

**ILLINOIS STATE EMPLOYEES'
DEFERRED COMPENSATION PLAN**

**FINANCIAL AUDIT
For the Fiscal Years Ended
December 31, 2006 and 2005**

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

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
FINANCIAL AUDIT
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ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

AGENCY OFFICIALS

Director	Mr. Paul J. Campbell (Effective through March 8, 2007)
	Ms. Maureen O'Donnell (Acting effective March 9, 2007)
Deputy Director – Bureau of Benefits	Mr. Patrick Connor (Effective through January 10, 2006)
	Ms. Janice Bonneville (Acting effective January 11, 2006) (Permanent effective April 16, 2006)
Deferred Compensation Plan Division Manager	Jason Musgrave (Acting)

Agency offices are located at:

201 East Madison
Suite 1C
Springfield, Illinois 62702

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying statements of plan net assets of the State of Illinois, Department of Central Management Services State Employees' Deferred Compensation Plan Fund (755) (Plan) as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended, was performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

Based on their audit, the auditors expressed unqualified opinions on the Plan's basic financial statements as noted above for the years ended December 31, 2006 and 2005.



INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Central Management Services' management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the State Employees' Deferred Compensation Plan Fund (755) and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Central Management Services' as of December 31, 2006 and 2005, and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services, as of December 31, 2006 and 2005, and the changes in plan net assets, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2007 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting of the State Employees' Deferred Compensation Plan Fund (755) and on our tests of the State of Illinois, Department of Central Management Services' compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Central Management Services has not presented a managements' discussion and analysis for the State Employees' Deferred Compensation Plan Fund (755) that accounting principles generally accepted in the United States of America has deemed is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information, as listed in the table of contents, has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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



Springfield, Illinois
June 14, 2007



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 statements of plan net assets of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services (Department) as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years ended, and have issued our report thereon dated June 14, 2007. 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 Department's internal control over financial reporting of the State Employees' Deferred Compensation Plan Fund (755) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the State Employees' Deferred Compensation Plan Fund (755) are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script, appearing to read "Silich" followed by a stylized flourish.

Springfield, Illinois
June 14, 2007

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
STATEMENTS OF PLAN NET ASSETS
PENSION TRUST FUND
December 31, 2006 and 2005

	2006	2005
ASSETS		
Cash and Cash Equivalents		
Cash in custody of State Treasurer	\$ 4,875,522	\$ 4,579,080
Cash advanced to recordkeeping agent	3,875,844	2,554,642
Total cash and cash equivalents	8,751,366	7,133,722
Accounts receivable	1,806,557	1,081,717
Investments		
Life insurance contracts	560,710,620	528,638,089
Money market fund	12,098,267	12,105,094
Mutual funds	2,272,762,571	1,997,085,631
Annuities	1,844,076	2,070,903
Total investments	2,847,415,534	2,539,899,717
Property and Equipment		
Office equipment, net of accumulated depreciation of \$142,070 and \$119,859	43,975	66,186
Total Assets	2,858,017,432	2,548,181,342
LIABILITIES		
Accounts payable	357,554	339,778
Accrued compensated absences	120,926	113,159
Total Liabilities	478,480	452,937
NET ASSETS		
Held in trust for deferred compensation benefits and other purposes	2,857,538,952	2,547,728,405
TOTAL NET ASSETS	\$ 2,857,538,952	\$ 2,547,728,405

The accompanying notes to financial statements are an integral part of this statement.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
Years Ended December 31, 2006 and 2005

