State of Illinois
Office of the Treasurer

CHANGE OVER AUDIT

FINANCIAL AUDITS &
AGREED UPON PROCEDURES

For the Period July 1, 2010 through the
Opening of Business January 10, 2011

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

State of Illinois
Office of the Treasurer

CONTENTS

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

FINANCIAL AUDIT

For the Period July 1, 2010 through the
Opening of Business January 10, 2011

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

Part I

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES
FINANCIAL AUDIT

CONTENTS

TREASURER'S OFFICE OFFICIALS

Treasurer	Honorable Alexi Giannoulias (through January 10, 2011) Honorable Dan Rutherford (January 10, 2011 – present)
Chief of Staff	Ms. Robin Kelly (through December 27, 2010) Mr. Kyle Ham (January 10, 2011 – present)
Deputy Treasurer/CFO	Mr. Edward Buckles
Deputy Chief of Staff/General Counsel	Mr. Paul Miller (through January 10, 2011)
General Counsel	Ms. Maureen Lydon (January 10, 2011 – present)
Chief Legal Counsel	Ms. Gina DeCiani (through January 10, 2011)
Manager of Banking	Ms. Rhonda Poeschel
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler

As of the opening of business January 10, 2011, the Office of the Treasurer maintained ten office locations. Subsequent to January 10, 2011, six office locations were closed as noted below.

- Executive Office
  State Capitol
  219 State House
  Springfield, Illinois 62706

- Operational Divisions
  Illinois Business Center
  400 West Monroe, Suite 401
  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 – *Closed 2/9/2011*
  Effingham Office
  401 Industrial Drive, Suite E
  Effingham, Illinois 62401

- Programmatic – *Closed 2/16/2011*
  Rock Island Office
  Rock Island County Office Bldg.
  1504 Third Avenue
  Rock Island, Illinois 61201

- Programmatic – *Closed 2/15/2011*
  Rockford Office
  E.J. Zeke Giorgi Building
  200 South Wyman Street
  Rockford, Illinois 61101

- Programmatic – *Closed 2/8/2011*
  Collinsville Office
  420 East Main St.
  Collinsville, IL 62234

- Programmatic – *Closed 2/7/2011*
  Riverdale Office
  13725 South Wabash Ave
  Riverdale, Illinois 60827

- Programmatic – *Closed 2/9/2011*
  Mt. Vernon Office
  200 West Potomac Boulevard
  Mt. Vernon, Illinois 62864

FINANCIAL STATEMENT REPORT

State of Illinois
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying statement of assets, liabilities and accountabilities of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer) as of the opening of business January 10, 2011 and the statement of investment income for the period July 1, 2010 through the opening of business January 10, 2011 was performed by Crowe Horwath LLP.

Based on their audit, 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.

SUMMARY OF FINDINGS

The auditors identified matters involving the Treasurer's internal control over financial reporting that they consider to be a significant deficiency and non-compliance with certain provisions of laws and regulations. The findings are described in the accompanying Schedule of Findings listed in the table of contents, beginning on page 48, and are summarized as follows:

SCHEDULE OF FINDINGS

Item No.	Page	Description	Finding Type
		FINDINGS (*GOVERNMENT AUDITING STANDARDS)*	
1	48	Weakness in Control over General Ledger Journal Entries	Significant Deficiency
2	49	Weaknesses Identified in the Securities Lending Program	Noncompliance

EXIT CONFERENCE

The Office of the Treasurer waived a formal exit conference in an e-mail provided by Ms. Barb Ringler dated April 20, 2011. The responses to the recommendations were provided by Ms. Barb Ringler in an email dated May 5, 2011.

AUDITORS' REPORT

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of the opening of business January 10, 2011, and for the period July 1, 2010 through the opening of business January 10, 2011, 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 audit.

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

As discussed in Note 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, the financial statements referred to above, 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 the opening of business January 10, 2011, and the results of its investment activity for the period July 1, 2010 through the opening of business January 10, 2011 in conformity with the basis of presentation described in the Summary of Significant Accounting Policies-Basis of Presentation footnote.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2011 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 audit.

Our audit was 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, tobacco settlement recovery fund, key performance measures, and the investment policy listed in the Table of Contents on pages 20-45 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 audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The key performance measures and the investment policy have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, 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
May 24, 2011

FINANCIAL STATEMENTS

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
STATEMENT OF ASSETS, LIABILITIES AND ACCOUNTABILITIES
As of the Opening of Business January 10, 2011

ASSETS AND OTHER DEBITS

CASH AND CASH EQUIVALENTS	
Demand Deposits	$ 871,584
Clearing Account Deposits and Deposits in Transit	51,310,754
Total Cash	52,182,338
Repurchase Agreements	2,610,397,144
Commercial Paper	754,636,767
Treasury Bills	699,845,648
Federal Home Loan Bank Discount Notes	49,994,583
The Illinois Funds	751,786,648
Money Market Mutual Funds	280,356,909
Mortgage Reserve Fund	539
Total Cash and Cash Equivalents	5,199,200,576
DEPOSITS AND INVESTMENTS	
Short-Term Investments	
Time Deposits	74,496,833
Commercial Paper	2,174,659,793
Treasury Bills	839,357,350
Federal Home Loan Mortgage Corporation	50,871,799
Federal Home Loan Mortgage Corporation Discount Notes	19,934,978
Federal Home Loan Bank	75,382,638
Federal Home Loan Bank Discount Notes	149,663,194
Federal National Mortgage Association	25,392,094
Federal National Mortgage Association Discount Notes	259,175,983
Foreign Investments	10,000,000
Long-Term Investments	
Time Deposits	28,631,304
Federal Home Loan Mortgage Corporation	304,261,165
Federal National Mortgage Association	509,210,221
Federal Home Loan Bank	309,841,808
Federal Deposit Insurance Corporation Guarantee Notes	141,888,017
State of Illinois Secondary Investment Program	432,215
Illinois Technology Development	26,311,514
Foreign Investments	10,000,000
Total Deposits and Investments	5,009,510,906
SECURITIES LENDING COLLATERAL	
Invested in Repurchase Agreements	2,253,496,614
Cash	157,136
Total Securities Lending Collateral	2,253,653,750

The accompanying notes are an integral part of this statement.

ASSETS AND OTHER DEBITS - CONTINUED

OTHER ASSETS		
Warrants Cashed, but not Canceled	$	15,089
Receivables from Universities and Agencies for Monies Advanced		2,673,000
Receivable from City of Edwardsville		277,095
Investment Income Earned, but not Received		(1,921,316)
Total Other Assets		1,043,868
OTHER DEBITS		
Amount of Future General Revenue Obligated for Debt Service		40,600,036,032
Total Assets and Other Debits	$	53,063,445,132

LIABILITIES AND ACCOUNTABILITIES

LIABILITIES FOR BALANCES ON DEPOSIT		
Comptroller		
Protested Taxes	$	317,738,513
Available for Appropriation or Expenditure		7,693,597,464
Agencies' Deposits Outside the State Treasury		911,877,223
Comptroller's Warrants Outstanding		508,851,067
Total Liabilities for Balances on Deposit		9,432,064,267
OTHER LIABILITITES		
Obligations under Securities Lending		2,253,653,750
Total Other Liabilities		2,253,653,750
GENERAL OBLIGATION INDEBTEDNESS		
Principal and Interest Due Within One Year		4,307,862,787
Thereafter		37,085,113,240
Total General Obligation Indebtedness		41,392,976,027
ACCOUNTABILITIES		
Receivable from City of Edwardsville		277,095
Investment Income Earned, but not Received (Net of cumulative market adjustments)		(15,528,508)
Federal Reserve Bank Settlement Account Reserve		1,962
Mortgage Reserve Fund		539
Total Accountabilities		(15,248,912)
Total Liabilities and Accountabilities	$	53,063,445,132

The accompanying notes are an integral part of this statement.

State of Illinois

Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

STATEMENT OF INVESTMENT INCOME

For the Period July 1, 2010 through the Opening of Business January 10, 2011

Investment Income Earned	$ 24,426,251

The accompanying notes are an integral part of this statement.

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 him 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 of the State of Illinois. 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 his 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.

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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 value, with the exception of Commercial Paper, U.S. Treasury Bills, U.S. Agency Discount Notes, and the investments in the Illinois Technology Program which are valued at amortized cost. The Treasurer's investments in U.S. Treasury Bills and U.S. Agency Discount Notes are short-term investments with no coupon payments; therefore GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, permits the Treasurer to record them at amortized cost. The Treasurer's investments in the Illinois Technology Program are investments in venture capital limited partnerships and valued using cost-based measures in accordance with the *Guide to Implementation of GASB Statement 31 on Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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.

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

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) were rated by two or more standard rating services at a level that was at least as high as the following: A-1 by Standard & Poor's, P-1 by Moody's Investor Service, or F-1 by Fitch Ratings, repurchase agreements or other investments approved by State law. As of the opening of business January 10, 2011, 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 Barclay's US Funding LLC and HSBC Finance Corporation, 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, were 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 were rated Aaa by Moody's Investors Services or AAA by Fitch Ratings. The Treasurer's short-term investments in foreign debt securities were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings. The Treasurer's long-term investment in foreign debt securities were rated Aa1 by Moody's Investors Service and A by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAm by Standard & Poor's. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAm by Standard & Poor's. The Treasurer's securities lending collateral investments in repurchase agreements were rated P-1 by Moody's Investors Service or A-1 by Standard & 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 fair 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 fair 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 fair 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 fair 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 to 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 fair value adequate to secure the deposit.

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

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 ten 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.

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 fair 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.

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 Chase. 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 Obligations and U.S. Agency Securities. These purchases permit greater portfolio diversification, provide comparable yields to other investment options, and provide liquidity due to the active secondary market.

<u>Deposits</u>: The carrying amount of all the Treasurer's demand and time deposits at the opening of business January 10, 2011, was $ 52,182,338 and $ 103,128,137, respectively. The bank balance of all the Treasurer's demand and time deposits at the opening of business January 10, 2011, was $52,132,097 and $103,128,137, respectively.

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Investments: Excluding Time Deposits, the Treasurer had the following investments, stated at fair value except for Commercial Paper, U.S. Treasury Bills, U.S. Agency Discount Notes and Illinois Technology Development, and maturities as of the opening of business January 10, 2011. (Amounts are in thousands.)

	Cash Equivalents	Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	Total
Commercial Paper*	$ 754,637	$ 2,174,660	$ -	$ -	$ -	$ 2,929,297
Repurchase Agreements	2,610,397	-	-	-	-	2,610,397
Treasury Bills*	699,846	839,357	-	-	-	1,539,203
Federal Home Loan Bank	-	75,382	309,842	-	-	385,224
Federal Home Loan Bank Discount Notes*	49,995	149,663	-	-	-	199,658
Federal Home Loan Mortgage Corporation	-	50,872	304,261	-	-	355,133
Federal Home Loan Mortgage Corporation Discount Notes*	-	19,935	-	-	-	19,935
Federal National Mortgage Association	-	25,392	509,210	-	-	534,602
Federal National Mortgage Association Discount Notes*	-	259,176	-	-	-	259,176
Federal Deposit Insurance Corporation Guarantee Notes	-	-	141,888	-	-	141,888
State of Illinois Secondary Pool Investment Program	-	-	-	274	158	432
Foreign Investments**	-	10,000	10,000	-	-	20,000
Securities Lending Collateral Invested in Repurchase Agreements	2,253,497	-	-	-	-	2,253,497
Subtotal	$ 6,368,372	$ 3,604,437	$ 1,275,201	$ 274	$ 158	11,248,442
Illinois Technology Development*						26,311
The Illinois Funds						751,787
Money Market Mutual Funds						280,357
Mortgage Reserve Fund						1
Total Investments and Securities Lending Collateral, excluding Time Deposits						$ 12,306,898

*Reported at Amortized Cost

**Denominated in U.S. dollars

The Treasurer's net decrease in the fair value of investments during the period July 1, 2010 through the opening of business January 10, 2011 was $ 14,363,816. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the period.

