to resolve the issue of determining who could execute the settlement documents on the debtor's behalf. The debtor died shortly after this court hearing. The matter was continued to March 20, 2009 to provide the estate and its executor sufficient time to prepare all documents. The parties continued settlement discussions on September 29, 2009, at which time, the court continued the matter to December 4, 2009 for a final settlement conference. On that date, the court cancelled the conference and continued the matter. The parties appeared in court on April 13, 2010 for a status hearing. The court continued the matter until April 26, 2010, at which time a final status hearing was held. The parties continue to work on finalizing the settlement agreement.

The President Lincoln hotel foreclosure complaint was filed in the Sangamon County Circuit Court following a ruling in December 2006 by a Cook County circuit judge declaring the Hotel to be in default of its loan. The complaint also requested the court appoint a receiver to operate the Hotel during foreclosure proceedings. On March 1, 2007, a court-appointed receiver formally took over operations of the President Lincoln Hotel. On January 18, 2008, the Circuit Court of Sangamon County entered a Judgment of Foreclosure and Sale against all defendants. On March 4, 2008, the Trust purchased the Hotel for $100,000; the sale price was paid in full through the Trust's credit of the sale price against unpaid principal and interest of the mortgage note. The court confirmed the sale on March 14, 2008. The Trust has determined that the hotel will be sold via public auction on December 14th, 2009. On that date, at an open outcry auction, the Trust received a bid of $6.5 million to purchase the hotel. After the trust conducted a screening of the bidder, the Trust and the purchaser both signed a Purchase and Sale Agreement, which calls for the sale to close within 65 days of the auction. The transaction closed in February 2010 with the purchaser transferring the sale price to the Trust accounts.

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST** (Continued)

The following is a summary of the balances related to the restructured loans:

| | (In thousands) | | | | |
|---|---|---|---|---|---|
| | President Lincoln Springfield | | Holiday Inn Collinsville | | Total |
| Recorded Value | | | | | |
| Original loan balances | $ 15,500 | | $ 13,400 | | $ 28,900 |
| Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1991 | (4,086) | | (564) | | (4,650) |
| Less payment received-year ended June 30, 1992 | (320) | | (95) | | (415) |
| Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1992 | - | | (2,000) | | (2,000) |
| Less payment received-year ended June 30, 1993 | (256) | | (161) | | (417) |
| Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1993 | (3,638) | | (3,580) | | (7,218) |
| Less payment received-year ended June 30, 1994 | (290) | | (378) | | (668) |
| Less provision to record write-down (permanent impairment) of outstanding loan balance recorded as of June 30, 1994 | (3,435) | | (2,312) | | (5,747) |
| Adjustment for correction of an error | (1,305) | | 3,868 | | 2,563 |
| Less payment received-year ended June 30, 1995 | (518) | | (832) | | (1,350) |
| June 30, 1995 - recorded value | 1,652 | # | 7,346 | ## | 8,998 |
| Less payment received-year ended June 30, 1996 | (458) | | (394) | | (852) |
| Less payment received-year ended June 30, 1997 | (185) | | (180) | | (365) |
| Less payment received-year ended June 30, 1998 | (93) | | - | | (93) |
| Less payment received-year ended June 30, 1999 | - | | (107) | | (107) |
| Less payment received-year ended June 30, 2000 | - | | - | | - |
| Less payment received-year ended June 30, 2001 | - | | - | | - |
| Less payment received-year ended June 30, 2002 | (56) | | - | | (56) |
| Less payment received-year ended June 30, 2003 | (86) | | - | | (86) |
| Less payment received-year ended June 30, 2004 | - | | - | | - |
| Less payment received-year ended June 30, 2005 | - | | - | | - |
| Less payment received-year ended June 30, 2006 | - | | - | | - |
| Less payment received-year ended June 30, 2007 | - | | (1,000) | | (1,000) |
| Less payment received-year ended June 30, 2008 | - | | - | | - |
| Less payment received-year ended June 30, 2009 | | | (4,896) | | (4,896) |
| June 30, 2009 - recorded value | $ 774 | | $ 769 | | $ 1,543 |

**NOTE E - ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST** (Continued)

| | (In thousands) | | |
|---|---|---|---|
| | President Lincoln Springfield | Holiday Inn Collinsville | Total |
| Loan Balance | | | |
| Original loan balances | $ 15,500 | $ 13,400 | $ 28,900 |
| Interest capitalized upon first restructuring | 592 | 3,747 | 4,339 |
| Interest capitalized upon secon restructuring | 40 | 428 | 468 |
| Payments received - years ended June 30, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 | (2,262) | (3,146) | (5,408) |
| Interest capitalized upon judgement order | 15,714 | 14,315 | 30,029 |
| Credit of sale price | - | (25,376) | (25,376) |
| Interest capitalized upon sale | - | 3,526 | 3,526 |
| Sale proceeds applied to principal | - | (4,397) | (4,397) |
| Balance of operating account applied to principal | - | (499) | (499) |
| Surety bond proceeds applied to principal | (2,278) | - | (2,278) |
| June 30, 2009 - loan balance | $ 27,306 | $ 1,998 | $ 29,304 |

Notes:
# The valuation of the mortgage position at June 30, 1995 was estimated at $1,670,000.
## The valuation of the mortgage at June 30, 1997 was estimated at $8,850,000.

**NOTE F - DEFEASED DEBT**

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2009 and 2008, $ 614,125,000 and $ 644,125,000, respectively, of bonds outstanding was considered defeased.

**NOTE G - SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER**

At June 30, 2009 and 2008, the Treasurer was responsible for $ 48,202,424 and $ 17,938,207, respectively, of securities held in safekeeping for various State departments, agencies and institutions. Therefore, these are not reflected in the statement of assets, liabilities and accountabilities.

## NOTE H - GENERAL OBLIGATION INDEBTEDNESS

A summary of the changes from June 30, 2008 to June 30, 2009, in General Obligation Bonded Indebtedness by issue type follows:

| | Antipollution Interest Rate 8.75% Series W due 2010 | Multi-Purpose Interest Rates varying from 3.0% to 7.3% Series 1989 through 2009, due serially to 2034 | Pension Funding Interest Rates varying from 3.3% to 5.1% Series 2003, due serially to 2033 | General Obligation Refunding Series 1992 through 2007 Interest Rates varying from 4.0% to 7.3% due serially to 2022 |
|---|---|---|---|---|
| Balance at June 30, 2008 | | | | |
| Principal | $ 3,160,000 | $ 7,450,380,002 | $ 9,950,000,000 | $ 2,009,408,891 |
| Interest | 227,050 | 4,748,861,041 | 9,467,875,000 | 603,446,698 |
| Total | 3,387,050 | 12,199,241,043 | 19,417,875,000 | 2,612,855,589 |
| Redemptions charge to Appropriations | | | | |
| Principal | 2,360,000 | 400,008,709 | 50,000,000 | 158,782,434 |
| Interest | 192,050 | 489,066,406 | 494,950,000 | 109,868,547 |
| Total | 2,552,050 | 889,075,115 | 544,950,000 | 268,650,981 |
| Certificates/Bonds issued /Rate reset | | | | |
| Principal | - | 150,000,000 | - | - |
| Interest | - | 393,841,236 | - | 14,119,366 |
| Total | - | 543,841,236 | - | 14,119,366 |
| Balance at June 30, 2009 | | | | |
| Principal | 800,000 | 7,200,371,293 | 9,900,000,000 | 1,850,626,457 |
| Interest | 35,000 | 4,653,635,871 | 8,972,925,000 | 507,697,517 |
| Total | $ 835,000 | $ 11,854,007,164 | $ 18,872,925,000 | $ 2,358,323,974 |

## NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued)

| | Total Bonded Indebtedness | General Obligation Certificates | Total General Obligation Indebtedness |
|---|---|---|---|
| Balance at June 30, 2008 | | | |
| Principal | $ 19,412,948,893 | $ - | $ 19,412,948,893 |
| Interest | 14,820,409,789 | - | 14,820,409,789 |
| Total | 34,233,358,682 | - | 34,233,358,682 |
| Redemptions charge to Appropriations | | | |
| Principal | 611,151,143 | 1,400,000,000 | 2,011,151,143 |
| Interest | 1,094,077,003 | 26,675,000 | 1,120,752,003 |
| Total | 1,705,228,146 | 1,426,675,000 | 3,131,903,146 |
| Certificates/Bonds issued/Rate Reset | | | |
| Principal | 150,000,000 | 2,400,000,000 | 2,550,000,000 |
| Interest | 407,960,602 | 65,675,000 | 473,635,602 |
| Total | 557,960,602 | 2,465,675,000 | 3,023,635,602 |
| Balance at June 30, 2009 | | | |
| Principal | 18,951,797,750 | 1,000,000,000 | 19,951,797,750 |
| Interest | 14,134,293,388 | 39,000,000 | 14,173,293,388 |
| Total | 33,086,091,138 | 1,039,000,000 | 34,125,091,138 |
| Amount due within one year | | | |
| Principal | 750,985,000 | 1,000,000,000 | 1,750,985,000 |
| Interest | 944,733,625 | 39,000,000 | 983,733,625 |
| Total | $ 1,695,718,625 | $ 1,039,000,000 | $ 2,734,718,625 |

**NOTE H - GENERAL OBLIGATION INDEBTEDNESS** (Continued)

A summary of the changes from June 30, 2007 to June 30, 2008, in General Obligation Bonded Indebtedness by issue type follows:

| | Antipollution Interest Rates varying from 8.25% to 8.75% Series T through W, due serially to 2010 | Multi-Purpose Interest Rates varying from 2.93% to 7.90% Series 1988 through 2008, due serially to 2034 | Pension Funding Interest Rates varying from 2.50% to 5.10% Series 2003, due serially to 2033 | General Obligation Refunding Series 1992 through 2007 Interest Rates varying from 4.00% to 6.15% due serially to 2022 |
|---|---|---|---|---|
| Balance at June 30, 2007 | | | | |
| Principal | $ 7,720,000 | $ 7,750,675,844 | $ 10,000,000,000 | $ 2,167,323,443 |
| Interest | 743,700 | 5,158,684,795 | 9,964,075,000 | 713,402,781 |
| Total | 8,463,700 | 12,909,360,639 | 19,964,075,000 | 2,880,726,224 |
| Redemptions charge to Appropriations | | | | |
| Principal | 4,560,000 | 425,295,842 | 50,000,000 | 157,914,552 |
| Interest | 516,650 | 488,130,004 | 496,200,000 | 109,956,083 |
| Total | 5,076,650 | 913,425,846 | 546,200,000 | 267,870,635 |
| Certificates/Bonds issued | | | | |
| Principal | - | 125,000,000 | - | - |
| Interest | - | 78,306,250 | - | - |
| Total | - | 203,306,250 | - | - |
| Balance at June 30, 2008 | | | | |
| Principal | 3,160,000 | 7,450,380,002 | 9,950,000,000 | 2,009,408,891 |
| Interest | 227,050 | 4,748,861,041 | 9,467,875,000 | 603,446,698 |
| Total | $ 3,387,050 | $ 12,199,241,043 | $ 19,417,875,000 | $ 2,612,855,589 |

## NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued)

| | Total Bonded Indebtedness | General Obligation Certificates | Total General Obligation Indebtedness |
|---|---|---|---|
| Balance at June 30, 2007 | | | |
| Principal | $ 19,925,719,287 | $ - | $ 19,925,719,287 |
| Interest | 15,836,906,276 | - | 15,836,906,276 |
| Total | 35,762,625,563 | - | 35,762,625,563 |
| Redemptions charged to appropriations | | | |
| Principal | 637,770,394 | 2,400,000,000 | 3,037,770,394 |
| Interest | 1,094,802,737 | 9,733,333 | 1,104,536,070 |
| Total | 1,732,573,131 | 2,409,733,333 | 4,142,306,464 |
| Certificates/Bonds issued | | | |
| Principal | 125,000,000 | 2,400,000,000 | 2,525,000,000 |
| Interest | 78,306,250 | 9,733,333 | 88,039,583 |
| Total | 203,306,250 | 2,409,733,333 | 2,613,039,583 |
| Balance at June 30, 2008 | | | |
| Principal | 19,412,948,893 | - | 19,412,948,893 |
| Interest | 14,820,409,789 | - | 14,820,409,789 |
| Total | 34,233,358,682 | - | 34,233,358,682 |
| Amount due within one year | | | |
| Principal | 760,095,000 | - | 760,095,000 |
| Interest | 945,133,129 | - | 945,133,129 |
| Total | $ 1,705,228,129 | $ - | $ 1,705,228,129 |

Interest on zero coupon bonds is reflected in the above schedules as interest to agree to the charge to appropriations. Interest on such bonds is reflected as principal in the debt service requirement schedule below.

**NOTE H - GENERAL OBLIGATION INDEBTEDNESS** (Continued)

Future general obligation debt service requirements at June 30, 2009, are as follows:

| Year ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 1,750,985,000 | $ 983,733,625 | $ 2,734,718,625 |
| 2011 | 739,795,000 | 916,998,978 | 1,656,793,978 |
| 2012 | 722,440,000 | 891,170,409 | 1,613,610,409 |
| 2013 | 709,920,000 | 863,759,079 | 1,573,679,079 |
| 2014 | 688,595,000 | 836,046,338 | 1,524,641,338 |
| 2015-2019 | 3,332,590,000 | 3,707,830,966 | 7,040,420,966 |
| 2020-2024 | 3,653,304,903 | 2,881,858,992 | 6,535,163,895 |
| 2025-2029 | 4,529,815,284 | 1,860,391,342 | 6,390,206,626 |
| 2030-2034 | 4,465,229,813 | 590,626,409 | 5,055,856,222 |
| Total | $ 20,592,675,000 | $ 13,532,416,138 | $ 34,125,091,138 |

The principal amounts reflected above include accretion to date on zero-coupon bonds.

**NOTE I - ARBITRAGE REBATE LIABILITY**

Section 148(f) of the Internal Revenue Code of 1986 (the "Code") generally provides that an issuer of tax-exempt bonds must pay to the United States (i) the excess of (a) the amount earned on all nonpurpose investments made with gross proceeds of an issue (as defined in the Code and the applicable regulations promulgated or proposed thereunder) of tax-exempt bonds over (b) the amount which would have been earned if such nonpurpose investments had been invested at a rate equal to the yield on the issue (the "Excess"), plus (ii) any income attributable to the Excess. The Excess that arises from earnings on nonpurpose investments held in certain funds and accounts is the arbitrage rebate liability (the "Liability"). There is no liability for future years.

**NOTE J - COMMITMENTS AND CONTINGENCIES**

There have been several cases filed that challenge the constitutionality of legislation allowing the broader use of fee proceeds that are deposited into special funds the use of which is, by law, otherwise limited to specified purposes. The Treasurer has been named as a nominal defendant in these cases.

**NOTE J - COMMITMENTS AND CONTINGENCIES** (Continued)

The lead case is *Illinois State Chamber of Commerce v. Filan*. This case arose out of the following set of facts. In the fiscal year 2004 Budget Implementation Act, the legislature authorized the Director of the Governor's Office of Management and Budget to transfer funds from specialized or dedicated funds to the General Revenue Fund. Some of the dedicated funds are funded by fees. The Chamber of Commerce, as an employer, pays a surcharge (fee) to the Division of Insurance of the Department of Financial and Professional Regulation. The fee is then used by the Workers' Compensation Commission (Commission) for the Commission's operations. The stated purpose of the fee is to reduce the amount of the Commission's operating expenses being paid from general tax revenues. However, the surcharge and fee generated more than twice the sum needed for the Commission's operating budget, and the excess money was transferred to the General Revenue Fund.

The Chamber of Commerce alleged that this practice violates the tax uniformity clause of the Illinois Constitution, the due process clause of the Illinois Constitution and the United States Constitution, and the due takings clause, claiming the fee is, in effect, a disproportional and unfair tax. On November 29, 2004, the Cook County Circuit Court ruled that the fee violated the Uniformity Clause and the Due Process Clause of the Illinois Constitution and ordered all monies currently held or to be collected to be placed in an escrow fund. This decision was appealed to the Illinois Supreme Court.

While the Supreme Court appeal was pending, several groups of insurance companies sought leave to intervene in the case. These insurance companies alleged they had paid the surcharge under protest, and they sought a declaration of their rights under the Protest Monies Act. The insurance companies sought and received a preliminary injunction from the Circuit Court.