	2006	2005
ADDITIONS		
Contributions		
Participant deferrals	\$ 158,504,864	\$ 145,838,862
Participant accounts transferred in from qualified retirement plans	3,746,175	4,102,366
Total Contributions	162,251,039	149,941,228
Investment Income		
Interest, dividends and other investment income	153,078,087	110,968,546
Net appreciation in fair value of investments	131,508,076	77,011,174
Total Investment Income	284,586,163	187,979,720
Less investment expense	(1,776,949)	(1,460,324)
Net Investment Income	282,809,214	186,519,396
Other Income (Expense)		
Recordkeeping reimbursement income	3,077,046	2,762,328
Recordkeeping and marketing expense	(1,864,331)	(1,877,881)
Other operating income (expense)	(6,195)	958
Total Other Income	1,206,520	885,405
Total Additions	446,266,773	337,346,029
DEDUCTIONS		
Distributions:		
Terminations	55,664,146	57,741,006
Deaths	6,651,036	6,034,438
Hardship	3,611,483	3,506,458
Participant accounts transferred out to other qualified plans	69,247,573	66,481,445
Administrative costs	1,281,988	1,204,508
Total Deductions	136,456,226	134,967,855
NET INCREASE	309,810,547	202,378,174
NET ASSETS, BEGINNING OF YEAR	2,547,728,405	2,345,350,231
NET ASSETS, END OF YEAR	\$ 2,857,538,952	\$ 2,547,728,405

The accompanying notes to financial statements are an integral part of this statement.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

1. ORGANIZATION

The Illinois State Employees' Deferred Compensation Plan (the Plan) is administered by the State of Illinois, Department of Central Management Services (the Department) at 201 East Madison, Suite 1C, Springfield, Illinois. The Plan consists of the State Employees' Deferred Compensation Fund (Fund 755), a pension trust fund in which is recorded all the assets and liabilities and additions and deductions of the plan. A portion of the Fund is held in the State Treasury and certain administrative costs are appropriated. Paul Campbell was the Director of the Department through March 8, 2007. The current acting Director of the Department is Maureen O'Donnell effective March 9, 2007. Patrick Connor was the Deputy Director for the Bureau of Benefits through January 10, 2006. The current Deputy Director for the Bureau of Benefits is Janice Bonneville effective April 16, 2006 and the current acting division manager for the Plan is Jason Musgrave. The Plan employed 15 full and part-time employees during 2006. The Illinois State Board of Investment has oversight responsibilities for the Plan.

The Department is part of the executive branch of the State of Illinois and operates under the authority of and review by the Illinois General Assembly. Activities of the Plan are subject to the authority of the Office of the Governor, the State's chief executive office, and other departments of the executive and legislative branches of the government (such as the State Comptroller's Office) as defined by the General Assembly.

As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois (the State) is the oversight unit which includes all funds, elected offices, departments and agencies of the State, as well as boards, commissions, authorities, universities, and colleges over which the State's executive or legislative branches exercise oversight responsibility. The Department is part of the primary government of the State of Illinois' executive branch. These financial statements present the statement of net assets and statement of changes in net assets for the years ended December 31, 2006 and 2005. The statements are not intended to, and do not present the financial position of the Department or the State.

2. GENERAL DESCRIPTION OF THE PLAN

The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General

The Plan was created in accordance with Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The first contributions to the Plan were made in May 1979. Under Plan provisions, all employees of the State are eligible to voluntarily elect to contribute a portion of their compensation into the Plan through payroll deductions.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS – Continued

2. GENERAL DESCRIPTION OF THE PLAN – Continued

General – Continued

All amounts of compensation deferred pursuant to the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights shall be held in one or more custodial accounts for the exclusive benefit of participants and beneficiaries under the Plan. Participants' rights under the Plan are limited to an amount equal to the fair market value of the deferred account for each participant.

Effective January 1, 1999, the State of Illinois amended the Plan in accordance with the provisions of Internal Revenue Code (IRC) Section 457(g). IRC Section 457(g) requires that assets and income thereon be held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the net assets are no longer assets of the State of Illinois. However, due to the administrative involvement of the State of Illinois, this Plan is reported as a pension trust fund as required by the Governmental Accounting Standards Board (GASB).