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the fair value of collateral securities at 102% of the agreement. The carrying amount, including accrued interest, was approximately $ 2,610,397,144 and the fair value of the collateral securities to be resold based on commitments under the repurchase agreements was approximately $2,692,444,543 as of the opening of business January 10, 2011.

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 the opening of business January 10, 2011. (Amounts are in thousands.)

	Value	Investments
Repurchase Agreements:		
Mizuho Securities	$ 858,060	6.97%
Nesbitt Burns Securities Inc.	800,000	6.50%
Northern Trust Company	746,590	6.07%
Commercial Paper:		
SSB/Citigroup Global	798,676	6.49%

Securities Lending Transactions: 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 Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the period, Deutsche Bank Group lent U.S. Agency Securities, U.S. Treasury Bills, and U.S. Agency Discount Notes and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

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

During the period, 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 Deutsche Bank Group 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 securities lending collateral invested in repurchase agreements plus cash collateral held, and the fair value of securities on loan for the State Treasurer as of the opening of business January 10, 2011, were $ 2,253,653,750 and $ 2,242,091,627, respectively. Securities on loan are reported at fair value with the exception of U.S. Treasury Bills and U.S. Agency Discount notes which are reported at amortized cost.

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 for the purpose of providing financing to approved construction projects. Two mortgage agreements in the pool were secured by hotel properties, the Collinsville Holiday Inn (Collinsville Hotel) and the Abraham Lincoln Hotel and Conference Center (President Lincoln Hotel).

The two hotel loans, with original loan balances of $15,500,000 for the President Lincoln Hotel and $13,400,000 for the Collinsville Hotel, owned by the Trust, were first restructured during fiscal year 1988. 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. As of the opening of business January 10, 2011, the unpaid principal and interest on the President Lincoln and Collinsville Hotels totaled approximately $24,900,043 and $1,302,373, respectively.

In 2006, the Circuit Court of Cook County entered judgment in favor of the Trustee and against the Collinsville Hotel Venture declaring the loan was in default and authorizing the Trustee to pursue collection proceedings against the personal guarantee. On January 2, 2007, the Trustee filed a foreclosure complaint against the Collinsville 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. Accrued and unpaid interest of approximately $14,315,000 was capitalized upon judgment order, but was not added to the Treasurer's recorded value.

A foreclosure sale was held on October 18, 2007. The Collinsville Hotel and all associated property were sold to the Trust, as high bidder for $25,375,654. The sale price was paid in full through the Trust's credit of sale price against the unpaid principal and interest secured by the mortgage on the property. On November 1, 2007, the court issued a judicial deed, and the Trust therefore took title of the property.

After a sealed bid auction, the Trust sold the Collinsville Hotel property to a hotel developer for $5.25 million. The sale closed on August 26, 2008. The Trust subsequently received approximately $600,000 from an outstanding operating account of the Collinsville Hotel. In May of 2010, the Trust settled litigation against Regions Bank, which was initiated after Regions Bank refused to pay on four letters of credit totaling $1,637,375, that were additional loan collateral. After Regions Bank transferred $853,874 and the deeds and/or titles to several properties that the Trust will work to liquidate, the litigation was dismissed. It is anticipated the properties will be sold soon, for an amount less than $1,000,000.

In 2006, the Circuit Court of Cook County entered judgment in favor of the Trustee and against the President Lincoln Hotel declaring that the loan was in default. On January 2, 2007, the Trustee filed a foreclosure complaint against the President Lincoln Hotel Venture. On January 18, 2008, the Court entered a Judgment of Foreclosure and sale against all defendants. On March 4, 2008, the Trustee purchased the President Lincoln Hotel for $100,000; the sale price was paid in full through the Trust's credit of the sale price against the unpaid principal and interest of the mortgage note. The Court confirmed the sale on March 14, 2008. The President Lincoln hotel was sold via public auction on December 14, 2009 to the high bidder for $6.5 million. 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 funds of the Trust are invested in a money market account at the Trustee, US Bank. Pursuant to Public Act 96-1181, the Trust transferred $16 million to the State Treasury on September 30, 2010.

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

	(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 second restructuring	40	428	468
Payments received - years ended June 30, 1992, through June 30, 2010	(2,262)	(3,150)	(5,412)
Payments received period July 1, 2010 through opening of business January 10, 2011	-	-	-
Interest capitalized upon judgment 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	(4,255)	(4,397)	(8,652)
Balance of operating account applied to principal	-	(499)	(499)
Surety bond proceeds applied to principal	(2,278)	-	(2,278)
Letter of Credit payment applied to principal	-	(733)	(733)
Allowance for Doubtful Accounts	(23,051)	(1,261)	(24,312)
Opening of Business January 10, 2011 - loan balance	$ -	$ -	$ -

NOTE F - DEFEASED DEBT

There were no General Obligation Refunding Bonds issued during the period July 1, 2010 through the opening of business January 10, 2011.

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 the opening of business January 10, 2011, $754,730,000 of bonds outstanding was considered defeased.

NOTE G - SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER

At the opening of business January 10, 2011, the Treasurer was responsible for $ 17,068,466 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, 2010 to the opening of business January 10, 2011, in General Obligation Bonded Indebtedness by issue type follows:

	Multi-Purpose Interest Rates varying from 1.395% to 7.35% Series 1997 through 2010, due serially to 2036	Pension Funding Interest Rates varying from 2.766% to 5.1% Series 2003 and 2010, due serially to 2033	General Obligation Refunding Series 2001 through 2010 Interest Rates varying from 3.0% to 7.3%, due serially to 2025	Medicaid Funding Interest Rate 2.5% Series 2010, due 2011
Balance at June 30, 2010				
Principal	$ 7,778,269,168	$ 13,316,000,000	$ 3,115,718,829	$ 246,095,000
Interest	5,472,000,590	8,861,114,309	951,321,711	5,964,386
Total	13,250,269,758	22,177,114,309	4,067,040,540	252,059,386
Redemptions charge to Appropriations				
Principal	240,501,201	693,200,000	193,263,829	-
Interest	363,234,869	355,227,049	117,101,680	-
Total	603,736,070	1,048,427,049	310,365,509	-
Certificates/Bonds issued				
Principal	1,200,000,000	-	-	-
Interest	1,076,853,995	-	-	-
Total	2,276,853,995	-	-	-
Refunding				
Principal	-	-	-	-
Interest	-	-	-	-
Total	-	-	-	-
Balance at Opening of Business January 10, 2011				
Principal	8,737,767,967	12,622,800,000	2,922,455,000	246,095,000
Interest	6,185,619,716	8,505,887,260	834,220,031	5,964,386
Total	$ 14,923,387,683	$ 21,128,687,260	$ 3,756,675,031	$ 252,059,386

NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued)

	Total Bonded Indebtedness	General Obligation Certificates	Total General Obligation Indebtedness
Balance at June 30, 2010			
Principal	$ 24,456,082,997	$ -	$ 24,456,082,997
Interest	15,290,400,996	-	15,290,400,996
Total	39,746,483,993	-	39,746,483,993
Redemptions charge to Appropriations			
Principal	1,126,965,030	-	1,126,965,030
Interest	835,563,598	-	835,563,598
Total	1,962,528,628	-	1,962,528,628
Certificates/Bonds issued			
Principal	1,200,000,000	1,300,000,000	2,500,000,000
Interest	1,076,853,995	32,166,667	1,109,020,662
Total	2,276,853,995	1,332,166,667	3,609,020,662
Refunding			
Principal	-	-	-
Interest	-	-	-
Total	-	-	-
Balance at Opening of Business January 10, 2011			
Principal	24,529,117,967	1,300,000,000	25,829,117,967
Interest	15,531,691,393	32,166,667	15,563,858,060
Total	$ 40,060,809,360	$ 1,332,166,667	$ 41,392,976,027
Amounts due within one year			
Principal	$ 1,772,140,000	$ 1,300,000,000	$ 3,072,140,000
Interest	1,203,556,120	32,166,667	1,235,722,787
Total	$ 2,975,696,120	$ 1,332,166,667	$ 4,307,862,787

NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued)

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.

Future general obligation debt service requirements at the opening of business January 10, 2011, are as follows:

Year ending January 10	Principal	Interest	Total
2012	$ 3,072,140,000	$ 1,235,722,787	$ 4,307,862,787
2013	1,486,285,000	1,148,568,149	2,634,853,149
2014	1,533,530,000	1,095,087,653	2,628,617,653
2015	1,597,035,000	1,032,206,212	2,629,241,212
2016	822,395,000	962,663,121	1,785,058,121
2017-2021	3,095,655,000	3,487,525,785	6,583,180,785
2022-2026	4,161,409,985	3,420,292,017	7,581,702,002
2027-2031	5,138,825,104	2,156,994,481	7,295,819,585
2032-2036	5,326,224,911	620,415,822	5,946,640,733
Total	$ 26,233,500,000	$ 15,159,476,027	$ 41,392,976,027

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

Additional information and disclosures related to the State's General Obligation Indebtedness are presented in the State of Illinois Comprehensive Annual Financial Report. This report may be obtained online at www.ioc.state.il.us or by writing to the Illinois Office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858

NOTE I - 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.

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 Department of Insurance. 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.

NOTE I - COMMITMENTS AND CONTINGENCIES (Continued)

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

The Appellate Court extended the preliminary injunction in this matter to cover the plaintiffs' payments into the protest fund in 2008. Settlement discussions of the matter continued, and discovery was informally stayed.

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

At the final hearing, the settlement agreement was approved. Distribution of settlement proceeds and transfers of money between funds, pursuant to the settlement agreement, is ongoing. The court continues to retain jurisdiction of this matter until the distribution of funds has been completed.

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 $17 million.

NOTE J - SUBSEQUENT EVENT

On March 10, 2011, the State of Illinois issued General Obligation Taxable Bonds Pension Funding series February 2011, in the amount of $3,700,000,000 maturing in 2014 through 2019 at interest rates of 4.026% to 5.877%.