The Supreme Court subsequently reversed the circuit court's finding that the surcharge was unconstitutional, and remanded the matter back to the Circuit Court for further proceedings based on the Chamber of Commerce's complaint. The state defendants consequently moved to vacate the escrow fund. The Circuit Court allowed the Commission to petition the Court for leave to withdraw operating funds from the escrow fund as necessary to continue operating while the surcharge's constitutionality continues to be litigated, but denied the state defendants' motion to dissolve the 2004 escrow account. On November 3, 2005, the trial court also denied the defendants' motion to dissolve a preliminary injunction, and continued to enjoin the Treasurer from transferring the surcharge payments. An appeal of these two Circuit Court decision was taken to the First District Appellate Court.

On July 26, 2007, the Appellate Court issued an unpublished order that reversed the Cook County Circuit Court's decisions and remanded the matters back to the Circuit Court with instructions. The insurance companies-intervenors then moved the Appellate Court to reconsider its decision. The Appellate Court denied the motion to reconsider, and the

**NOTE J - COMMITMENTS AND CONTINGENCIES** (Continued)

insurance companies-intervenors then filed a petition for leave to appeal to the Supreme Court of Illinois. That petition was denied.

The Appellate Court recently extended the preliminary injunction in this matter to cover the plaintiffs' payments into the protest fund in 2008. Settlement discussions of the matter continue, and discovery has been informally stayed. However, a number of open issues remain and the matter remains unresolved. It is hoped that this matter can be fully resolved before the end of fiscal year 2010.

In March, 2010, the parties executed an agreement to settle this litigation, which was preliminarily approved by the court. A final fairness hearing is scheduled for June 16, 2010.

The other fee transfer cases remain on hold until the Circuit Court renders a final decision. In the aggregate, these cases involve an amount in excess of $10 million, and may amount to as much as $48 million.

**NOTE K – SUBSEQUENT EVENT**

On August 27, 2009, the State of Illinois issued $1,250,000,000 of General Obligation Certificates pursuant to the provisions of Article IX, Section 9(c) of the Illinois Constitution and the provisions of the Short Term Borrowing Act, as amended, of the State. The purpose of the borrowing is to make payments on fiscal year 2009 obligations that resulted from a revenue shortfall versus budgeted amounts in that year. The Certificates mature as follows: $500,000,000 on March 23, 2010, $250,000,000 on April 13, 2010, and $500,000,000 on June 10, 2010. On September 23, 2009, the State of Illinois issued General Obligation Bonds series September 2009 A, in the amount of $400,000,000 maturing in 2010 through 2035 at interest rates of 3.50% to 5.00%. On January 15, 2010, the State of Illinois issued General Obligation Taxable Bonds Pension Funding series January 2010, in the amount of $3,466,000,000 maturing in 2011 through 2015 at interest rates of 1.82% to 4.42%. On February 4, 2010, the State of Illinois issued General Obligation Taxable Build America Bonds series 2010-1, in the amount of $1,000,000,000 maturing in 2011 through 2035 at interest rates of 1.40% to 6.63%. On March 3, 2010, the State of Illinois issued General Obligation Refunding Bonds series February 2010, in the amount of $1,501,300,000 maturing in 2011 through 2025 at interest rates of 2.00% to 5.00%.

**NOTE L – RESTATEMENT**

Subsequent to the issuance of the fiscal year 2008 financial statements, management discovered financial statement errors that caused an overstatement of the previously recorded Total Liabilities and Accountabilities as presented in the fiscal year 2008 Statements of Assets, Liabilities, and Accountabilities by $50,242,190. The error was due to the overstatement of the amount reported as securities lending collateral for Other Assets and Other Liabilities due to both amounts including noncash collateral, US Agency Securities, that the Treasurer's Office did not have the ability to pledge or sell. The fiscal year 2008 amounts are properly presented in the fiscal year 2009 comparative Statements of Assets, Liabilities and Accountabilities.

# SUPPLEMENTARY INFORMATION

The following summary compares the assets, liabilities and accountabilities of the Treasurer's Fiscal Officer accounts:

| | June 30 | |
|---|---|---|
| | 2009 | 2008 |
| Assets and other debits | | |
| Cash and cash equivalents | $ 5,989,981,984 | $ 5,155,590,883 |
| Deposits and investments | 2,506,130,482 | 4,102,132,177 |
| Securities Lending Collateral | 961,557,402 | 1,520,104,060 |
| Other assets | 20,060,892 | 34,193,647 |
| Amount of future general revenue obligated for debt service | 33,485,887,771 | 33,598,442,201 |
| Total assets and other debits | $ 42,963,618,531 | $ 44,410,462,968 |
| Liabilities for balances on deposit | | |
| Comptroller | | |
| Protested taxes | $ 436,093,830 | $ 414,881,860 |
| Available for appropriation or expenditure | 6,166,660,781 | 6,480,054,125 |
| Agencies' deposits outside the State Treasury | 702,686,565 | 871,900,032 |
| Comptroller's warrants outstanding | 557,061,122 | 871,289,866 |
| Total liabilities for balances on deposit | 7,862,502,298 | 8,638,125,883 |
| Other Liabilities | 961,557,402 | 1,520,104,060 |
| General obligation indebtedness | 34,125,091,138 | 34,233,358,682 |
| Total liabilities | 42,949,150,838 | 44,391,588,625 |
| Accountabilities | | |
| Receivable from City of Edwardsville | 288,982 | 295,875 |
| Investment income earned, but not received | 14,176,222 | 18,564,098 |
| Federal Reserve Bank settlement account reserve | 1,957 | 1,962 |
| Mortgage Reserve Fund | 532 | 12,408 |
| Total accountabilities | 14,467,693 | 18,874,343 |
| Total liabilities and accountabilities | $ 42,963,618,531 | $ 44,410,462,968 |

Cash on hand, deposits, and cash equivalents are summarized below:

| | June 30 | |
|---|---|---|
| | 2009 | 2008 |
| Cash and cash equivalents | | |
| Demand deposits | $ 203,677,383 | $ 3,165,146 |
| Clearing account deposits and deposits in transit | 62,880,119 | 46,016,122 |
| Time deposits | 1,585,000 | 15,450,000 |
| Repurchase agreements | 750,886,440 | 1,845,761,672 |
| Commercial paper | 899,996,209 | 1,297,283,528 |
| The Illinois Funds | 1,017,510,305 | 1,048,351,860 |
| Money Market Mutual Fund | 3,053,445,996 | 899,550,147 |
| Mortgage Reserve Fund | 532 | 12,408 |
| Total cash and cash equivalents | $ 5,989,981,984 | $ 5,155,590,883 |

Demand deposit accounts are the principal accounts used to process cash and investment transactions within the State Treasury. The clearing accounts are used to process collected receipts and to identify nonsufficient fund checks. Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
ASSETS - DETAIL - CONTINUED
June 30, 2009 and 2008

| | June 30, 2009 Bank Balances | | | June 30, 2008 Bank Balances | | |
|---|---|---|---|---|---|---|
| | Collected | Float | Total | Collected | Float | Total |
| Demand deposits | | | | | | |
| Associated Bank | $ 100,020,548 | $ - | $ 100,020,548 | $ - | $ - | $ - |
| Bank of America | 331,265 | - | 331,265 | 888,569 | - | 888,569 |
| JP Morgan | 126,365 | - | 126,365 | 374,179 | - | 374,179 |
| Illinois National Bank | 4,971 | - | 4,971 | 5,820 | - | 5,820 |
| National City | 50,734 | 1,757,829 | 1,808,563 | 51,829 | 873,459 | 925,288 |
| Northern Trust Company, Chicago | 156,946 | - | 156,946 | 354,524 | - | 354,524 |
| U.S Bank | 100,039,350 | - | 100,039,350 | - | - | - |
| Wells Fargo Bank | 14,509 | - | 14,509 | 18,208 | - | 18,208 |
| | $ 200,744,688 | $ 1,757,829 | 202,502,517 | $ 1,693,129 | $ 873,459 | 2,566,588 |
| Net reconciling items (e.g., deposits-in-transit and outstanding drafts) | | | 1,174,866 | | | 598,558 |
| Total demand deposits | | | $ 203,677,383 | | | $ 3,165,146 |

Note - The total bank balances represent all funds recorded by the financial institution. This balance includes the float and collected amounts. The float balance represents funds credited to the ledger balance which were unavailable, subject to the clearing process. The collected balance represents available funds which have completed the clearing process.