Contributions

In compliance with IRC Section 457, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed \$15,000 for 2006 and \$14,000 for 2005, or \$20,000 for participants age 50 or older for 2006 and \$18,000 for 2005. The State does not make any contributions to the Plan.

In the Plan, the annual compensation on which the maximum is calculated is reduced by the following:

- Employee retirement system contributions, which are tax deferred under Section 414 (h) of the IRC.
- Payroll deductions for the payment of group health insurance premiums and member life insurance premiums for coverage up to \$50,000, elected by the employee through state sponsored plans.
- Employee contributions made to the Dependent or Medical Care Assistance Plan which are authorized under Section 125 of the IRC.

In accordance with IRC Section 457, the Plan allows participants a limited make-up on deferrals in the three years prior to the year a participant reaches normal retirement age. For each of these three years, a participant can defer the regular limit plus an additional amount based on actual underutilized deferrals which were made in prior years, up to a maximum of \$30,000 in 2006 and \$28,000 in 2005 or twice the regular limits.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS – Continued

2. GENERAL DESCRIPTION OF THE PLAN – Continued

Payment of Benefits

Participants may withdraw the current value of funds contributed upon termination of employment with the State of Illinois. Withdrawal can also be made due to financial hardship if approved by a committee established by the Plan.

Upon retirement, participants may select various payment options, including lump sum, partial lump sum, periodic payments or rollover to another qualified tax deferred retirement plan. The participants may wait to start the distribution of their account up to the tax year they turn age 70 ½. They can also stop or change their elected distribution method. Participants with accounts less than or equal to \$5,000 who terminate their employment with the State of Illinois are required to take a lump sum distribution or transfer to another qualified retirement plan. Death beneficiaries may select similar payment options as retired employees. All investments of the Plan are held in custodial accounts for the exclusive benefit of the participants until such time as payments are made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

Pension Trust Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned and deductions are recorded when a liability is incurred, regardless of when the related cash flow takes place.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS – Continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

Cash equivalents consist of money market mutual funds, funds maintained by the Office of the State Treasurer, and cash advanced to recordkeeping agency representatives. The cash advanced to the recordkeeping agent represents amounts withheld from employees but not remitted to the investment carriers at December 31, and other amounts, such as reinvested income and other fees.

Investment Valuation and Income Recognition

Investments in the guaranteed investment contracts are stated at contract value as reported by the contract administrator, INVESCO (PRIMCO Capital Management). Investments in mutual funds are stated at fair value as determined by using the closing price listed on national exchanges as of December 31. Annuities are stated at their present value of future payments calculated by the Plan using information as reported by the various insurance companies.

Interest income from the investments in the guaranteed investment contracts and interest earned on temporary cash deposits in both the State Treasury and with the recordkeeping agent at the current money market rates are recorded as earned.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. The Illinois State Employees' Deferred Compensation Plan previously capitalized purchases over \$100 and used the straight-line method to depreciate appropriate assets over their estimated useful lives approximating five years. Beginning in 2005, the capitalization threshold was raised to \$5,000 while continuing to use the same depreciation method as in prior years.

Compensated Absences

Vested or accumulated vacation leave is recorded as a deduction and liability of the fund as the benefits accrue to employees. Until January 1, 1984, sick leave, which generally is earned one day per month with unlimited accumulation, was paid only where an employee was absent due to illness or other acceptable circumstances as outlined by personnel regulations. Effective January 1, 1984, upon death, retirement by resignation, or termination from State employment, employees are able to receive payment for one-half of accumulated sick leave earned subsequent to January 1, 1984, or full service credit for such accumulated sick leave under the State Employees' Article of the State Pension Code.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
 NOTES TO FINANCIAL STATEMENTS – Continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences – Continued

Effective January 1, 1998, upon death, retirement by resignation, or termination from State employment, employees are no longer able to receive payment for accumulated sick leave earned subsequent to January 1, 1998.