SUPPLEMENTARY INFORMATION

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
ASSETS, LIABILITIES AND ACCOUNTABILITIES
As of the Opening of Business January 10, 2011

Following is a summary of the assets, liabilities and accountabilities of the Treasurer's Fiscal Officer accounts:

Assets and Other Debits		
Cash and Cash Equivalents	$	5,199,200,576
Deposits and Investments		5,009,510,906
Securities Lending Collateral		2,253,653,750
Other Assets		1,043,868
Amount of Future General Revenue Obligated for Debt Service		40,600,036,032
Total Assets and Other Debits	$	53,063,445,132
Liabilities for Balances on Deposit		
Comptroller		
Protested Taxes	$	317,738,513
Available for Appropriation or Expenditure		7,693,597,464
Agencies' Deposits Outside the State Treasury		911,877,223
Comptroller's Warrants Outstanding		508,851,067
Total Liabilities for Balances on Deposit		9,432,064,267
Other Liabilities		2,253,653,750
General Obligation Indebtedness		41,392,976,027
Total Liabilities		53,078,694,044
Accountabilities		
Receivable from City of Edwardsville		277,095
Investment Income Earned, but not Received		(15,528,508)
Federal Reserve Bank Settlement Account Reserve		1,962
Mortgage Reserve Fund		539
Total Accountabilities		(15,248,912)
Total Liabilities and Accountabilities	$	53,063,445,132

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

Cash and Cash Equivalents		
Demand Deposits	$	871,584
Clearing Account Deposits and Deposits in Transit		51,310,754
Repurchase Agreements		2,610,397,144
Commercial Paper		754,636,767
Treasury Bills		699,845,648
Federal Home Loan Bank Discount Notes		49,994,583
The Illinois Funds		751,786,648
Money Market Mutual Funds		280,356,909
Mortgage Reserve Fund		539
Total Cash and Cash Equivalents	$	5,199,200,576

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
As of the Opening of Business January 10, 2011

	Collected	Float	Total
Demand Deposits			
JP Morgan	$ 122,977	$ 428,252	$ 551,229
Illinois National Bank	2,867	-	2,867
Northern Trust Company, Chicago	256,063	-	256,063
Wells Fargo Bank	11,184	-	11,184
	$ 393,091	$ 428,252	821,343
Net Reconciling Items (e.g., deposits-in-transit and outstanding drafts)			50,241
Total Demand Deposits			$ 871,584

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
As of the Opening of Business January 10, 2011

	Collected	Float	Total
Clearing Account Deposits			
and Deposits in Transit			
Bank of America	$ -	$ 209,479	$ 209,479
DuQuoin State Bank	33,560	-	33,560
Fifth Third	49,033	36,921,825	36,970,858
Illinois National Bank	-	13,739,324	13,739,324
US Bank	119,711	-	119,711
Northern Trust Company, Chicago	80,172	76,712	156,884
MB Financial	45,423	-	45,423
Pan American Bank	30,510	-	30,510
Wells Fargo Bank	5,005	-	5,005
	$ 363,414	$ 50,947,340	51,310,754
Net Reconciling Items (e.g., deposits-in-transit and outstanding drafts)			-
Total Clearing Account Deposits			$ 51,310,754

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 the opening of business January 10, 2011 were 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.

Short-Term Investments	
Time Deposits	$ 74,496,833
Commercial Paper	2,174,659,793
Treasury Bills	839,357,350
Federal Home Loan Mortgage Corporation	50,871,799
Federal Home Loan Mortgage Corporation Discount Notes	19,934,978
Federal Home Loan Bank	75,382,638
Federal Home Loan Bank Discount Notes	149,663,194
Federal National Mortgage Association	25,392,094
Federal National Mortgage Association Discount Notes	259,175,983
Foreign Investments	10,000,000
Total Short-Term Investments	3,678,934,662
Long-Term Investments	
Time Deposits	28,631,304
Federal Home Loan Mortgage Corporation	304,261,165
Federal National Mortgage Association	509,210,221
Federal Home Loan Bank	309,841,808
Federal Deposit Insurance Corporation Guarantee Notes	141,888,017
State of Illinois Secondary Pool Investment Program	432,215
Illinois Technology Development	26,311,514
Foreign Investments	10,000,000
Total Long-Term Investments	1,330,576,244
Total Deposits and Investments	$ 5,009,510,906

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 the 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, during the period July 1, 2010 through December 31, 2010 was .25%.

Securities Lending Collateral

The securities lending collateral represents investments made with cash collateral received for U.S. Agency Securities, U.S. Treasury Bills, and U.S. Agency Discount Notes 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.

Securities Lending Collateral		
Invested in Repurchase Agreements	$	2,253,496,614
Cash		157,136
Total Securities Lending Collateral	$	2,253,653,750

Other Assets

This classification includes other assets not available for investment and transactions in process. Details at the opening of business January 10, 2011 follow:

Warrants Cashed, but not Cancelled	$	15,089
Receivables from Universities and Agencies for Monies Advanced		2,673,000
Receivable from City of Edwardsville		277,095
Investment Income Earned, but not Received		(1,921,316)
Total Other Assets	$	1,043,868

The account balances of warrants cashed but not canceled and the receivable from universities and agencies represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at the opening of business January 10, 2011. 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 period from July 1, 2010 through the opening of business January 10, 2011, were $ 4,297.

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

Amount of Future General Revenue Obligated for Debt Service

The following summary reflects the general revenue obligated for debt service within one year and thereafter:

	General Obligation Bonds
Certificates, Bond, and Coupons Maturing within One Year	$ 4,307,862,787
Less - Balance on Deposit in State Treasury at the Opening of Business January 10, 2011, for Certificate and Bond Redemption and Interest	(792,939,995)
Amount Obligated from Future General Revenue	
Within One Year General Revenue	3,514,922,792
After January 10, 2012	37,085,113,240
Amount of Future General Revenue Obligated for Debt Service at the Opening of Business January 10, 2011	$ 40,600,036,032

A summary of the changes during the period July 1, 2010 through the opening of business January 10, 2011, in the amount of future general revenue obligated for debt service is as follows:

	General Obligation Bonds
Balance at June 30, 2010	$ 38,861,217,880
Issuance of Certificates and Bonds	3,609,020,662
Bonds and Coupons Redeemed and Bonds Refunded	(1,962,528,628)
Bonds and Coupons Refunded	-
Net Decrease in Balances on Deposits in State Treasury	92,326,118
Balance at the Opening of Business January 10, 2011	$ 40,600,036,032

The amount of future general revenue obligated for debt service reconciled with total indebtedness at the opening of business January 10, 2011 is as follows:

	General Obligation Bonds
Amount of Future General Revenue Obligated for Debt Service	$ 40,600,036,032
Balance on Deposit in the State Treasury at the Opening of Business January 10, 2011 for Bond Redemption and Interest	792,939,995
Total Indebtedness at the Opening of Business January 10, 2011	$ 41,392,976,027

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

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.

General Obligation Certificates issued under the Short Term Borrowing Act during the period July 1, 2010 through the opening of business January 10, 2011, included one issue. The issue of General Obligation Certificates occurred on July 28, 2010, for principal of $1,300,000,000 and premium of $9,153,987. Of this amount, $1,300,000,000 was deposited into the General Revenue Fund, and $9,153,987 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment is due on June 14, 2011.

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 $ 317,738,513 in the Protest Trust Fund at the opening of business January 10, 2011 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 the opening of business January 10, 2011 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 at the opening of business January 10, 2011 consists of:

Treasurer's Clearing Account Balances	$	179,877,693
Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury		161,558,500
Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts		469,043,454
Deposits in Demand Accounts in Process of Being Ordered into the State Treasury		101,397,576
Total Agencies' Deposits Outside the State Treasury	$	911,877,223

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 and invested in repurchase agreement for U.S. Treasury Bills, U.S. Agency Securities, and U.S. Agency Discount Notes 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.

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME
For the Period July 1, 2010 through the Opening of Business January 10, 2011

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

General RevenueFund	$	17,664,197
Other State Funds		5,792,414
Segregated State Trust Funds		969,640
Total Investment Income Earned	$	24,426,251

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

Fund participating in pooled investments		
General Revenue Fund	$	17,664,197
Aggregated Operations Regulatory Fund		283
Airport Land Loan Revolving Fund		55
Alternative Compliance Market Account Fund		316
Ambulance Revolving Loan Fund		8,056
AML Reclamation Set Aside Fund		17,896
Assisted Living and Shared Housing Regulatory Fund		258
Auction Recovery Fund		170
Auction Reg. Administration Fund		68
Autism Research Checkoff Fund		163
Autoimmune Disease Research Fund		106
Bank & Trust Company Fund		28,862
Brownfields Redevelopment Fund		3,561
Build Illinois Bond Retirement and Interest Fund		4,990
Build Illinois Capital Revolving Loan Fund		6,937
Build Illinois Fund		20,351
Capital Litigation Fund		5,994
Capital Project Fund		37,085
Care Provider Fund for Persons with Developmental Disabilities		11,576
Cemetery Consumer Protection Fund		619
Charitable Trust Stabilization Fund		3,161
Child Abuse Prevention Fund		526
Clean Air Act (CAA) Permit Fund		12,848
Coal Mining Regulatory Fund		841
Common School Fund		23,806
Community College Health Insurance Security Fund		2,010
Community DD Services Medicaid Trust Fund		28,691
Community Mental Health Medical Trust Fund		36,998
Community Water Supply Laboratory Fund		842
County Automobile Renting Tax Fund		14

State of Illinois

Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the Period July 1, 2010 through the Opening of Business January 10, 2011

Fund participating in pooled investments		
County Hospital Services Fund	$	3,702
County Option Motor Fuel Tax Fund		5,504
County Water Commission Tax Fund		9,850
Credit Union Fund		2,734
Criminal Justice Trust Fund		65,016
Design Professionals Administration and Investigation Fund		1,271
Diabetes Research Checkoff Fund		144
Drug Rebate Fund		93,944
Drycleaner Environmental Response Trust Fund		5,103
DuQuoin State Fair Harness Racing Trust Fund		8
Early Intervention Services Fund		5,344
Electronics Recycling Fund		130
Environmental Laboratory Certification Fund		293
EPA Court Ordered Trust Fund		8
Explosive Regulatory Fund		134
Facilities Management Fund		3,656
Fair Share Trust		240
Family Care Fund		151
Federal Asset Forfeiture Fund		2,404
Federal Home Investment Trust Fund		3,568
Federal Moderate Rehab Housing Fund		228
Federal Student Loan Fund		55,691
Federal Workforce Training Fund		(510)
Fire Service & Small Equipment Fund		452
Fire Truck Revolving Loan Fund		51
Fish and Wildlife Endowment Fund		2,446
Food and Drug Safety Fund		(9)
Gaining Early Awareness Fund		12,443
General Assembly Retirement Excess Benefits Fund		2
General Assembly Retirement Fund		4,207
General Obligation Bond Retirement and Interest Fund		748,948
General Professions Dedicated Fund		(229)
Group Home Loan Revolving Fund		127
Group Insurance Premium		1,114
Group Workers Compensation Pool		2,129
Hansen-Therkelsen Memorial Deaf Student College Fund		618
Health & Human Services Medicaid Trust Fund		66,018

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the Period July 1, 2010 through the Opening of Business January 10, 2011

Fund participating in pooled investments

Health Insurance Reserve Fund	$	60,744
Healthcare Providers Relief Fund		169,962
Hearing Instrument Dispenser Examining and Disciplinary Fund		59
Help Illinois Vote Fund		27,345
Home Inspector Administration Fund		103
Home Rule City Retailers’ Occupation Tax Fund		33,048
Home Rule Municipal Retailers’ Occupation Tax Fund		75,467
Hospital Provider Fund		217,855
Human Service Priority Cap Program Fund		965
Hungar Relief Fund		107
Illinois Affordable Housing Trust Fund		17,766
Illinois Beach Marina Fund		(207)
Illinois Clean Water Act		17,937
Illinois Equity Fund		1,134
Illinois Farmer and Agri-Business Loan Guarantee Fund		10,012
Illinois Habitat Fund		4,088
Illinois Power Agency Trust Fund		22,948
Illinois State Dental Disciplinary Fund		4,315
Illinois State Medical Disciplinary Fund		2,115
Illinois State Pharmacy Disciplinary Fund		2,481
Illinois State Podiatric Disciplinary Fund		92
Illinois Veteran's Assistance Fund		3,453
Industrial Commission Surcharge Escrow Fund		7,675
Injured Workers Benefits Fund		548
Innovations in Long-Term Care Quality Demonstration Grants		2,450
Intercity Passenger Rail Fund		456
Interpreters for the Deaf Fund		196
ISP Operations Assistance Fund		(1,520)
Judges Retirement Excess Benefits Fund		8
Judges Retirement Fund		23,449
Juvenile Accountability Incentive Block Grant Fund		5,490
Kaskaskia Commons Permanent School Fund		301
Large Business Attraction Fund		1,308
Law Enforcement Camera Grant Fund		1,426
Local Government Health Insurance Reserve Fund		2,793
Long-Term Care Provider Fund		75,915