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
ASSETS - DETAIL - CONTINUED
June 30, 2009 and 2008

| | June 30, 2009 Bank Balances | | | June 30, 2008 Bank Balances | | |
|---|---|---|---|---|---|---|
| | Collected | Float | Total | Collected | Float | Total |
| Clearing account deposits and deposits in transit | | | | | | |
| Bank of America | $ 1,376,560 | $ 163,484 | $ 1,540,044 | $ 4,687,391 | $ 334,479 | $ 5,021,870 |
| National City | 619 | - | 619 | 13 | - | 13 |
| DuQuoin State Bank | 17,151 | - | 17,151 | 37,285 | - | 37,285 |
| JP Morgan | 65,517 | 59,360,223 | 59,425,740 | 59,390 | 28,660,451 | 28,719,841 |
| Illinois National Bank | - | 696,807 | 696,807 | 1 | 8,049,395 | 8,049,396 |
| US Bank-Springfield | 101,093 | - | 101,093 | 103,610 | - | 103,610 |
| Northern Trust Company, Chicago | 153,985 | 143,565 | 297,550 | 181,680 | 94,207 | 275,887 |
| International Bank of Chicago | 84,057 | - | 84,057 | 47,261 | - | 47,261 |
| MB Financial | 59,995 | 679,912 | 739,907 | 93,704 | 2,157,197 | 2,250,901 |
| Wells Fargo Bank | 5,406 | - | 5,406 | 10,162 | - | 10,162 |
| | $ 1,864,383 | $ 61,043,991 | 62,908,374 | $ 5,220,497 | $ 39,295,729 | 44,516,226 |
| Net reconciling items (e.g., deposits-in-transit and outstanding drafts) | | | (28,255) | | | 1,499,896 |
| Total clearing account deposits | | | $ 62,880,119 | | | $ 46,016,122 |

Note - The total bank balances represent all funds recorded by the financial institution. This balance includes the float and collected amounts. The float balance represents funds credited to the ledger balance which were unavailable, subject to the clearing process. The collected balance represents available funds which have completed the clearing process.

**Deposits and Investments**

Most of the Treasurer's investments at June 30, 2009 and 2008 are short-term due to the responsibility to keep funds "liquid" to reimburse banks for warrants paid.

Investments in the Treasurer's pooled accounts are authorized by statute. Certain investments are held in segregated accounts and are purchased at the request of the agency administering the segregated trust fund.

| | June 30 | |
|---|---|---|
| | 2009 | 2008 |
| Short-term investments | | |
| Time Deposits | $ 846,466,157 | $ 1,483,959,038 |
| Commercial paper | 499,208,111 | 246,325,028 |
| Federal Farm Credit Bank Bond | 591,000 | 340,483,000 |
| Federal Home Loan Mortgage Corporation | 12,834,100 | 70,342,431 |
| Federal Home Loan Bank | 76,015,088 | 321,689,675 |
| Federal National Mortgage Association | 25,519,862 | 9,888,326 |
| Foreign Investments | 10,000,000 | 19,998,551 |
| Total short-term investments | 1,470,634,318 | 2,492,686,049 |
| Long-term investments | | |
| Time Deposits | 63,420,988 | 108,291,215 |
| Federal Farm Credit Bank Bond | - | 84,000 |
| Federal Farm Credit Bank Notes | 99,701,586 | 25,183,153 |
| Federal Home Loan Mortgage Corporation | 277,815,546 | 430,767,539 |
| Federal Home Loan Bank | 51,368,972 | 391,422,203 |
| Federal National Mortgage Association | 413,044,626 | 626,573,727 |
| Federal Deposit Insurance Corporation Guarantee Notes | 100,876,050 | - |
| State of Illinois Secondary Pool Investment Program | 579,180 | 628,625 |
| Illinois Technology Development | 18,689,216 | 16,495,666 |
| Foreign Investments | 10,000,000 | 10,000,000 |
| Total long-term investments | 1,035,496,164 | 1,609,446,128 |
| Total deposits and investments | $ 2,506,130,482 | $ 4,102,132,177 |

**Deposits and Investments** (Continued)

In allocating funds for short-term investment, the portions allocated to time deposits, certificates of deposit, commercial paper, mutual funds, and bank notes are based on forecasts of anticipated receipts and disbursements to determine funds not needed for at least 30 days from date of investment. Substantially all remaining available funds are invested in repurchase agreements with banks and brokerage firms.

The average yield for investments including amounts listed as cash equivalents on the 2009 and 2008 financial statements was 2.05% and 4.27%, respectively.

**Securities Lending Collateral**

The Securities lending collateral represents investments made with cash collateral received for U.S. agency securities lent and any remaining cash collateral received but not yet invested. The cash collateral received on each loan will be returned for the same securities in the future.

| | 2009 | 2008 |
|---|---|---|
| Securities lending collateral invested in Repurchase Agreements | $ 961,058,174 | $ 1,520,104,060 |
| Cash | 499,228 | - |
| Total Securities Lending Collateral | $ 961,557,402 | $ 1,520,104,060 |

**Other Assets**

This classification includes other assets not available for investment and transactions in process. Details at June 30 follow:

| | 2009 | 2008 |
|---|---|---|
| Warrants cashed, but not canceled | $ 2,762,541 | $ 2,490,771 |
| Receivables from universities, agencies and retirement systems for monies advanced and securities purchased | 384,967 | 403,271 |
| Receivable from City of Edwardsville | 288,982 | 295,875 |
| Investment income earned, but not received | 15,081,009 | 24,564,811 |
| Illinois Insured Mortgage Pilot Program Trust | 1,543,393 | 6,438,919 |
| Total other assets | $ 20,060,892 | $ 34,193,647 |

**Other Assets** (Continued)

The account balances of warrants cashed but not canceled and the receivable from universities, agencies and retirement systems represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2009 and 2008. The balances in these accounts will vary significantly from day to day, depending on the availability of investable funds and the timing of warrant presentation for payment.

The noninterest-bearing amount receivable from the City of Edwardsville (City) is stated as the unpaid balance of funds advanced to the City in 1967 for the planning and construction of a water main. The repayment terms require the City to pay into the State Treasury ten cents per one thousand gallons of water sold by the City to users receiving water from this main.

Repayments received for the years ended June 30, 2009 and 2008, were $ 6,893 and $ 10,255, respectively.

Investment income earned but not received represents accrued income on investments not yet matured or collected. The balance fluctuates based on total investments and investment maturity dates.

As discussed in the notes to the financial statements, two hotel investments are presented as other assets because they are considered to be nonperforming assets.

**Amount of Future General Revenue Obligated for Debt Service**

The following summary reflects the general revenue obligated for debt service during fiscal 2009 and thereafter:

| | General Obligation Bonds |
|---|---|
| Certificates, bond and coupons maturing in fiscal year 2010 | $ 2,734,718,625 |
| Less - balance on deposit in State Treasury at June 30, 2009, for certificate and bond redemption and interest | (639,203,367) |
| Amount obligated from future general revenue | |
| Fiscal year 2010 general revenue | 2,095,515,258 |
| After June 30, 2010 | 31,390,372,513 |
| Amount of future general revenue obligated for debt service at June 30, 2009 | $ 33,485,887,771 |

**Amount of Future General Revenue Obligated for Debt Service** (Continued)

A summary of the changes during the period July 1, 2008 through June 30, 2009, in the amount of future general revenue obligated for debt service is as follows:

| | General Obligation Bonds |
|---|---|
| Balance at June 30, 2008 | $ 33,598,442,201 |
| Issuance of certificates and bonds | 3,023,635,602 |
| Bonds and coupons redeemed and bonds refunded | (3,131,903,146) |
| Bonds and coupons refunded | - |
| Net increases in balances on deposits in State Treasury | (4,286,886) |
| Balance at June 30, 2009 | $ 33,485,887,771 |

The amount of future general revenue obligated for debt service reconciled with total indebtedness at June 30 is as follows:

| General Obligation Bonds | 2009 | 2008 |
|---|---|---|
| Amount of future general revenue obligated for debt service | $ 33,485,887,771 | $ 33,598,442,201 |
| Balance in deposit in the State Treasury at June 30 for bond redemption and interest | 639,203,367 | 634,916,481 |
| Total indebtedness at June 30 | $ 34,125,091,138 | $ 34,233,358,682 |

The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The balancing amount included in assets in the statement of assets, liabilities and accountabilities of the Treasurer is equivalent to the amount to be derived from future general revenue for debt service. The proceeds of these certificate and bond issues are accounted for by other State agencies.