Changes in compensated absences are as follows:

	<u>2006</u>	<u>2005</u>
Balance January 1	\$ 113,159	\$ 107,459
Additions	8,286	8,322
Deletions	<u>(519)</u>	<u>(2,622)</u>
Balance December 31	<u>\$ 120,926</u>	<u>\$ 113,159</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ -</u>

4. RETIREMENT BENEFITS

Retirement benefits for Plan employees are provided under a separate State plan and are funded by State appropriations which are invested and accounted for by other State agencies.

5. DEPOSITS AND INVESTMENTS

Deposits

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Plan does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
 NOTES TO FINANCIAL STATEMENTS – Continued

5. DEPOSITS AND INVESTMENTS - Continued

Investments

The Plan's investment policy allows investment options selected by the Illinois State Board of Investments (Board) after satisfactory review of such factors as the investment experience of the underlying manager, the suitability of the investment approach used, and the investment record.

The Plan assets shall be invested with care, skill and diligence that would be applied by a prudent professional investor, acting in a like capacity and knowledgeable in the investment of retirement funds and all transactions undertaken on behalf of the Plan shall be for the sole interest of Plan participants and beneficiaries.

The objective of the Board is to offer a sufficient range of investment options to allow participants to diversify their account balances and construct portfolios that reasonably span the risk/return spectrum.

In accordance with governmental accounting standards, the net assets held in trust for deferred compensation benefits includes \$1,844,076 at December 31, 2006 of annuities due to retired participants who are receiving monthly benefits. The accounts of those participants electing annuity payments have been liquidated and closed by the Plan recordkeeper on the scheduled accounting date and the proceeds were used to purchase the participant's annuity. The carrying and fair market value of investments and annuities are summarized as follows:

	<u>2006</u>	<u>2005</u>
Stable Return Fund:		
Guaranteed investment contracts:		
ING Life Insurance & Annuity Co.	\$ 100,813,414	\$ 93,660,386
JP Morgan Chase Co.	69,067,422	65,965,104
JP Morgan Chase Co.	15,667,367	15,084,539
Monumental Life Insurance Co.	115,997,764	108,271,988
Rabobank Nederland	87,775,080	82,102,991
State Street Bank & Trust	100,242,623	95,520,690
UBS AG	71,146,950	68,032,391
Total Life Insurance Contracts	<u>560,710,620</u>	<u>528,638,089</u>
Money Market Fund:		
State Street Bank & Trust Fund	<u>12,098,267</u>	<u>12,105,094</u>
Total Stable Return Fund	<u>572,808,887</u>	<u>540,743,183</u>

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
 NOTES TO FINANCIAL STATEMENTS – Continued

5. DEPOSITS AND INVESTMENTS - Continued

	<u>2006</u>	<u>2005</u>
Mutual Funds:		
Columbia Acorn Fund	\$ 1,003,486,174*	\$ 894,317,065*
Ariel Fund	131,751,783	144,207,614*
Fidelity Puritan Fund	254,542,580*	219,950,570*
Legg Mason Value Trust	225,466,316*	233,876,099*
LSV Value Equity	37,384,909	10,692,985
T. Rowe Price International Stock Fund	108,342,336	77,643,574
# T. Rowe Price New Income Fund	67,541,877	66,560,153
T. Rowe Price Retirement Income Fund	5,711,904	2,326,749
T. Rowe Price Retirement 2005 Fund	4,141,426	2,161,102
T. Rowe Price Retirement 2010 Fund	24,928,496	8,836,740
T. Rowe Price Retirement 2015 Fund	15,696,945	4,547,665
T. Rowe Price Retirement 2020 Fund	15,768,027	4,553,217
T. Rowe Price Retirement 2025 Fund	5,136,031	1,334,177
T. Rowe Price Retirement 2030 Fund	6,561,487	1,352,751
T. Rowe Price Retirement 2035 Fund	1,320,171	377,754
T. Rowe Price Retirement 2040 Fund	2,182,204	313,730
T. Rowe Price Retirement 2045 Fund	1,074,893	140,471
# Vanguard Total Bond Market Index Fund - Institutional Shares	50,006,298	45,853,519
Vanguard Institutional Index Fund	239,077,420*	214,575,759*
# Vanguard Money Market Reserves Prime Portfolio - Institutional Shares	52,908,107	42,134,088
Wells Fargo Large Capital Growth Fund - Institutional Shares	13,173,390	12,425,398
Northern Small Capital Value Fund	6,559,797	-
PIC Small Capital Growth Fund - Institutional Shares	-	8,904,451
Total Mutual Funds	<u>2,272,762,571</u>	<u>1,997,085,631</u>