State of Illinois

Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the Period July 1, 2010 through the Opening of Business January 10, 2011

Fund participating in pooled investments

Medicaid Buy-In Program Revolving Fund	$	828
Metro East Mass Transit District Tax Fund		5,563
Metropolitan Pier and Exposition Authority Trust Fund		(6,582)
Money Follows the Person Budget Fund		683
Motor Vehicle Theft Prevention Fund		7,611
Multiple Sclerosis Research Fund		2,096
Municipal Automobile Renting Tax Fund		1,564
Municipal Economic Development Fund		155
Non-Home Rule Municipal Retailer's Occupation Tax Fund		16,980
Nuclear Safety Emergency Preparedness Fund		13,232
Nursing Dedicated and Professional Fund		6,178
Off-highway Vehicle Trails Fund		1,632
Optometric Licensing and Disciplinary Committee Fund		397
Personal Property Tax Replacement Fund		53,472
Petroleum Violation Fund		1,073
Plugging and Restoration Fund		945
Private Sewage Disposal Program		197
Professional Services Fund		5,068
Professions Indirect Cost Fund		3,885
Public Agriculture Loan Guarantee		13,007
Public Health Services Revolving Fund		26
Public Infrastructure Construction Loan Revolving Fund		9,516
Public Pension Regulation Fund		2,776
Quality of Life Endowment Fund		3,751
Radiation Protection Fund		1,501
Radioactive Waste Facility Development and Operation Fund		867
Rail Freight Loan Repayment Fund		5,054
Rate Adjustment Fund		18,791
Real Estate Audit Fund		139
Real Estate License Administration Fund		37,229
Real Estate Recovery Fund		1,004
Real Estate Research and Education Fund		142
Regional Transit Authority Sales Tax Trust Fund		87,375
Registered CPA Administration and Disciplinary Fund		3,400
Road Fund		499,607
Road Transportation A Fund		1,647,906

State of Illinois

Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the Period July 1, 2010 through the Opening of Business January 10, 2011

Fund participating in pooled investments

Salmon Fund	$	152
Savings and Residential Finance Regulatory Fund		1,513
School Technology Revolving Loan Fund		3,304
Second Injury Fund		448
Securities Audit and Enforcement Fund		25,901
Self-Insurers Administration Fund		239
Self-Insurers Security Fund		53,585
Sheffield February 1982 Agreed Order Fund		5,118
Special Tax Inc.		3,215
State Assets Forfeiture Fund		1,625
State Board of Elections Federal Trust Fund		450
State Construction Account Fund		252,644
State Employees Retirement Excess Benefits Fund		75
State Employees Retirement System Fund		88,344
State Employees' Deferred Compensation Plan Fund		5,923
State Furbearer Fund		167
State Migratory Waterfowl Stamp Fund		5,126
State Pheasant Fund		1,022
State Rail Freight Loan Repayment Fund		12,986
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund		950
Student Loan Operating Fund		7,599
Supreme Court Historic Preservation Fund		5,811
Teachers' Health Insurance Security Fund		46,901
Teachers' Retirement Excess Benefits Fund		(14,078)
Teachers' Retirement System Fund		57,617
Ticket for the Cure Fund		1,507
TOMA Consumer Protection		127
Underground Resource Conservation Enforcement Trust Fund		552
University of Illinois Income Trust Fund		2
Vince Demuzio Memorial Colon Cancer Fund		24
Violent Crime Victims Assistance Fund		1,848
Water Pollution Control Revolving Fund		531,321
Wildlife and Fish Fund		27,713
Wildlife and Prairie Park Fund		106
Worker's Compensation Benefit Trust Fund		2
Worker's Compensation Revolving Fund		69,210
Total Pooled Investment Income		23,456,611

Note: Negative amounts are due to market adjustments

State of Illinois

Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

INVESTMENT INCOME - CONTINUED

For the Period July 1, 2010 through the Opening of Business January 10, 2011

Segregated Investments		
Agrichemical Incident Response Trust Fund	$	3
College Savings Pool Administration Fund		1,315
Deferred Lottery Prize Winners Trust Fund		3,157
Horse Racing Equity Trust Fund		1,258
Illinois Habitat Endowment Trust Fund		4,939
Illinois Municipal Retirement Fund		23,026
Illinois Prepaid Tuition Trust Fund		5,611
Illinois Rural Rehabilitation Fund		1
Illinois State Toll Highway Revenue Fund		906,031
National Heritage Endowment Trust Fund		373
Radioactive Waste Facility Closure and Compensation Fund		96
Title III Social Security and Employment Service		4,409
Tobacco IPTIP		16,844
Unemployment Compensation Special Administration Fund		2,577
Total Segregated Investment Income		969,640
Total Investment Income	$	24,426,251

State of Illinois
Office of the Treasurer
FISCAL OFFICER RESPONSIBILITIES
INVESTMENT INCOME - CONTINUED
For the Period July 1, 2010 through the Opening of Business January 10, 2011

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

The Illinois Funds	$	511,129
Time Deposits		1,085,855
Now Accounts		293,157
Money Market Mutual Fund		140,667
Repurchase Agreements		1,915,122
Commercial Paper		10,284,320
State of Illinois Secondary Pool Investment Program		(171)
Federal National Mortgage Association		513,665
Federal Agriculture Mortgage Corporation		2,036
Foreign Investments		207,226
Federal Home Loan Mortgage Corporation		755,452
Federal Home Loan Bank Notes		(3,028,769)
Federal Deposit Insurance Corporation Guarantee Notes		721,906
Treasury Bills		3,131,084
Illinois Technology Development		(78,628)
Illinois Insured Mortgage Pilot Program		7,002,560
Total Pooled Investment Income	$	23,456,611

PROTEST TRUST FUND

Liability at July 1, 2010	$	336,133,520
Add		
Trust receipts collected by other State agencies		101,618,808
		437,752,328
Deduct		
Trust disbursements for refunds of successfully protested tax payments		54,561,916
Transfers to other funds		65,451,899
		120,013,815
Liability at the Opening of Business January 10, 2011	$	317,738,513

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 period from July 1, 2010 through the opening of business January 10, 2011, were $ 114,024,647. 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:

Tobacco Settlement bond sale proceeds	$	1,350,000,000
Interest and other investment income		17,606
Total Receipts and Deposits	$	1,350,017,606

- The Illinois Funds asset base at the opening of business January 10, 2011 was $ 5,323,471,733.
- Net Investment Earnings of $ 4.6 million during the period July 1, 2010 through the opening of business January 10, 2011 for The Illinois Funds.

- Funded 86 Cultivate IL Annual AG deposits totaling $ 6,744,600.
- Funded 17 Cultivate IL Long Term AG deposits totaling $ 1,017,771.
- Funded 4 Employ IL Small Business Loans totaling $ 751,864.
- Funded 4 Disaster Recovery Loans totaling $ 26,432.
- Funded 2 Opportunity IL – Citizen Soldiers Loans totaling $ 20,000.

- Total number of warrants successfully issued, countersigned and recorded: 3,526,887
- Total number of warrants successfully canceled, paid and recorded: 3,563,993
- Total amount of warrants successfully issued, countersigned and recorded: $ 37,728,590,983

- Total amount of estate tax collections: $ 114,024,647
- Total amount of estate tax distributions: $ 6,300,675
- Total amount of estate tax refunds: $ 8,354,278

- The investment portfolio earned approximately $ 24,426,251 during the period July 1, 2010 through the opening of business January 10, 2011.
- Investments yielded approximately .25% throughout the period July 1, 2010 through December 31, 2010.
- The December 31, 2010 average investment base increased approximately $ 1,849,583,069 from the average investment base at June 30, 2010.

- The value of the Illinois Technology Development account at cost as of the opening of business January 10, 2011 was $26,311,514.
- The value of the Illinois Technology Development account at estimated fair value as of the opening of business January 10, 2011 was $30,463,578. Fair values were 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 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).

[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, Cash Management Officer and anyone else deemed appropriate by the Treasurer.*

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

- **c)** 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.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

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 the opening of business January 10, 2011 and for the period July 1, 2010 through the opening of business January 10, 2011, and have issued our report thereon dated May 24, 2011. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in finding 1 in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as finding 2.

We noted certain matters that we reported to management of the Treasurer in a separate letter dated May 24, 2011.

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

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
May 24, 2011

CURRENT FINDINGS AND RECOMMENDATIONS

FINDING 1 (Weakness in Control over General Ledger Journal Entries)

The Illinois Office of the Treasurer (Office) did not document the reason for gaps in the sequential numbering of general ledger journal entries processed during the audit period.

During testing of journal entries posted to the Office's accounting system auditors identified 919 unidentified gaps in the sequential numbering of the general ledger journal entries with up to 887 consecutive gaps noted in some instances.

Strong management controls, due diligence and fiduciary responsibility require procedures to include proper checks and balances and adequate supervision to ensure safeguarding of assets and proper financial reporting. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), requires all agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance assets are safeguarded against waste, loss, unauthorized use, and misappropriation and that financial information is properly recorded and accounted for, in order to permit the preparation of reliable financial reports.

The Office's personnel attributed the gaps to the design of the application.

Failure to document or explain gaps in sequential numbering of general ledger journal entries can result in material misstatement of the financial statements; particularly, if journal entries are inadvertently deleted and there is no explanation or documentation for the deletion. (Finding Code No. 1)

RECOMMENDATION:

We recommend the Office improve its internal control over general ledger journal entries and ensure documentation is maintained for the entire population of general ledger journal entries including any journal entries deleted from the Office's accounting system.

TREASURER'S RESPONSE:

The Treasurer agrees with the finding and recommendation, and the Office is working towards resolving the problem.

The system was designed such that once an entry is saved, it cannot be deleted. It is not structured that a saved journal entry can be removed from the system. Users are, however, allowed to cancel out of a transaction without the record being saved and this is what has been perceived as "gaps" in the GL journal entries.

To address the situation, a "cancel" table will be added to account for each row that is not saved. Each time a user cancels out of a transaction, the row ID will be documented in the cancel table with a date/timestamp and the user's ID that canceled the transaction. Each row number would exist in either the journal entry table or the cancel table, so there would be no "gaps".

CURRENT FINDINGS AND RECOMMENDATIONS

FINDING 2 (Weaknesses Identified in the Securities Lending Program)

During testing of the Illinois Office of the Treasurer's (Office) securities lending program auditors identified a number of weaknesses.