Under the Short Term Borrowing Act whenever casual deficits or failures in revenue of the State occur, monies borrowed are applied to the purpose for which they were obtained, or to pay the debts thus created, and to no other purpose. The interest and principal are paid by the Treasurer out of the General Obligation Bond Retirement and Interest Fund. All monies borrowed shall be borrowed for no longer than one year.

**Amount of Future General Revenue Obligated for Debt Service** (Continued)

General Obligation Certificates issued under the Short Term Borrowing Act during fiscal year 2009 included two issues. One issue of General Obligation Certificates occurred on December 22, 2008, for principal of $ 1,400,000,000 and premium of $ 2,870,129. Of this amount, $ 1,400,000,000 was deposited into the General Revenue Fund, and $ 2,870,129 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on June 22, 2009. The second issue of General Obligation Certificates occurred on May 21, 2009, for principal of $ 1,000,000,000 and premium of $ 20,242,939. Of this amount, $ 1,000,000,000 was deposited into the General Revenue Fund, and $ 20,242,939 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment is scheduled for May 20, 2010.

General Obligation Certificates issued under the Short Term Borrowing Act during fiscal year 2008 included two issues. One issue of General Obligation Certificates occurred on September 25, 2007, for principal of $ 1,200,000,000 and premium of $ 552,000. Of this amount, $ 1,200,000,000 was deposited into the General Revenue Fund, and $ 552,000 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on November 7, 2007. The second issue of General Obligation Certificates occurred on May 1, 2008, for principal of $ 1,200,000,000 and premium of $ 1,113,000. Of this amount, $ 1,200,000,000 was deposited into the General Revenue Fund, and $ 1,113,000 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on June 13, 2008.

The General Obligation Bond Act ("Act") was passed by the General Assembly in December 1984. Under this Act, effective December 1, 1984, the balance of, and monies directed to be included in the Capital Development Bond Retirement and Interest Fund, Anti-Pollution Bond Retirement and Interest Fund, Transportation Bond Series A Retirement and Interest Fund, Transportation Bond Series B Retirement and Interest Fund, Coal and Energy Development Bond Retirement and Interest Fund, and School Construction Bond Retirement and Interest Fund were transferred to and deposited in the General Obligation Bond Retirement and Interest Fund. This fund is used to make debt service payments on the State's general obligation bonds, which are payable from the funds listed above, as well as the bonds issued under the Act.

**Liabilities for Balances on Deposit**

Protested Taxes: Substantially all of the $ 436,093,830 and $ 414,881,860 at June 30, 2009 and 2008, respectively, in the Protest Trust Fund has been enjoined by the courts pending the outcome of cases in process. By statute, a taxpayer making a tax payment "under protest" has 30 days to initiate a court suit and obtain an injunction. If not enjoined, the tax payments are transferred to the fund in the State Treasury that would have received the original deposit.

Available for appropriation or expenditure: This amount is the State of Illinois' balance at June 30 available to be appropriated by the general assembly or expended by State agencies.

Agencies' Deposits Outside the State Treasury: The liability for agencies' deposits not under the statutory recordkeeping control of the Comptroller consists of:

| | 2009 | 2008 |
|---|---|---|
| Treasurer's clearing account balances | $ 194,527,361 | $ 200,124,988 |
| Treasurer's clearing account drafts in process of being ordered into the State Treasury | 212,176,561 | 300,398,082 |
| Deposits in process of being ordered into the Treasurer's clearing accounts | 264,947,138 | 285,842,960 |
| Deposits in demand accounts in process of being ordered into the State Treasury | 31,035,505 | 85,534,002 |
| Total agency deposits outside the State Treasury | $ 702,686,565 | $ 871,900,032 |

The Treasurer's liability for agencies' deposits outside the State Treasury is composed principally of deposits of county and municipal retailers' occupation taxes and State income taxes awaiting designation of account distribution before being deposited in the State Treasury. Agencies' deposits outside the State Treasury consist principally of cash and short-term investments.

Comptroller's Warrants Outstanding: Warrants prepared by the Comptroller are recorded as outstanding upon countersignature by the Treasurer. Warrants outstanding are reduced when paid warrants are returned to the Comptroller.

**Other Liabilities**

Obligations under securities lending: This amount represents cash collateral received for U.S agency securities lent that will be returned for the same securities in the future.

**General Obligation Indebtedness**

Reference is made to the Amount of Future General Revenue Obligated for Debt Service footnote for information relating to outstanding general obligation indebtedness.

**Accountabilities**

These captions present the balance of certain funds outside the State Treasury. Reference is made to the Supplementary Information - Other Assets for information relating to these accountabilities.

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Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME
For the years ended June 30, 2009 and 2008

Investment income earned by the Treasurer is summarized by fund as follows:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| General revenue fund | $ | 76,967,317 | $ | 190,497,280 |
| Other State funds | | 81,627,871 | | 152,578,280 |
| Segregated State trust funds | | 6,922,968 | | 32,440,639 |
| | $ | 165,518,156 | $ | 375,516,199 |

An analysis of investment income earned, classified by fund, is shown below:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Fund participating in pooled investments | | | | |
| General Revenue Fund | $ | 76,967,317 | $ | 190,497,280 |
| Aggregated Operations Regulatory Fund | | 4,347 | | 7,669 |
| Airport Land Loan Revolving Fund | | 2,099 | | 3,838 |
| Alternative Compliance Market Account Fund | | 6,768 | | 14,942 |
| Ambulance Revolving Loan Fund | | 95,082 | | 10,862 |
| AML Reclamation Set Aside Fund | | 203,835 | | 459,920 |
| Assisted Living and Shared Housing Regulatory Fund | | 6,501 | | 8,103 |
| Auction Recovery Fund | | 8,635 | | 17,465 |
| Auction Reg. Administration Fund | | 16,835 | | 36,464 |
| Autism Research Checkoff Fund | | 1,464 | | 2,677 |
| Autoimmune Disease Research Fund | | 959 | | 3 |
| Bank & Trust Company Fund | | 1,149,087 | | 1,637,620 |
| Brownfields Redevelopment Fund | | 56,702 | | 148,190 |
| Build Illinois Bond Retirement and Interest Fund | | 134,491 | | 210,168 |
| Build Illinois Capital Revolving Loan Fund | | 193,678 | | 393,719 |
| Build Illinois Fund | | 439,855 | | 929,563 |
| Capital Litigation Fund | | 119,038 | | 276,955 |
| Care Provide Per W Dev. Dis. | | 84,839 | | 145,070 |
| Cemetery Consumer Protection Fund | | 24,299 | | 41,620 |
| Charitable Trust Stabilization Fund | | 27,412 | | 1,656 |
| Child Abuse Prevention Fund | | 17,466 | | 43,394 |
| Clean Air Act (CAA) Permit Fund | | 266,550 | | 575,992 |
| Coal Mining Regulatory Fund | | 4,502 | | 4,641 |
| Common School Fund | | 627,432 | | 1,121,388 |
| Community College Health Insurance Security Fund | | 140,160 | | 392,462 |
| Community DD Services Medicaid Trust Fund | | 237,406 | | 324,560 |
| Community Mental Health Medical Trust Fund | | 173,717 | | 522,036 |
| Community Water Supply Laboratory Fund | | 23,217 | | 37,277 |