* Investment amount is greater than five percent of total investments.

Debt mutual funds

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
 NOTES TO FINANCIAL STATEMENTS – Continued

5. DEPOSITS AND INVESTMENTS – Continued

Annuities:	<u>2006</u>	<u>2005</u>
AIG Life Insurance Co.	\$ -	\$ 5,900
Confederation Life Insurance Co.	25,327	46,498
Equitable Life Assurance Society	53,768	57,148
First Colony Life Insurance Co.	44,662	58,532
Hartford Life Insurance Co.	59,593	64,859
IDS Financial Services, Inc.	41,330	61,459
Jackson National Life Insurance Co.	58,053	68,021
Keyport Life Insurance Co.	11,048	12,507
Lincoln National Life	62,622	65,409
Massachusetts Mutual Life Insurance Co.	24,154	27,017
Metropolitan Life Insurance Co.	449,840	511,473
New York Life Insurance Co.	38,522	40,469
Northwestern Mutual Life Insurance Co.	64,790	73,505
Prudential Insurance Co.	67,180	73,612
State Farm Life Insurance Co.	192,412	215,991
Transamerica	76,135	83,814
The Travelers Insurance Co.	548,327	572,085
USAA Life Insurance Co.	<u>26,313</u>	<u>32,604</u>
Total annuities	<u>1,844,076</u>	<u>2,070,903</u>
Total investments	<u>\$ 2,847,415,534</u>	<u>\$ 2,539,899,717</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Plan will not be able to recover the value of its investments that are in possession of an outside party. None of the Plan's investments are subject to custodial credit risk.

Interest Rate Risk

The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
 NOTES TO FINANCIAL STATEMENTS – Continued

5. DEPOSITS AND INVESTMENTS – Continued

Credit Risk

The Plan does not have a formal investment plan that limits investment choices. At December 31, 2006, the following debt mutual funds were rated as follows:

		<u>Average Maturity</u>
State Street Bank & Trust Money Market Fund	A1+P1 (Moody's)	51 days
T. Rowe Price New Income Bond Fund	AAA (S&P)	7.0 years
Vanguard Total Bond Market Index Fund	AA1 (S&P)	6.9 years
Vanguard Money Market Reserves Fund	Aaa (Moody's)	40 days

6. PLAN ADMINISTRATION

By statute, the Department administers the Plan. The Department has entered into a contract for recordkeeping services with T. Rowe Price Retirement Plan Services, Inc.

A. Asset charges intended to cover the costs of administration, including recordkeeping, are computed monthly, withdrawn from participants' accounts and recorded as revenue as of December 31, 2003. Effective November 1, 1997, the annual fee was .15 percent on the total account value. Effective January 1, 1999, the annual fee charged to participants was limited to a maximum of \$75. Effective January 1, 2001, the annual fee charged to participants was limited to a maximum of \$45 per participant. Effective January 1, 2003, the Department declared a fee holiday and there were no annual fees charged to the participants during 2003 or 2004. The fee holiday is reviewed annually. Consequently, these fees were reinstated for 2005 limited to a maximum \$45 per participant and continued into 2006 with a maximum of \$35. Exchange fees for certain reallocations as provided by the Plan may be incurred by Participants.