The Deposit of State Moneys Act (Act) (15 ILCS 520/22.5) allows the Treasurer with approval of the Governor, to lend any securities acquired under the Act. The Act also sets forth that securities lent must be done in accordance with Federal Financial Institution Examination Council (FFIEC) guidelines. At the Opening of Business January 10, 2011 the Office had $2,253,653,750 of securities on loan. The auditors identified the following issues while testing the Office's securities lending program:

- Periodic internal audits have not been performed covering all internal audit requirements outlined in the FFIEC guidelines for securities lending.
- The Office could not provide documentation of approval from the Governor to lend securities as required by the Act.
- The Office has not created a specific investment policy for the governance of securities lending as set forth in the Office's Investment Policy.
- 19 of 33 (58%) daily securities lending reports tested were not reviewed by Office personnel in a timely manner. The number of days late ranged from 3 to 101 days.
- 2 of 33 (6%) daily securities lending reports tested did not contain adequate notations to support review by Office personnel.

The Illinois State Treasurer's Investment Policy, section 5.0 (m), indicates securities in the Office's portfolio be lent in accordance with "an investment policy created for the governance of Securities Lending." The Office's internal controls include daily preparation, review, and approval of various securities lending program reports and reconciliations

The Office's personnel attributed the issues to a different interpretation of the Deposit of State Moneys Act and the Illinois State Treasurer's Investment Policy.

Not following Office internal control procedures to perform and or document performance and approval of required reviews identifies a weakness of the Offices control environment in the securities lending program. In addition, failure to comply with mandated responsibilities is noncompliance with statutory requirements and does not fulfill the legislative intent of the Act. (Finding Code No.2)

RECOMMENDATION:

We recommend the Office strengthen its internal controls over the securities lending program to ensure daily securities lending reports are reviewed timely and adequately. In addition, the Office should ensure adequate internal audits are performed over the securities lending program.

CURRENT FINDINGS AND RECOMMENDATIONS

FINDING 2 (Weaknesses Identified in the Securities Lending Program - Continued)

TREASURER'S RESPONSE:

The Treasurer agrees with the finding and recommendation.

1. An internal audit of the securities lending function has been completed.

2. The Illinois Constitution, Article V, Section 18, states that the Treasurer has the duty to be responsible for the "safe-keeping and investment of monies and securities deposited with him."

The Treasurer sends a monthly report to the Governor on activities including investments of all types, as well as fund balances. In addition, the Treasurer's web site http://www.treasurer.il.gov/finances/schedule-of-investments.aspx is updated weekly, and contains all information on weekly investments.

The State Treasurer is an independent officer of the Executive branch of Illinois Government. The Constitution created six distinct offices with six separate sets of responsibilities. This sets up a clear set of checks and balances within the Executive Branch, as well, as the checks and balances inherent in the three distinct branches of Government, also created by the Constitution, Executive, Legislative and Judicial.

State law cannot simply restrict or put limitations on a duty that is granted by the Constitution. It also cannot subject one duly elected Official, the Treasurer, to asking another elected Official, the Governor, for permission to do what is constitutionally his duty.

The State Treasurer's Office will work with the legislature and the Governor's Office to statutorily correct this situation.

3. Office personnel submitted a proposal to the Treasurer's internal investment policy committee to remove Section 5.0(m) requiring an investment policy be created for the governance of Securities Lending.

4. and 5. During the past fiscal audits, it has become evident that an increased emphasis is being placed on the securities lending program. The focus of the audits has changed from an accounting and investment income perspective to compliance and regulatory guidelines with a concentration on daily review and signature by management. It has not been our past experience to be required to produce securities lending reports which evidence management review. From the inception of the program, office personnel have visually reviewed various reports for compliance. The office has continued to modify and enhance the reports, the investment system and related procedures to ensure compliance with the contract and accounting standards. As of July 1, 2010, all reports pursuant to the policy and procedure guidelines are printed, reviewed and management signatures and dates are applied. The Treasurer's Office makes every effort to review the reports within a reasonable time period.

State of Illinois
Office of the Treasurer

THE ILLINOIS FUNDS

FINANCIAL AUDIT

For the Period July 1, 2010 through the
Opening of Business January 10, 2011

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

Part II

State of Illinois
Office of the Treasurer

THE ILLINOIS FUNDS
FINANCIAL AUDIT

CONTENTS

State of Illinois
Office of the Treasurer

THE ILLINOIS FUNDS

TREASURER'S OFFICE OFFICIALS

Treasurer	Honorable Alexi Giannoulias (through January 10, 2011) Honorable Dan Rutherford (January 10, 2011 – present)
Chief of Staff	Ms. Robin Kelly (through December 27, 2010) Mr. Kyle Ham (January 10, 2011 – present)
Deputy Treasurer/CFO	Mr. Edward Buckles
Deputy Chief of Staff/General Counsel	Mr. Paul Miller (through January 10, 2011)
General Counsel	Ms. Maureen Lydon (January 10, 2011 – present)
Chief Legal Counsel	Ms. Gina DeCiani (through January 10, 2011)
Director of the Illinois Funds	Mr. Randy Coffey
Portfolio Manager	Mr. Mark Polistina
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler

As of the opening of business January 10, 2011, the Office of the Treasurer maintained ten office locations. Subsequent to January 10, 2011, six office locations were closed as noted below.

- Executive Office
  State Capitol
  219 State House
  Springfield, Illinois 62706

- Operational Divisions
  Illinois Business Center
  400 West Monroe, Suite 401
  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 – *Closed 2/7/2011*
  Riverdale Office
  13725 South Wabash Ave
  Riverdale, Illinois 60827

- Programmatic – *Closed 2/9/2011*
  Effingham Office
  401 Industrial Drive, Suite E
  Effingham, Illinois 62401

- Programmatic – *Closed 2/9/2011*
  Mt. Vernon Office
  200 West Potomac Boulevard
  Mt. Vernon, Illinois 62864

- Programmatic – *Closed 2/16/2011*
  Rock Island Office
  Rock Island County Office Bldg.
  1504 Third Avenue
  Rock Island, Illinois 61201

- Programmatic – *Closed 2/15/2011*
  Rockford Office
  E.J. Zeke Giorgi Building
  200 South Wyman Street
  Rockford, Illinois 61101

- Programmatic – *Closed 2/8/2011*
  Collinsville Office
  420 East Main St.
  Collinsville, IL 62234

FINANCIAL STATEMENT REPORT

State of Illinois
Office of the Treasurer

THE ILLINOIS FUNDS

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer were performed by Crowe Horwath LLP for the period July 1, 2010 through the opening of business January 10, 2011.

Based on their audit, the auditors expressed an unqualified opinion on The Illinois Funds of the State of Illinois, Office of the Treasurer's financial statements.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of The Illinois Funds (a fiduciary fund) of the State of Illinois, Office of the Treasurer, as of the opening of business January 10, 2011 and for the period July 1, 2010 through the opening of business January 10, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the management of the State of Illinois, Office of the Treasurer. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note A, the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer present only this fiduciary fund and do not purport to, and do not, present fairly the financial position of the State of Illinois, Office of the Treasurer as of the opening of business January 10, 2011, and its changes in financial position for the period July 1, 2010 through the opening of business January 10, 2011 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Illinois Funds of the State of Illinois, Office of the Treasurer as of the opening of business January 10, 2011, and the changes in its financial position thereof for the period July 1, 2010 through the opening of business January 10, 2011 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 May 24, 2011 on our consideration of The Illinois Funds of the State of Illinois, Office of the Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Office of the Treasurer has not presented a management's discussion and analysis for The Illinois Funds that accounting principles generally accepted in the United States of America has determined 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 Illinois Funds of the State of Illinois, Office of the Treasurer. The supplementary information as listed in the Table of Contents on pages 13 to 22 are presented for purposes of additional analysis and are not a required part of the financial statements. The portfolio of investments has been subjected to the auditing procedures applied in the 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. The money market fund investment policy has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Crowe Horwath LLP

Crowe Horwath LLP

Springfield, Illinois
May 24, 2011

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
As of the Opening of Business January 10, 2011

ASSETS	
Cash Equivalents	
Repurchase Agreements, including accrued interest of $35,100	$ 2,860,035,100
Commercial Paper, net of unamortized discount of $137,136	539,862,864
Money Market Mutual Funds	169,955,695
U.S. Treasury Obligations	
U.S. Treasury Bills, net of unamortized discount of $1,125	149,998,875
U.S. Agency Obligations	
Federal Home Loan Bank Discount Notes net of unamortized discount of $4,309	89,435,692
Federal Home Loan Mortgage Corporation Discount Notes net of unamortized discount of $3,889	99,996,111
Federal National Mortgage Association Discount Notes net of unamortized discount of $9,056	149,990,944
Federal Agricultural Mortgage Corporation Discount Notes net of unamortized discount of $2,127	63,997,873
Total Cash Equivalents	4,123,273,154
Deposits and Investments	
Certificates of Deposit, including accrued interest of $12,438	25,232,438
Commercial Paper, net of unamortized discount of $208,681	899,791,319
U.S. Agency Obligations	
Federal Home Loan Mortgage Corporation Notes	25,000,000
Federal Home Loan Bank Notes	250,000,000
Total Deposits and Investments	1,200,023,757
Accrued Interest Receivable	174,822
Total Assets	$ 5,323,471,733
LIABILITIES AND NET ASSETS	
Accrued Liabilities	
Bank Custodial Fees	$ 43,130
State Management Fees	78,640
Dividends Payable	151,130
Total Liabilities	272,900
Net Assets Available to Participants	$ 5,323,198,833
The Pricing of Shares	
Participant Shares Outstanding, ($ 1.00 par, unlimited shares authorized)	$ 5,323,198,833
Participant Net Asset Value, Offering and Redemption Price per share	$ 1.00

The accompanying notes are an integral part of these statements.

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Period July 1, 2010 through the Opening of Business January 10, 2011

Operations	
Revenues	
Investment earnings	$ 7,297,296
Expenses	
Bank Custodial Fees	938,260
State Management Fees	1,721,022
Total Expenses	2,659,282
Net Investment Earnings	4,638,014
Dividends to Shareholders from Net Investment Income	(4,638,014)
Share Transactions (dollar amounts and number of shares are the same)	
Subscriptions	10,774,888,841
Reinvestments	4,486,709
Redemptions	(10,822,250,249)
Net Decrease in Net Assets and Shares Resulting from Share Transactions	(42,874,699)
Net Assets, July 1, 2010	5,366,073,532
Net Assets, Opening of Business January 10, 2011	$ 5,323,198,833

The accompanying notes are an integral part of these statements.

Background

The Illinois Funds was established in 1976 to supplement and enhance the investment opportunities available to custodians of public agency funds throughout the State of Illinois. The management, custodianship, and operation of The Illinois Funds are under the supervision of the State of Illinois, Office of the Treasurer ("Treasurer").

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois is the primary government, which includes all funds, elected offices, departments, and agencies of the State, as well as boards, commissions, authorities, universities and colleges over which the State's executive or legislative branches exercise legal control.

The Illinois Funds is not legally separate from the State of Illinois and is, therefore, determined to be part of the primary government. The Illinois Funds is included in the Illinois Comprehensive Annual Financial Report as an investment trust fund. The Illinois Funds consists of an internal and external portion. The internal portion is the portion that belongs to the State and its component units. The external portion is the portion belonging to the noncomponent-unit participants. The scope of The Illinois Funds' financial statements presented herein is limited to the financial position of The Illinois Funds, including net assets available to all participants, both internal and external, and the changes in net assets. The internal portion of the Illinois Funds is included in the various funds in the Illinois Comprehensive Annual Financial Report as an investment.