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Fund participating in pooled investments | | |
| County Automobile Renting Tax Fund | $ 273 | $ 629 |
| County Hospital Services Fund | 175,218 | 420,710 |
| County Option Motor Fuel Tax Fund | 117,873 | 229,194 |
| County Water Commission Tax Fund | 203,919 | 335,752 |
| Credit Union Fund | 288,493 | 480,794 |
| Criminal Justice Trust Fund | 572,768 | 643,578 |
| Design Professionals Administration and Investigation Fund | 25,629 | 45,550 |
| Diabetes Research Checkoff Fund | 1,729 | 3,103 |
| Drug Rebate Fund | 873,028 | 1,222,247 |
| Drycleaner Environmental Response Trust Fund | 120,092 | 236,750 |
| DuQuoin State Fair Harness Racing Trust Fund | 150 | 270 |
| Early Intervention Services Fund | 70,051 | 281,869 |
| Electronics Recycling Fund | 87 | - |
| Environmental Laboratory Certification Fund | 5,250 | 7,116 |
| EPA Court Ordered Trust Fund | 141 | 255 |
| Explosive Regulatory Fund | 2,036 | 3,174 |
| Facilities Management Fund | 269,962 | 566,830 |
| Fair Share Trust | 4,467 | 6,849 |
| Family Care Fund | 17,992 | 42,883 |
| Federal Asset Forfeiture Fund | 39,649 | 71,595 |
| Federal Home Investment Trust Fund | 35,973 | 82,091 |
| Federal Moderate Rehab Housing Fund | 7,721 | 3,274 |
| Federal Student Loan Fund | 985,944 | 1,711,930 |
| Federal Workforce Training Fund | 3,840 | 8,288 |
| Fire Service & Small Equipment Fund | 47,714 | 5,312 |
| Fire Truck Revolving Loan Fund | 239,578 | 113,715 |
| Fish and Wildlife Endowment Fund | 35,985 | 68,825 |
| Food and Drug Safety Fund | 4,348 | 18,217 |
| Gaining Early Awareness Fund | 148,897 | 191,614 |
| General Assembly Retirement Excess Benefits Fund | 172 | 430 |
| General Assembly Retirement Fund | 67,733 | 132,272 |
| General Obligation Bond Retirement and Interest Fund | 12,305,538 | 26,139,749 |
| General Professions Dedicated Fund | 258,335 | 556,104 |
| Group Home Loan Revolving Fund | 229 | 13 |
| Group Insurance Premium | 419,080 | 677,340 |
| Group Workers Compensation Pool | 35,453 | 63,351 |
| Hansen-Therkelsen Memorial Deaf Student College Fund | 22,326 | 40,455 |
| Health and Human Services Medicaid Trust Fund | 1,357,618 | 2,362,162 |
| Health Insurance Reserve Fund | 1,253,638 | 2,722,942 |
| Hearing Instrument Dispenser Examining and Disciplinary Fund | 2,967 | 7,040 |

State of Illinois
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FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2009 and 2008

| Fund participating in pooled investments | 2009 | 2008 |
|---|---|---|
| Help Illinois Vote Fund | $ 446,106 | $ 1,159,782 |
| Home Inspector Administration Fund | 41,924 | 84,235 |
| Home Rule City Retailers' Occupation Tax Fund | 1,932,214 | 1,310,136 |
| Home Rule Municipal Retailers' Occupation Tax Fund | 1,830,460 | 2,765,382 |
| Hospital Provider Fund | 655,778 | 2,974,751 |
| Human Service Priority Cap Program Fund | 159,052 | - |
| Illinois Affordable Housing Trust Fund | 112,595 | 601,060 |
| Illinois Beach Marina Fund | 10,332 | 20,101 |
| Illinois Clean Water Act | 487,481 | 922,903 |
| Illinois Equity Fund | 16,312 | 55,746 |
| Illinois Farmer and Agri-Business Loan Guarantee Fund | 182,526 | 363,351 |
| Illinois Habitat Fund | 60,599 | 112,556 |
| Illinois Power Agency Trust Fund | 610,703 | 666,626 |
| Illinois State Dental Disciplinary Fund | 46,519 | 154,039 |
| Illinois State Medical Disciplinary Fund | 327,162 | 302,652 |
| Illinois State Pharmacy Disciplinary Fund | 16,099 | 107,535 |
| Illinois State Podiatric Disciplinary Fund | 9,892 | 23,987 |
| Illinois Veteran's Assistance Fund | 87,093 | 199,090 |
| Industrial Commission Surcharge Escrow Fund | 443,589 | 935,920 |
| Injured Workers Benefit Fund | 7,116 | - |
| Innovations in Long-Term Care Quality Demonstration Grants | 76,890 | 140,774 |
| Intercity Passenger Rail Fund | 12,528 | 34,912 |
| Interpreters for the Deaf Fund | 539 | - |
| Judges Retirement Excess Benefits Fund | 2,708 | 5,284 |
| Judges Retirement Fund | 331,917 | 656,283 |
| Juvenile Accountability Incentive Block Grant Fund | 97,769 | 132,322 |
| Kaskaskia Commons Permanent School Fund | 5,432 | 10,292 |
| Large Business Attraction Fund | 34,801 | 50,059 |
| Law Enforcement Camera Grant Fund | 63,334 | 66,950 |
| Local Government Health Insurance Reserve Fund | 162,866 | 644,819 |
| Long-Term Care Provider Fund | 1,009,232 | 2,870,532 |
| Medicaid Buy-In Program Revolving Fund | 34,275 | 60,304 |
| Metro East Mass Transit District Tax Fund | 141,919 | 239,509 |
| Metropolitan Pier and Exposition Authority Trust Fund | 160,668 | 366,834 |
| Money Follows the Person Budget Fund | 457 | - |
| Motor Vehicle Theft Prevention Fund | 76,531 | 133,153 |
| Multiple Sclerosis Research Fund | 11,012 | - |
| Municipal Automobile Renting Tax Fund | 21,484 | 38,191 |
| Municipal Economic Development Fund | 1,316 | 2,774 |

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Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Fund participating in pooled investments | | |
| Non-Home Rule Municipal Retailer's Occupation Tax Fund | $ 309,135 | $ 438,988 |
| Nuclear Safety Emergency Preparedness Fund | 162,782 | 424,329 |
| Nursing Dedicated and Professional Fund | 259,822 | 274,534 |
| Off-highway Vehicle Trails Fund | 38,477 | 98,250 |
| Optometric Licensing and Disciplinary Committee Fund | 19,221 | 13,601 |
| Personal Property Tax Replacement Fund | 1,617,693 | 3,584,378 |
| Petroleum Violation Fund | 44,758 | 136,706 |
| Plugging and Restoration Fund | 13,028 | 24,341 |
| Post Trans Main and Retention | 1,994 | 3,642 |
| Professional Services Fund | 142,687 | 348,667 |
| Professions Indirect Cost Fund | 160,461 | 236,370 |
| Public Agriculture Loan Guarantee | 257,156 | 504,818 |
| Public Health Services Revolving Fund | 40,531 | 93,198 |
| Public Infrastructure Construction Loan Revolving Fund | 91,124 | 148,518 |
| Public Pension Regulation Fund | 16,413 | 27,160 |
| Quality of Life Endowment Fund | 32,375 | 3,158 |
| Radiation Protection Fund | 14,631 | 43,334 |
| Radioactive Waste Facility Development and Operation Fund | 23,262 | 41,275 |
| Rail Freight Loan Repayment Fund | 89,841 | 171,244 |
| Rate Adjustment Fund | 327,656 | 378,170 |
| Real Estate Audit Fund | 4,413 | 8,063 |
| Real Estate License Administration Fund | 537,237 | 859,045 |
| Real Estate Recovery Fund | 20,025 | 40,632 |
| Real Estate Research and Education Fund | 23,747 | 39,102 |
| Regional Transit Authority Public Transportation Tax Fund | 119 | 214 |
| Regional Transit Authority Sales Tax Trust Fund | 2,840,856 | 2,332,601 |
| Registered CPA Administration and Disciplinary Fund | 35,227 | 86,471 |
| Replacement Vehicle Tax-Municipal Trust Fund | 15 | 25 |
| Response Contractor's Indemnification Fund | 5 | 12 |
| Road Fund | 9,567,341 | 17,556,481 |
| Road Transportation A Fund | 253,499 | 500,886 |
| Salmon Fund | 4,268 | 9,308 |
| Savings and Residential Finance Regulatory Fund | 775,155 | 1,359,033 |
| School Technology Revolving Loan Fund | 49,481 | 74,951 |
| Second Injury Fund | 16,561 | 23,540 |
| Securities Audit and Enforcement Fund | 75,042 | 492,455 |
| Self-Insurers Administration Fund | 9,001 | 21,903 |
| Self-Insurers Security Fund | 701,796 | 1,306,832 |
| Self-Sufficiency Trust Fund | - | 10 |