B. For the Stable Return Fund, the investment management fee assessed by INVESCO (PRIMCO Capital Management) is calculated daily, based on values during the quarter, in accordance with an annual fee rate applied to billable assets value. The fees are paid on a quarterly basis.

The billable assets value is determined at the end of each preceding calendar month based on 100 percent of total guaranteed investment contract assets. The annual fee rate schedule is as follows:

- .15 Percent of the first \$50 million of billable assets,
- .10 Percent of the next \$250 million of billable assets, and
- .05 Percent of billable assets in excess of \$300 million.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS – Continued

6. PLAN ADMINISTRATION – Continued

- C. The twenty-three mutual funds take their fund expenses, including investment management fees, before any dividends and/or capital gains are declared. Their fees and expenses are amortized and charged to the funds on an ongoing basis and shared equally by all other shareholders of the mutual funds.
- D. T. Rowe Price Retirement Plan Services, Inc. receives a fee for maintaining the detail records of the participants. The fees are based upon a contract awarded by the Department. Marketing fees for quarterly newsletters are also paid to T. Rowe Price.

The contract, as amended, awarded by the Department was for a contract fee as follows:

- \$129,167 per month from July 2000 through June 2001
- \$134,333 per month from July 2001 through June 2002
- \$140,000 per month from June 2002 through December 2002
- \$140,000 per month from January 2003 through December 2003
- \$145,600 per month from January 2004 through December 2004
- \$151,424 per month from January 2005 through December 2005
- \$151,424 per month from January 2006 through December 2006

This fee was reduced by reimbursements of recordkeeping expenses from the participating investment funds.

Reimbursements of \$3,077,046 for the year ended December 31, 2006 exceeded fees to T. Rowe Price of \$1,864,331 by \$1,212,715 and earned interest of \$144,189. For the year ended December 31, 2005, reimbursements of \$2,762,328 exceeded fees of \$1,877,881 by \$884,447 and earned interest of \$59,149.

7. TAX STATUS

The Plan constitutes an eligible deferred compensation plan under Section 457 of the Internal Revenue Code and, therefore, the amounts of compensation (and earnings thereon) deferred by employees participating in the Plan are not subject to federal income tax withholding nor are they includable in taxable income until actually paid or otherwise made available to the participant, a beneficiary, or an estate.

For Illinois Income Tax Act purposes, per private letter ruling issued by the Illinois Department of Revenue on February 18, 1977, compensation deferred under the Plan will be treated the same as for federal income tax. On December 19, 1988, the Illinois Department of Revenue ruled that distributions from Internal Revenue Code Section 457 plans are not taxable under the Illinois Income Tax Act. Distributions qualify as Illinois income tax subtraction modifications and are not subject to withholding.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS – Continued

7. TAX STATUS – Continued

Amounts deferred are subject to social security taxes in the year deferred. Benefit payments under the Plan do not constitute earnings and thus are not subject to social security taxes in the year received as clarified by Social Security Act Amendments of 1983, P.L. 98-21.

The Plan obtained its latest determination letters on October 7, 1976 and February 18, 1977 for federal and state rulings, respectively. The Plan has been amended since receiving the determination letters. However, the Plan Administration (the Department) believes that the Plan is currently designed and being operated in compliance with applicable requirements of the Internal Revenue Code.