Securities held by the Custodian, U.S. Bank of Illinois ("USB"), for safekeeping on behalf of The Illinois Funds' participants under a separate agreement are not recorded in the accounts or reported in the accompanying financial statements of The Illinois Funds. This service is provided by USB to all Illinois Funds' participants at a discounted fee.

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

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

Cash Equivalents, Deposits, and Investments: Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 90 days or less at time of purchase.

Repurchase agreements (securities purchased under agreements to resell) are carried at the amounts at which the securities will be subsequently resold, including accrued interest (which represents current value), as specified in the agreements.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial paper is stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Commercial paper utilizes the straight-line method of amortization or accretion. It is the intent of management to hold commercial paper to maturity.

Certificates of deposit with financial institutions are stated at cost plus accrued interest, which represents current value. Certificates of deposit may be subject to certain withdrawal restrictions. It is the intent of management to hold the time deposits to maturity.

Money market mutual funds are carried at cost and are purchased from various brokerage firms. The funds are comprised of U.S. Treasury obligations. Mutual fund yields are subject to market rate fluctuations.

U.S. agency obligations are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. U.S. agency coupon notes utilize the constant yield method and, when applicable, all others use straight-line amortization. It is the intent of management to hold U.S. agency securities to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

U.S. Treasury obligations are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Treasury notes utilize the constant yield method and strips and bills use straight-line amortization. It is the intent of management to hold U.S. Treasury obligations to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

Management Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. These estimates may differ from actual results.

Net Assets Available to Participants: The net assets available to participants represent the total value of all participant deposits including late deposits held in an overnight investment account as of the opening of business January 10, 2011.

The Illinois Funds operates as an open-end mutual fund. Participants' deposits and withdrawals were accounted for as purchases and sales of The Illinois Funds' capital shares. The amount of net proceeds from the sale of shares represents the gross withdrawals, which were redeemed from The Illinois Funds' shares during the year. The cost of shares purchased represents the gross deposits, which were invested in The Illinois Funds' shares during the year. These amounts did not include deposits or earnings, which were remitted directly to participants versus invested (or reinvested) in The Illinois Funds' shares.

Net assets for the Money Market Fund were $5,323,198,833 as of the opening of business January 10, 2011.

NOTE B - DEPOSITS AND INVESTMENTS

Governmental Accounting Standards Board Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools,* established standards for accounting for investments held by governmental entities. The Illinois Funds operates as a 2a7-like pool and, thus, reports all investments at amortized cost rather than fair value.

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

For The Illinois Funds, the Treasurer may invest in time deposits and other interest-bearing accounts in banks and savings and loan associations located in Illinois that are insured by the Federal Deposit Insurance Corporation ("FDIC"), credit unions whose principal office is located in Illinois, obligations of the United States and its agencies, short-term obligations of corporations whose obligations are rated among the two highest classifications established by at least two standard rating services, repurchase agreements, or other investments approved by State law.

The Illinois Funds' is rated AAAm by Standard and Poor's Ratings.

Custodial Credit Risk: Custodial credit risk for deposits and investments is the risk that, in the event of a financial institution failure, the Illinois Funds would not be able to recover the value of the deposits and investments in the possession of an outside party. The Office of the Treasurer has a formal policy to address custodial risk.

The Treasurer's policy requires all time deposits and other interest-bearing deposits to have collateral equal to at least 105% of the amount of the deposit not covered by Federal deposit insurance. Securities eligible to be pledged as collateral are U.S. Treasury and agency obligations.

Obligations pledged to secure deposits must be delivered to the appointed Custodian of The Illinois Funds. Prior to placing the deposit and on a daily basis thereafter, the Treasurer determines that the collateral has a market value adequate to secure the deposit.

Repurchase agreements are purchased from various brokerage firms and financial institutions. Securities pledged as collateral to secure these agreements are required to have a fair value of at least 102% of the agreement. The agreements require both parties to maintain an acceptable margin (yield) on underlying securities to ensure that the agreements are adequately collateralized. The Treasurer accepts only U.S. agency obligations and U.S. Treasury obligations as collateral for repurchase agreements. All securities pledged to secure repurchase agreements are required to be delivered to the appointed Custodian of The Illinois Funds.

Other instruments, such as U.S. Treasury obligations, may be purchased from various brokerage firms and are held in safekeeping by the appointed Custodian of The Illinois Funds.

Deposits: Certificates of deposit had both carrying values and bank balances (excluding accrued interest) of $25,220,000 at the opening of business January 10, 2011. These deposits were fully insured or collateralized by securities held by the Treasurer or by his agent in the name of The Illinois Funds at the opening of business January 10, 2011.

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Investments: Excluding time deposits, the Illinois Funds had the following investments, stated at carrying value, and maturities as of the opening of business January 10, 2011. (Amounts are in thousands.)

	Cash Equivalents	Less Than One Year	Total
Repurchase Agreements	$ 2,860,035	$ -	$ 2,860,035
Commercial Paper	539,863	899,791	1,439,654
U.S. Treasury Obligations	149,999	-	149,999
U.S. Agency Obligations	403,420	275,000	678,420
Subtotal	$ 3,953,317	$ 1,174,791	5,128,108
Treasury-only Money Market Mutual Funds			169,956
Total Investments, Excluding Time Deposits			$ 5,298,064

The master repurchase agreements utilized by The Illinois Funds require the broker or financial institution to maintain the fair value of collateral securities at 102% of the agreement. The carrying amount of the repurchase agreements (excluding accrued interest) was $2,860,000,000 as of the opening of business January 10, 2011. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was $2,917,207,364 as of the opening of business January 10, 2011.

Interest Rate Risk: Interest Rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the investment policies limit the investment portfolio maturities. The Money Market Fund investment policy limits its investment portfolio to maturities not to exceed two years with a minimum of 75% required to be in authorized investments with less than one-year maturity. The investment policy specifically requires that no more than 50% of total assets can be invested in securities with maturities greater than 30 days issued by any single permissible United States government agency or instrumentality. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Illinois Funds' investment in a single issuer. The following investments exceeded 5% of the Illinois Funds total investments at the opening of business January 10, 2011. (Amounts are in thousands).

	Carrying Value	% of Total Investments
Repurchase Agreements:		
Barclay's Capital	$ 550,007	10.33%
BMO Capital Markets	1,260,015	23.67
HSBC	800,010	15.03

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Certificates of deposit held in the portfolio cannot constitute more than 10% of any single financial institution's total deposits. No more than 5% of total assets can be invested in securities issued by any single commercial paper issuer (calculated at the time of purchase); and, a maximum of 33.3% of the portfolio may be invested in direct commercial paper obligations that do not exceed 180 days to maturity. Additionally, a maximum of 25% of the total assets may be invested in any approved AAAm Money Market Fund.

NOTE C - INVESTMENT INCOME

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

Periodically, throughout the fiscal year, market conditions may enable The Illinois Funds to realize capital gains by selling securities, which have appreciated in value. These gains are placed in a separate account within The Illinois Funds' portfolio. These gains may be distributed to participants during the fiscal year based on average daily account balances. During fiscal year 2011 through the opening of business January 10, 2011, there were none of these sales.

NOTE D - ADMINISTRATIVE FEES

To administer The Illinois Funds, the Treasurer has established a division entitled "The Illinois Funds' Administrative Office." This division had 24 full time equivalent employees for the period July 1, 2010 through the opening of business January 10, 2011. The revenues and expenditures of the division are recorded in an enterprise fund maintained by the Treasurer entitled The Illinois Funds' Administrative Trust Fund No. 195.

USB performs the custodial responsibilities for the administration of The Illinois Funds. USB calculates the administrative and custodial fees paid to the State Treasurer and USB, respectively. Fees are calculated on a tiered structure. Both fees are paid from a charge based on the net asset value of The Illinois Funds. The fee is accrued daily and withdrawn monthly from the fund. The custodian's fee is calculated at 0.0395% for the first $3,000,000,000; 0.0245% for the next $2,000,000,000; 0.0235% for the next $1,000,000,000; 0.0185% for the next $4,000,000,000; and 0.0135% for the amount over $10,000,000,000 per annum of the market value of the total amount of The Illinois Funds.

The State Treasurer receives 0.06% per annum of the net asset value of The Illinois Funds. This fee is used to defray administrative costs associated with investing The Illinois Funds' assets, to increase marketing efforts needed to expand participation in The Illinois Funds, and to improve the level of service to participants.

NOTE D - ADMINISTRATIVE FEES (Continued)

The Treasurer's Office has the ability to rebate to The Illinois Funds' participants any excess administrative fees collected during the fiscal year. There were no excess administrative fees rebated to The Illinois Funds' participants for the period July 1, 2010 through the opening of business January 10, 2011.

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

Fees received	$1,902,727
Expenditures	1,309,856

NOTE E - RELATED PARTIES

The Illinois Funds' Administrative Office, a division of the State Treasurer's Office, is responsible for the administration of The Illinois Funds, including management of investments and marketing services. The Illinois Funds' Administrative Office received fees as stated in Note D during fiscal year 2011 through the opening of business January 10, 2011. The Illinois Funds' Administrative Trust Fund No. 195 was maintained by the Treasurer in a separate investment account of The Illinois Funds. The cash balance at the opening of business January 10, 2011, was approximately $3,283,000.

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

Total number of participants	2,289
Number of State of Illinois participants	30

As of December 31, 2010, State of Illinois participants had $1,399,092,058 invested in the Illinois Funds.

SUPPLEMENTARY INFORMATION

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS
As of the Opening of Business January 10, 2011

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Repurchase Agreements					
BANK OF AMERICA	01/07/11	0.140%	01/10/11	$ 100,000,000	$ 100,001,167
BARCLAY'S CAPITAL MARKETS	01/07/11	0.160%	01/10/11	550,000,000	550,007,333
BMO CAPITAL MARKETS	01/07/11	0.150%	01/10/11	800,000,000	800,010,000
BMO CAPITAL MARKETS	01/07/11	0.120%	01/10/11	460,000,000	460,004,600
HSBC	01/07/11	0.150%	01/10/11	800,000,000	800,010,000
RBS GREENWICH CAPITAL	01/07/11	0.160%	01/10/11	150,000,000	150,002,000
Total Repurchase Agreements				$ 2,860,000,000	$ 2,860,035,100

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
Commercial Paper					
ADM - CITIGROUP GLOBAL	10/27/2010	0.250%	01/11/11	$ 54,999,450	$ 54,999,618
UBS FINANCE	10/12/2010	0.245%	01/12/11	249,995,000	249,996,597
ADM - CITIGROUP GLOBAL	10/29/2010	0.250%	01/13/11	44,999,100	44,999,063
BARCLAY'S	12/20/2010	0.230%	01/13/11	99,998,000	99,998,083
DEUTSCHE BANK	10/25/2010	0.260%	01/24/11	99,989,000	99,989,889
ABN AMRO - CITIGROUP GLOBAL	10/28/2010	0.300%	01/26/11	149,982,000	149,980,000
SSB CITIGROUP GLOBAL	10/06/2010	0.300%	02/01/11	249,957,500	249,954,167
ADM - CITIGROUP GLOBAL	12/02/2010	0.240%	02/03/11	39,992,400	39,993,600
RBS GREENWICH	10/26/2010	0.370%	02/25/11	199,918,000	199,905,444
ABN AMRO - CITIGROUP GLOBAL	11/09/2010	0.340%	03/09/11	99,948,000	99,945,222
DEUTSCHE BANK	01/06/2011	0.300%	04/06/11	149,874,000	149,892,500
Total Commercial Paper				$ 1,439,652,450	$ 1,439,654,183