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2009 and 2008

| Fund participating in pooled investments | 2009 | 2008 |
|---|---|---|
| Sheffield February 1982 Agreed Order Fund | $ 94,091 | $ 177,624 |
| Special Tax Inc. | 48,554 | 109,209 |
| State Assets Forfeiture Fund | 44,536 | 156,993 |
| State Board of Elections Federal Trust Fund | 4,490 | - |
| State Construction Account Fund | 6,110,308 | 13,118,639 |
| State Employees Retirement Excess Benefits Fund | 586 | 1,158 |
| State Employees Retirement System Fund | 7,128,464 | 13,403,097 |
| State Employees' Deferred Compensation Plan Fund | 107,301 | 192,851 |
| State Furbearer Fund | 3,678 | 6,291 |
| State Migratory Waterfowl Stamp Fund | 64,974 | 123,899 |
| State Pheasant Fund | 12,630 | 22,678 |
| State Rail Freight Loan Repayment Fund | 273,811 | 394,894 |
| State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund | 15,378 | 23,066 |
| Student Loan Operating Fund | 295,192 | 867,767 |
| Supreme Court Historic Preservation Fund | 122,396 | 146,935 |
| Teachers' Health Insurance Security Fund | 1,294,951 | 2,713,715 |
| Teachers' Retirement Excess Benefits Fund | 75,911 | 139,335 |
| Teachers' Retirement System Fund | 2,014,559 | 3,201,878 |
| Ticket for the Cure Fund | 82,239 | 206,488 |
| Toxic Pollution Prevention Fund | - | 338 |
| Underground Resource Conservation Enforcement Trust Fund | 13,236 | 29,666 |
| University of Illinois Income Trust Fund | 441 | - |
| Vince Demuzio Memorial Colon Cancer Fund | 1,319 | 2,410 |
| Violent Crime Victims Assistance Fund | 38,887 | 101,822 |
| Water Pollution Control Revolving Fund | 10,270,642 | 18,870,512 |
| Wildlife and Fish Fund | 593,782 | 1,276,813 |
| Wildlife and Prairie Park Fund | 1,348 | 1,818 |
| Worker's Compensation Benefit Trust Fund | 36 | 67 |
| Worker's Compensation Revolving Fund | 519,794 | 496,702 |
| Total pooled investment income | 158,595,188 | 343,075,560 |

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Segregated Investments | | |
| Agrichemical Incident Response Trust Fund | $ 734 | $ 9,755 |
| College Savings Pool Administration Fund | 12,924 | 53,614 |
| Commodity Trust Fund | 35 | 44 |
| Deferred Lottery Prize Winners Trust Fund | 32,746 | 306,468 |
| Illinois Habitat Endowment Trust Fund | 100,078 | 403,031 |
| Illinois Municipal Retirement Fund | 140,153 | 1,107,565 |
| Illinois Prepaid Tuition Trust Fund | 72,843 | 256,952 |
| Illinois Rural Rehabilitation Fund | 241 | 1,527 |
| Illinois State Toll Highway Revenue Fund | 5,780,061 | 27,628,820 |
| National Heritage Endowment Trust Fund | 9,091 | 38,164 |
| Radioactive Waste Facility Closure and Compensation Fund | 983 | 3,723 |
| Title III Social Security and Employment Service | 151,170 | 575,004 |
| Tobacco IPTIP | 556,626 | 1,604,713 |
| Unemployment Compensation Special Administration Fund | 65,283 | 451,259 |
| Total segregated investment income | 6,922,968 | 32,440,639 |
| Total investment income | $ 165,518,156 | $ 375,516,199 |

INVESTMENT INCOME - CONTINUED
For the years ended June 30, 2009 and 2008

An analysis of investment income earned by funds participating in pooled investments is shown below by type of investment:

| | 2009 | 2008 |
|---|---|---|
| The Illinois Funds | $ 4,647,862 | $ 21,983,776 |
| Time Deposits | 37,780,434 | 61,962,427 |
| Now Accounts | 60,822 | - |
| Money Market Mutual Fund | 9,224,992 | 11,710,596 |
| Repurchase Agreements | 4,663,124 | 58,408,689 |
| Commercial Paper | 12,536,551 | 104,487,057 |
| Federal Farm Credit Bank Bond Private Placement | 5,593,047 | 12,963,604 |
| Federal Farm Credit Bank Notes | 1,758,491 | 1,058,289 |
| State of Illinois Secondary Pool Investment Program | 20,069 | 41,469 |
| Federal National Mortgage Association | 34,775,881 | 21,345,518 |
| Foreign Investments | 474,049 | 1,434,048 |
| Federal Home Loan Mortgage Corporation | 21,250,805 | 20,304,703 |
| Federal Home Loan Bank Notes | 27,429,274 | 26,166,456 |
| Federal Deposit Insurance Corporation Guarantee Notes | 1,448,639 | - |
| Illinois Technology Development | (3,075,521) | 1,097,377 |
| Clearing account | 6,669 | 111,551 |
| Total pooled investment income | $ 158,595,188 | $ 343,075,560 |

**PROTEST TRUST FUND**

| | 2009 | 2008 |
|---|---|---|
| Liability at beginning of year | $ 414,881,860 | $ 323,240,952 |
| Add | | |
| Trust receipts collected by other State agencies | 84,793,091 | 116,180,128 |
| | 499,674,951 | 439,421,080 |
| Deduct | | |
| Trust disbursements for refunds of successfully protested tax payments | 39,337,967 | 11,832,667 |
| Transfers to other funds | 24,243,154 | 12,706,553 |
| | 63,581,121 | 24,539,220 |
| Liability at end of year | $ 436,093,830 | $ 414,881,860 |

**INHERITANCE AND ESTATE TAXES**

The Treasurer's Fiscal Officer Responsibilities include joint responsibility with the Attorney General of the State of Illinois (Attorney General) for the collection of inheritance and estate taxes assessed by the circuit courts and the Attorney General, respectively, and collected by the 102 county treasurers.

Gross inheritance and estate tax receipts for the fiscal years ended June 30, 2009 and 2008, were $ 287,757,169 and $ 372,862,320, respectively. These amounts do not reflect refunds and fees distributed to county treasurers.

**TOBACCO SETTLEMENT RECOVERY FUND**

Pursuant to Public Act 91-0646, the State Treasurer shall make deposits into the Tobacco Settlement Recovery Fund that shall contain deposits of all monies paid to the State for settlement and investment income. The following is a detail of the deposits into Fund Number 733:

| | 2009 | 2008 |
|---|---|---|
| Tobacco Settlement proceeds | $ 340,172,903 | $ 310,001,624 |
| Interest and other investment income | 794,113 | 2,000,064 |
| Total receipts and deposits | $ 340,967,016 | $ 312,001,688 |

- The Illinois Funds asset base at 6/30/09 was $ 6,034,283,407.
- Earned interest income of $ 60.6 million during FY09 for The Illinois Funds.

- Funded 139 Cultivate IL Annual AG deposits totaling $ 78,361,396.
- Funded 78 Cultivate IL Long Term AG deposits totaling $ 4,369,723.
- Funded 128 Access to Capital deposits totaling $ 468,275,000.
- Funded 3 Employ IL Business Loans – Child Care Providers totaling $ 2,082,008.
- Funded 4 Employ IL Business Loans totaling $ 2,365,000.
- Funded 4 Opportunity IL Community Development Loans totaling $ 11,024,702.
- Funded 4 Opportunity IL Disaster Recovery Loans totaling $ 423,144.
- Funded 9 Local Government Short Term Program deposits totaling $ 9,094,000.

- Total number of warrants successfully issued, countersigned and recorded: 7,867,518
- Total number of warrants successfully canceled, paid and recorded: 7,740,834
- Total amount of warrants successfully issued, countersigned and recorded: $ 66,155,335,947

- Total amount of estate tax collections: $ 287,757,169
- Total amount of estate tax distributions: $ 16,718,322
- Total amount of estate tax refunds: $ 8,999,403

- The Division of Financial Education has hosted five statewide Smart Women Smart Money conferences in FY09 with nearly 2,000 participants in attendance. Additionally, after nine years of success, the Division has introduced Smart Teen Smart Money that will focus our financial literacy efforts on Illinois high school seniors.

- The investment portfolio earned approximately $ 165,518,156 during fiscal year 2009.
- Investments yielded approximately 2.05% throughout the current year.
- The average investment base decreased approximately $ 729,043,182 from the prior year.

- The value of the Illinois Technology Development account at cost as of 6/30/09 was $18,689,216.
- The value of the Illinois Technology Development account at estimated market value as of 6/30/09 was $21,507,417. Market value was estimated by the individual technology development accounts' management, not the State Treasurer's Office or an independent third party.

Following is the current State of Illinois, Office of the Treasurer, investment policy:

**1.0 POLICY:**

Under this instrument, the Illinois State Treasurer's Investment Policy ("Policy"), it is the policy of the Treasurer of the State of Illinois ("Treasurer") to invest all funds under his control in a manner that provides the highest investment return using authorized instruments while meeting the State's daily cash flow demands in conformance with all state statutes governing the investment of public funds.