SUPPLEMENTARY INFORMATION

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
 COMBINED SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Years Ended December 31, 2006 and 2005

	2006	2005
RECEIPTS		
Participant deferrals	\$ 158,526,808	\$ 145,890,995
Participant accounts transferred in from other qualified retirement plans	3,746,175	4,102,366
Asset charges received	1,269,670	1,447,983
Interest received:		
Prime Reserve Fund - purchase and exchange	648	1,395
State Treasury	190,227	107,766
Other	12,817	11,985
Total receipts	163,746,345	151,562,490
DISBURSEMENTS		
Transfers to service agent for investment	162,193,060	149,497,703
Administrative costs	1,234,899	1,152,611
Refunds	21,944	52,133
Total disbursements	163,449,903	150,702,447
EXCESS OF RECEIPTS OVER DISBURSEMENTS	296,442	860,043
CASH BALANCE, BEGINNING OF YEAR	4,579,080	3,719,037
CASH BALANCE, END OF YEAR	\$ 4,875,522	\$ 4,579,080

Note: The above schedule presents the combined cash transactions, and summarizes cash receipts and cash disbursements in the State Employees' Deferred Compensation Plan Fund in the State Treasury. The ending cash balance has been reconciled to the balance reported by the State Comptroller.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
SUMMARY SCHEDULES OF INVESTMENT INCREASES,
DEDUCTIONS, AND BALANCES
Years Ended December 31, 2006 and 2005

	2006	2005
INVESTMENT INCREASES		
Deferral contributions	\$ 158,419,873	\$ 145,349,700
Participant accounts transferred in from other qualified retirement plans	3,746,022	4,102,366
Reinvested income	151,589,084	110,693,039
Net appreciation	130,238,463	75,568,818
Total increases	443,993,442	335,713,923
INVESTMENT DEDUCTIONS		
Distributions:		
Terminations	55,664,146	57,741,006
Deaths	6,651,036	6,034,438
Hardship	3,611,483	3,506,458
Total distributions	65,926,665	67,281,902
PARTICIPANT ACCOUNTS TRANSFERRED OUT TO OTHER QUALIFIED RETIREMENT PLANS	69,247,573	66,481,445
Total deductions in response to distribution qualifying events	135,174,238	133,763,347
ASSET AND EXCHANGE FEE CHARGES	1,303,387	1,478,292
Total deductions	136,477,625	135,241,639
NET INCREASE IN INVESTMENTS DURING THE YEAR	307,515,817	200,472,284
INVESTMENT BALANCE, BEGINNING OF YEAR	2,539,899,717	2,339,427,433
INVESTMENT BALANCE, END OF YEAR	\$ 2,847,415,534	\$ 2,539,899,717
NUMBER OF PARTICIPANTS	52,553	51,651
AVERAGE ACCOUNT VALUE	\$ 54,182	\$ 49,174
LARGEST ACCOUNT VALUE	\$ 1,513,717	\$ 1,309,402
SMALLEST ACCOUNT VALUE	\$ 10	\$ 10

Note: This schedule summarizes amounts withheld from State employees under the deferred compensation program and which were invested in the various investment vehicles of the Plan. Due to timing differences relating to the deposit of funds into the various investment vehicles, certain amounts may be included in the cash balance at year-end and balances reflected on this schedule will not agree with balances reported on the Statement of Plan Net Assets.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN
SCHEDULES OF ADMINISTRATIVE COSTS
Years Ended December 31, 2006 and 2005

	2006	2005
Salaries	\$ 633,291	\$ 636,650
Fringe benefits	293,308	324,636
Telecommunication services	10,073	9,716
Statistical services	64,786	66,470
Travel	2,910	1,950
Contractual services	245,405	128,695
Printing	5,867	6,331
Commodities	182	468
Depreciation	22,211	26,018
Other	1,141	986
Office supplies	2,814	2,588
 TOTAL ADMINISTRATIVE COSTS	 \$ 1,281,988	 \$ 1,204,508

Note: The above schedule summarizes the administrative costs incurred by the Department of Central Management Services in connection with the Deferred Compensation Plan. These costs are stated on an accrual basis and have been paid from the State Employees' Deferred Compensation Plan Fund. Annual appropriations are made to the Department from the Plan for these administrative expenses. Purchases of investments in the various funds and payments of benefits to participants are made under continuing appropriations provided under Public Act 80-1181, effective January 30, 1978.