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
As of the Opening of Business January 10, 2011

	Execution Date	Interest Rate	Maturity Date	Face Amount	Current Value*
Certificates of Deposit					
BANK OF PONTIAC	09/29/10	2.000%	05/20/11	$ 1,000,000	$ 1,000,493
COLLINSVILLE BUI	01/05/11	2.000%	07/05/11	95,000	95,047
CROSSROADS BANK - EFFINGHAM	06/11/10	2.000%	06/10/11	1,000,000	1,000,493
FARMERS STATE BANK	12/10/10	2.000%	06/08/11	600,000	600,296
FEDERAL SAVINGS BANK MASCOUTAH	06/24/10	2.000%	06/24/11	95,000	95,047
FIRST NATIONAL BANK	03/04/10	2.000%	03/04/11	300,000	300,148
FIRST NATIONAL BANK AND TRUST	03/12/10	2.000%	03/11/11	600,000	600,296
FIRST NATIONAL BANK DIETERICH	03/10/10	2.000%	03/10/11	800,000	800,394
FIRST NATIONAL BANK TAYLORVILLE	11/04/10	2.000%	11/03/11	800,000	800,395
FIRST SAVANNA SAVINGS BANK	10/08/10	2.000%	10/07/11	100,000	100,049
FNB TAYLORVILLE	06/04/10	2.000%	06/03/11	300,000	300,148
GERMANTOWN TRUST AND SAVINGS	08/03/10	2.000%	08/03/11	500,000	500,247
MARINE BANK SPRINGFIELD	06/11/10	2.000%	06/10/11	2,000,000	2,000,986
NATIONAL BANK AND TRUST SYCAMORE	03/18/10	2.000%	03/18/11	1,250,000	1,250,616
NATIONAL BANK OF EARLVILLE	06/04/10	2.000%	06/03/11	400,000	400,197
NORTH COUNTY SAVINGS	02/05/10	2.000%	02/04/11	95,000	95,047
OLD EXCHANGE NATIONAL OKAWVILLE	04/02/10	2.000%	04/04/11	600,000	600,296
PULASKI SAVINGS BANK CHICAGO	05/04/10	2.000%	05/04/11	95,000	95,047
SOUTH CENTRAL BANK CHICAGO	02/05/10	2.000%	02/04/11	1,500,000	1,500,740
SOUTH CENTRAL BANK CHICAGO	05/11/10	2.000%	05/11/11	1,500,000	1,500,740
SOUTH CENTRAL BANK CHICAGO	06/04/10	2.000%	06/03/11	1,500,000	1,500,740
SOUTH CENTRAL BANK CHICAGO	08/05/10	2.000%	08/05/11	2,000,000	2,000,986
SOUTH CENTRAL BANK CHICAGO	08/06/10	2.000%	08/05/11	500,000	500,247
SOUTH SIDE BANK AND TRUST PEORIA	03/24/10	2.000%	03/24/11	2,000,000	2,000,986
SOUTH SIDE BANK PEORIA	07/21/10	2.000%	07/21/11	2,000,000	2,000,986
SOUTH SIDE TRUST AND SAVING PEORIA	10/21/10	2.000%	10/21/11	2,400,000	2,401,184
TOWN AND COUNTRY BANK QUINCY	03/12/10	2.000%	03/11/11	1,000,000	1,000,493
WABASH SAVINGS BANK MT CARMEL	06/02/10	2.000%	06/02/11	95,000	95,047
WASHINGTON FEDERAL	07/16/10	2.000%	07/15/11	95,000	95,047
Total Certificates of Deposit				$ 25,220,000	$ 25,232,438

State of Illinois
Office of the Treasurer
THE ILLINOIS FUNDS
PORTFOLIO OF INVESTMENTS - CONTINUED
As of the Opening of Business January 10, 2011

	Cost
Money Market Mutual Funds	
Milestone Money Market Fund	$ 148,213,933
First American Government Sweep	4,667,456
Goldman Government Fund #465	3,638,087
Western Asset Instl Govt	5,000,000
Federated Government #005	2,000,000
AIM Government & Agency Portfolio	6,436,219
Total Money Market Mutual Funds	$ 169,955,695

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
United States Agency Securities***					
Federal Home Loan Bank Notes					
Federal Home Loan Bank Notes	11/01/10	0.400%	11/18/11	$ 49,976,000	$ 50,000,000
Federal Home Loan Bank Notes	11/01/10	0.400%	11/18/11	49,988,500	50,000,000
Federal Home Loan Bank Notes	11/08/10	0.400%	11/25/11	49,992,000	50,000,000
Federal Home Loan Bank Notes	12/03/10	0.400%	12/12/11	24,976,000	25,000,000
Federal Home Loan Bank Notes	12/08/10	0.450%	12/23/11	24,979,750	25,000,000
Federal Home Loan Bank Notes	12/14/10	0.500%	12/23/11	24,978,000	25,000,000
Federal Home Loan Bank Notes	12/29/10	0.500%	12/29/11	24,987,250	25,000,000
Total Federal Home Loan Bank Notes				$ 249,877,500	$ 250,000,000
Federal Home Loan Bank Discount Notes					
Federal Home Loan Bank Discount Notes	12/15/10	0.100%	01/14/11	$ 15,339,847	$ 15,339,830
Federal Home Loan Bank Discount Notes	12/15/10	0.110%	01/26/11	49,998,000	49,997,556
Federal Home Loan Bank Discount Notes	12/15/10	0.110%	02/02/11	24,098,313	24,098,306
Total Federal Home Loan Bank Discount Notes				$ 89,436,160	$ 89,435,692
Federal Home Loan Mortgage Corporation Discount Notes					
Federal Home Loan Mortgage Corporation Discount Notes	12/13/10	0.100%	01/24/11	$ 99,996,000	$ 99,996,111
Total Federal Home Loan Mortgage Corporation Discount Notes				$ 99,996,000	$ 99,996,111

	Execution Date	Effective Yield	Maturity Date	Fair Value**	Amortized Cost
Federal Home Loan Mortgage Corporation Notes					
Federal Home Loan Mortgage Corporation Notes	09/22/10	0.400%	09/22/11	$ 24,990,000	$ 25,000,000
Total Federal Home Loan Mortgage Corporation Notes				$ 24,990,000	$ 25,000,000
Federal National Mortgage Association Discount Notes					
Federal National Mortgage Association Discount Notes	12/13/10	0.100%	01/18/11	$ 49,999,000	$ 49,998,889
Federal National Mortgage Association Discount Notes	12/08/10	0.130%	02/01/11	99,993,000	99,992,055
Total Federal National Mortgage Association Discount Notes				$ 149,992,000	$ 149,990,944
Federal Agricultural Mortgage Corporation Discount Notes					
Federal Agricultural Mortgage Corporation Discount Notes	12/15/10	0.130%	01/13/11	$ 23,999,760	$ 23,999,740
Federal Agricultural Mortgage Corporation Discount Notes	12/15/10	0.120%	01/24/11	39,998,400	39,998,133
Total Federal Agricultural Mortgage Corporation Discount Notes				$ 63,998,160	$ 63,997,873
U.S. Treasury Bills					
U.S. Treasury Bill	12/08/10	0.090%	01/13/11	149,998,500	149,998,875
Total U.S. Treasury Bills				$ 149,998,500	$ 149,998,875

* Current value represents the face amount plus accrued interest, which approximates fair value.
** Fair value represents the closing bid price on January 7, 2011.
*** It is the intent of management to hold direct U.S. Agency Securities to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

1.0 Policy: The State Treasurer of Illinois ("Treasurer") has authority under Section 17 of the State Treasurer's Act (15 ILCS 505/17) to establish and administer an investment pool to supplement and enhance investment opportunities otherwise available to managers of public funds or public agencies in the state. It is the policy of the Treasurer to invest funds pooled by local governments in the Money Market Fund within The Illinois Funds (previously referred to as the Illinois Public Treasurers' Investment Pool or IPTIP) in a manner which will provide the highest investment return using authorized instruments, while meeting the daily cash flow demands of participants and conforming to all state statutes governing the investment of public funds. It is the policy of The Illinois Funds to operate in a manner consistent with SEC Rule 2a7

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

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

2.2 Liquidity: The investment portfolio shall remain sufficiently liquid to enable the Money Market Fund to meet all Participant redemption demands that might be reasonably anticipated.

2.3 Return on Investment: The investment portfolio shall be designed to obtain the highest available return, taking into account the Money Market Fund's investment risk constraints and cash flow needs. The Treasurer will select accepted industry benchmarks which best reflects the Money Market Fund's portfolio and measure performance against certain benchmarks over time. The Treasurer will periodically review benchmarks for suitability.

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

4.0 Authorized Broker/Dealers and Financial Institutions: Authorized investment staff shall utilize the Treasurer's approved list of broker/dealers and financial institutions when selecting institutions to provide investment services. In addition, a list shall also be maintained of approved security broker/dealers selected according to their credit worthiness, and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office and the extent to which the broker/dealer has a large labor or economic impact on the State. They may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). All financial institutions and brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following or equivalent acceptable to the Treasurer, where applicable:

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

An annual review of the financial condition and registration of qualified parties and investments will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted. A current audited financial statement or equivalent acceptable to the Treasurer is required to be on file for each financial institution and broker/dealer with which The Illinois Funds establishes a depository, trading, or safekeeping relationship. Qualified parties shall submit updated financial statements or equivalent acceptable to the Treasurer when a material change in any of the above occurs.

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

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

- In bonds, notes, debentures, or similar obligations of the United States of America or its agencies; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)

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

- In short term obligations of corporations organized in the United States with assets exceeding $500,000,000 if (i) such obligations are rated at the time of purchase at one of the 2 highest classifications established by at least 2 standard rating services and which mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporations outstanding obligations, and (iii) no more than one-third of the public agency's funds may be invested in short term obligations of corporations and (iv) the corporation is not a forbidden entity as defined in Section 22.6 of the Deposit of State Monies Act (effective Jan 27, 2006); Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)

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

- Bonds, notes, debentures, or similar obligations of a foreign government, other than the Republic of Sudan (effective Jan 27, 2006), that are guaranteed by the full faith and credit of that government as to principal and interest, but only if the foreign government has not defaulted and has met its payment obligations for a period of at least 25 years immediately before the time of acquiring those obligations; Deposit of State Moneys Act (15 ILCS 520/22.5)

- Bonds issued by counties or municipal corporations of the State of Illinois; Deposit of State Moneys Act (15 ILCS 520/22.5)

- Interest bearing savings accounts, interest-bearing certificates of deposits or interest bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5) Suitable securities in the Money Market Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines.

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

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

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

- There will be no investments in mortgage-backed securities of any kind.

- There will be no investments in asset-backed securities of any kind.

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

- Investments in Bankers' Acceptances of any kind.

- There will be no investments prohibited by Section 22.6 of the Deposit of State Moneys Act (effective Jan. 27, 2006).

7.0 Collateralization: All Money Market Fund deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time.

8.0 Safekeeping and Custody: All direct treasury, agency and instrumentality security transactions entered into by the Money Market Fund shall be conducted on a delivery-versus-payment (DVP) or receipt-versus-payment (RVP) basis. Securities shall be held by a safekeeping agent designated by the Treasurer, and evidenced by safekeeping receipts. Commercial Paper will settle daily with the Depository Trust Company.