This Policy applies to all investments entered into on or after the adoption of this instrument. Until the expiration of investments made prior to the adoption of this Policy, such investments will continue to be governed by the policies in effect at the time such investments were made.

This policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

**2.0 OBJECTIVE:**

The primary objective in the investment of state funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations of the State, and providing the highest investment return using authorized instruments.

**2.1 Safety:**

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To attain this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risk.

**2.2 Liquidity:**

The investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements that might be reasonably projected.

**2.3 Return On Investment:**

The investment portfolio shall be designed to obtain the highest available return, taking into account the Treasurer's investment risk constraints and cash flow needs. The Manager of Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee[1], to determine the effectiveness of investment decisions in meeting investment goals.

**3.0 ETHICS AND CONFLICTS OF INTEREST:**

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could conflict, or give the appearance of a conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

**4.0 AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS:**

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers. No state funds may be deposited in any financial institution until receipt of the current ratings under the Community Reinvestment Act of 1977 and investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services, unless the financial institution has not yet been rated by

[1] *The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Chief of Staff, Deputy Treasurer – Programs and Policy, Deputy Treasurer – Chief Fiscal Officer, Manager of Banking, Portfolio Manager, Chief Legal Counsel, Senior Policy Advisor and anyone else deemed appropriate by the Treasurer.*

the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed $100,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 8.0. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520).

In addition, a list shall be maintained of approved security broker/dealers selected according to their creditworthiness, and their financial significance in the state, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the state. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 240.15c3-1 (Net Capital Requirements for Brokers or Dealers).

All financial institutions and broker/dealers who want to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's authorized investment officers the following, where applicable:

- Audited financial statements or a published Statement of Condition;
- Proof of minority/female/disabled broker status;
- A signed copy of the Treasurer's trading authorization;
- Proof of State of Illinois registration;
- Proof of registration with the Securities and Exchange Commission;
- Completed Broker/Dealer Questionnaire;
- Certification of notice and knowledge of this Policy;
- Any other documentation determined necessary by the Treasurer.

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

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the procurement rules at 44 Ill. Adm. Code 1400.

**5.0 AUTHORIZED AND SUITABLE INVESTMENTS:**

The Treasurer has authorized the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

**a)** Securities that are guaranteed by the full faith and credit of the United States as to principal and interest;

**b)** Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities;

**c)** Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);

**d)** Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;

**e)** Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States, which maintains its principal office in the State of Illinois;

**f)** Commercial paper of a corporation that is organized in the United States with assets exceeding $500,000,000 and is rated by two or more standard rating services at a level that is at least as high as the following: A-1 by Standard & Poor's, P-1 by Moody's, F-1 by Fitch, D-1 by Duff & Phelps Credit Rating Company, A1 by IBCA, and TBW-1 by Thompson Bank Watch; and the corporation is not a forbidden entity, as defined in Section 22.6 of the Deposit of State Monies Act (effective Jan. 27, 2006);

**g)** Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C.A. § 80a-1 et seq.) and rated at the highest classification of at least one standard rating service;

**h)** The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);

**i)** Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5); and

**j)** Any agency created by an act of Congress.

**k)** Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations.

**l)** Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.).

**m)** Suitable securities in the Treasurer's portfolio may be lent in accordance with Federal Financial Institution Examination Council guidelines and an investment policy created for the governance of Securities Lending.

**6.0 INVESTMENTS RESTRICTIONS:**

**a)** Any investments not authorized by this or any other investment policy or applicable law of the office are prohibited.

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

**c)** Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5).

**d)** Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

**7.0 COLLATERALIZATION:**

All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer[2] 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. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

[2] *The Treasurer maintains a list of acceptable collateral.*

**8.0 DIVERSIFICATION:**

The investment 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 state assets, the portfolio shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

**a)** The Treasurer shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers;

**b)** The investment portfolio shall not hold time deposits and/or term repurchase agreements that constitute more than 15% of any single financial institution's total deposits. Any deposits and/or repurchase agreements that constitute more than 10% of an institution's total deposits must qualify as community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

**c)** No financial institution shall at any time hold more than $100,000,000 of time deposits and/or term repurchase agreements other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that:

> **i.** Financial institutions that, as a result of a merger or acquisition, hold deposits that exceed $100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.

**d)** The investment portfolio shall not contain investments that exceed the following diversification limits that apply to the total assets in the portfolio at the time of the origination or purchase, as monitored on a daily basis and as maturity of instruments occur, and as adjusted as appropriate:

> **i.** With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 35% of the portfolio shall be invested in other investment categories,
>
> **ii.** No more than one-third of the investment portfolio shall be invested in commercial paper,

**iii.** As much as 40% of the portfolio may be invested in time deposits when required by the cash flow of the State,

**iv.** No more than ½ of 1% of the investment portfolio shall be invested in Foreign Government Securities, not to exceed a five year maturity, as defined in Section 5.0(k) of this Policy,

**v.** No more than 10% of the investment portfolio shall be allocated to investments with a 2-4 year maturity band,

**vi.** No more than 10% of the investment portfolio shall be allocated to investments with a 4-5 year maturity band (not including Foreign Government Securities).

**vii.** There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band.

## 9.0 CUSTODY AND SAFEKEEPING:

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the Treasurer's office procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer's office to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the Chief Legal Counsel.

All security transactions entered into by the Treasurer 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.

## 10.0 INTERNAL CONTROLS:

The Treasurer, as the Chief Investment Officer and with the assistance of the Investment Policy Committee, shall establish a system of internal controls and written operational procedures that shall be documented and filed with Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by authorized investment officers.

**a)** Asset Allocation: The allocation of assets within investment categories authorized under Section 5.0 of this Policy shall be approved by the Treasurer in writing.

**b)** Competitive Bidding: Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments and investments of a new issue at issue are exempt from this provision.

Certificates of deposit shall be purchased by authorized investment officers on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established on a daily basis. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

**11.0 LIMITATION OF LIABILITY:**

The standard of prudence to be used by authorized investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Authorized investment officers acting in accordance with written procedures and this Policy and exercising due diligence will be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and necessary action is taken to control adverse developments.

**12.0 REPORTING:**

Monthly reports are presented by the Deputy Treasurer - Chief Fiscal Officer to the Investment Policy Committee, chaired by the Treasurer, for its review. The monthly report shall contain sufficient information to enable the Investment Policy Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer's office for safety, liquidity, rate of return, and diversification, and the general performance of the portfolio. The following information shall be included in the monthly reports:
**a)** The total amount of funds held by the State Treasurer;
**b)** The asset allocation for the investments made by the State Treasurer;
**c)** The benchmarks established by the State Treasurer;
**d)** Current and historic return information;
**e)** A detailed listing of the time deposit balances, including for each deposit, the name of the financial institution and the deposit rate;

**f)** Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy;
**g)** Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Investment Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

The Treasurer reserves the right to amend this Policy at any time.

### 13.0 EXTERNAL ADVISORY COMMITTEE

The Investment Policy Committee may convene an External Advisory Committee at the pleasure of the Treasurer to provide independent advice and counsel to the Treasurer and the Internal Committee on investment policy, investments and investment related issues for the benefit of all Illinois citizens.

The External Committee may consist of nine (9) total members. Four (4) members shall be duly elected members of the Illinois General Assembly and shall be represented as follows: one (1) External Committee member shall be from Illinois Senate majority caucus; one (1) External Committee member shall be from Illinois Senate minority caucus; one (1) External Committee member shall be from Illinois House majority caucus; and one (1) External Committee member shall be from Illinois House minority caucus. Five (5) External Committee members shall be independent advisors that the Treasurer and the Internal Committee choose as representative of the public and private sectors.

### 14.0 EMERGENCY POWERS

In the event of an emergency, the Treasurer may, at his or her discretion, invoke emergency powers and suspend any or all of the provisions of this policy provided that:

**a)** The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of state monies including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;

**b)** The Treasurer reasonably believes that deviating from the Investment Policy is in the best interest of the taxpayers;

**c)** Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a copy of which shall be posted on the Treasurer's website that includes:

> **i)** The date and time that the emergency powers were invoked;
>
> **ii)** The date and time that emergency powers were repealed;
>
> **iii)** The section or sections of the Investment Policy that were affected by the emergency or use of emergency powers; and
>
> **iv)** The reason for deviating from the written investment policy.