9.0 Diversification: The primary purpose of diversification in general is to control credit and market risk. The Money Market Fund portfolio will be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The majority of Money Market Fund investments will be in direct obligations of the United States Treasury and United States Government Agencies and Instrumentalities as listed in section 5.0. In order to properly manage any risk that may be attendant to the investment of Money Market Fund assets, The Money Market Fund portfolio will observe the following diversification limits:

- The Money Market Fund will invest no more than 50 percent of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality.

- The Money Market Fund will invest no more than 5 percent of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase).

- A maximum of 33.3 percent of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity.

- A maximum of 25 percent of total assets may be invested in any approved AAAm Money Market Fund.

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

- The Money Market Fund shall at no time hold certificates of deposit constituting more than 10 percent of any single financial institution's total deposits.

- The Money Market Fund shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two years maturity.

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

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

12.0 Competitive Bidding: Authorized investment staff shall obtain competitive bids from at least three broker/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States Government Agency or Instrumentality securities or Commercial Paper from a broker/dealer. Notwithstanding the foregoing, authorized investment staff may tender bids directly through a single broker/dealer for the original auction of individual U.S. Treasury obligations without obtaining competitive bids. Certificates of deposit shall be purchased by authorized investment staff on the basis of a financial institution's ability to pay the Treasurer's required interest rate.

13.0 Liability: Authorized investment staff, acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The Treasurer is bonded to a level of $150,000 for the faithful performance of duties in relations to the Illinois Public Treasurers' Investment Pool.

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

- performance as compared to the established benchmark

- asset allocation

- any deviation from the standards established in Section 9.0 above

- any change in investment policy adopted during the quarter

- the average days to maturity

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements as listed in the table of contents of The Illinois Funds of the State of Illinois, Office of the Treasurer as of the opening of business January 10, 2011 and for the period July 1, 2010 through the opening of business January 10, 2011, and have issued our report thereon dated May 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds 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 State of Illinois, Office of the Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Office of the Treasurer's internal control over financial reporting.

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.

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

<u>Compliance and Other Matters</u>

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

We noted certain matters that we reported to management of the State of Illinois, Office of the Treasurer in a separate letter dated May 24, 2011.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the State of Illinois, Office of the Treasurer, and The Illinois Funds' 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
May 24, 2011

State of Illinois
Office of the Treasurer

COLLEGE SAVINGS PROGRAM

FINANCIAL AUDIT

For the period July 1, 2010 through the
Opening of Business January 10, 2011

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

Part III

State of Illinois
Office of the Treasurer

COLLEGE SAVINGS PROGRAM
FINANCIAL AUDIT

CONTENTS

State of Illinois
Office of the Treasurer

COLLEGE SAVINGS PROGRAM

TREASURER'S OFFICE OFFICIALS

Treasurer	Honorable Alexi Giannoulias (through January 10, 2011)
Treasurer	Honorable Dan Rutherford (January 10, 2011 - present)
Chief of Staff	Ms. Robin Kelly (through December 27, 2010)
	Mr. Kyle Ham (January 10, 2011 – present)
Deputy Treasurer/CFO	Mr. Edward Buckles
Deputy Chief of Staff/General Counsel	Mr. Paul Miller (through January 10, 2011)
Chief Legal Counsel	Ms. Gina DeCiani (through January 10, 2011)
Director of College Savings Program	Ms. Shirley Yang (through February 25, 2011)
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler

As of the opening of business January 10, 2011, the Office of the Treasurer maintained ten office locations. Subsequent to January 10, 2011, six office locations were closed as noted below.

- Executive Office
  State Capitol
  219 State House
  Springfield, Illinois 62706

- Operational Divisions
  Illinois Business Center
  400 West Monroe, Suite 401
  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 – *Closed 2/7/2011*
  Riverdale Office
  13725 South Wabash Ave
  Riverdale, Illinois 60827

- Programmatic – *Closed 2/9/2011*
  Effingham Office
  401 Industrial Drive, Suite E
  Effingham, Illinois 62401

- Programmatic – *Closed 2/9/2011*
  Mt. Vernon Office
  200 West Potomac Boulevard
  Mt. Vernon, Illinois 62864

- Programmatic – *Closed 2/16/2011*
  Rock Island Office
  Rock Island County Office Bldg.
  1504 Third Avenue
  Rock Island, Illinois 61201

- Programmatic – *Closed 2/15/2011*
  Rockford Office
  E.J. Zeke Giorgi Building
  200 South Wyman Street
  Rockford, Illinois 61101

- Programmatic – *Closed 2/8/2011*
  Collinsville Office
  420 East Main St.
  Collinsville, IL 62234

FINANCIAL STATEMENT REPORT

State of Illinois
Office of the Treasurer

COLLEGE SAVINGS PROGRAM

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the College Savings Program of the State of Illinois, Office of the Treasurer was performed by Crowe Horwath LLP for the period July 1, 2010 through the opening of business January 10, 2011.

Based on their audit, the auditors expressed an unqualified opinion on the College Savings Program of the State of Illinois, Office of the Treasurer's financial statements.

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 College Savings Program (a fiduciary fund) of the State of Illinois, Office of the Treasurer, as of the opening of business January 10, 2011 and for the period July 1, 2010 through the opening of business January 10, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the management of the State of Illinois, Office of the Treasurer. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note A, the financial statements of the College Savings Program of the State of Illinois, Office of the Treasurer present only this fiduciary fund and do not purport to, and do not, present fairly the financial position of the State of Illinois, Office of the Treasurer as of the opening of business January 10, 2011, and its changes in financial position for the period July 1, 2010 through the opening of business January 10, 2011 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College Savings Program of the State of Illinois, Office of the Treasurer as of the opening of business January 10, 2011 and its changes in financial position thereof for the period July 1, 2010 through the opening of business January 10, 2011 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 May 24, 2011 on our consideration of the College Savings Program of the State of Illinois, Office of the Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Office of the Treasurer has not presented a management's discussion and analysis for the College Savings Program that accounting principles generally accepted in the United States of America has determined 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 College Savings Program of the State of Illinois, Office of the Treasurer. The statements of fiduciary net assets by portfolio, statements of changes in fiduciary net assets by portfolio, key performance measures, and investment policies, listed in the Table of Contents on pages 18 to 62, are presented for purposes of additional analysis and are not a required part of the financial statements. The statements of fiduciary net assets by portfolio and the statements of changes in fiduciary net assets by portfolio have been subjected to the auditing procedures applied in the audit 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 policies have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Crowe Horwath LLP

Crowe Horwath LLP

Springfield, Illinois
May 24, 2011

State of Illinois
Office of the Treasurer
COLLEGE SAVINGS PROGRAM
STATEMENTS OF FIDUCIARY NET ASSETS
For the period July 1, 2010 through the opening of business January 10, 2011

ASSETS

Deposits and Investments, at market		
Cash and Cash Equivalents	$	198,653,847
Capital Shares Receivable		8,023,777
Securities Sold Receivable		882,960
Dividends Receivable		382,608
Mutual Funds		3,576,776,549
Total Assets	$	3,784,719,741

LIABILITIES AND NET ASSETS

Accrued Liabilities		
Payable for Capital Shares	$	5,645,054
Payable for Securities Purchased		3,019,525
Other Liabilities		921,615
Total Liabilities		9,586,194
Net Assets Available to Participants		3,775,133,547
Total Liabilities and Net Assets	$	3,784,719,741

State of Illinois
Office of the Treasurer
COLLEGE SAVINGS PROGRAM
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
For the period July 1, 2010 through the opening of business January 10, 2011

Operations	
Revenues (Expenditures)	
Investment Earnings	$ 21,607,653
Gain (Loss) on Sale of Securities	46,430,939
Net Change in Fair Value of Investments	420,108,423
Distribution Fees	(1,422,159)
State Administrative Fees	(355,087)
Insurance Fees	(101,191)
12b-1 Fees	(1,040,938)
Management and Bank Custodial Fees	(3,971,332)
Net Investment Earnings (Loss)	481,256,308
Distributions to Shareholders	
Net Investment Income	(11,604)
Total Decrease in Net Assets from Distributions	(11,604)
Participant Transactions	
Program Contributions	775,103,626
Program Distributions	(599,062,884)
Distributions Reinvested	11,385
Total Increase from Participant Transactions	176,052,127
Net Increase (Decrease) in Net Assets	657,296,831
Net Assets, June 30, 2010	3,117,836,716
Net Assets, Opening of Business January 10, 2011	$ 3,775,133,547

Background

In May 1999, the General Assembly of the State of Illinois adopted Public Act 91-0607 authorizing the State Treasurer of the State of Illinois (the "*Treasurer*") to establish and administer a program designed to be a "qualified state tuition program" under Section 529 of the Internal Revenue Code of 1986, as amended. The program is known as the College Savings Program (the "*Program*"). Participants of the Program have a choice of two Section 529 investment programs, the Bright Start College Savings Program (*"Bright Start"*) and the Bright Directions College Savings Program (*"Bright Directions"*). Bright Start commenced operations on March 27, 2000. Bright Directions commenced operations on November 18, 2005. Investors may participate in Bright Start directly (Direct-sold Plan) or through participating financial advisors (Advisor-sold Plan). Bright Directions is available through participating financial advisors only.

The Program provides an opportunity for investors residing in Illinois to invest on a tax-favored basis toward the qualified higher education expenses of a designated beneficiary (the *"Beneficiary"*) associated with attending an Institution of Higher Education. If the investor is not an Illinois taxpayer, depending upon the laws of the investor's home state or the home state of the investor's beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in Section 529 college savings plans may be available only if invested in the home state's Section 529 plan. Institutions of Higher Education generally include accredited postsecondary educational institutions offering credit toward a bachelor's degree, an associate's degree, a graduate level or professional degree, or another recognized postsecondary credential including certain proprietary, postsecondary vocational and foreign institutions. The institution must be eligible to participate in the U.S. Department of Education student aid programs. Qualified higher education expenses generally include tuition, fees, books, supplies, and equipment required for the Beneficiary's enrollment plus, subject to certain limitations, room and board expenses provided the Beneficiary is enrolled on at least a half-time basis. The American Recovery and Reinvestment Act of 2009 expanded the list of qualified higher education expenses to include expenses paid or incurred in calendar years 2009 and 2010 for the purchase of any computer technology, equipment, or Internet access and related services to be used primarily by the Beneficiary while enrolled at an Eligible Educational Institution.

Under the Program, Program participants (the *"Account Owners"*) select investment portfolios for their accounts established for the purpose of helping Account Owners meet the qualified higher education expenses of the Beneficiaries designated on the Program accounts (the *"Accounts"*). Amounts contributed to the Program will be invested in the College Savings Trust (the *"Trust"*). As of opening of business January 10, 2011, OFI Private Investments, Inc. provided investment advisory, administrative, recordkeeping and marketing services for the Bright Start Program. As of opening of business January 10, 2011, Union Bank and Trust Company advised the Treasurer on the investment of contributions and provided administrative, recordkeeping and marketing services for the Bright Directions Program. As such, as of opening of business January 10, 2011, OFI Private Investments, Inc. and Union Bank and Trust Company acted as program managers (the *"Managers"*) of the two investment programs. The Treasurer acts as trustee and is responsible for the overall administration of the programs.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

1. Financial Reporting Entity

As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois is the primary government which includes all funds, elected offices, departments and agencies of the State, as well as boards, commissions, authorities, universities and colleges over which the State's executive or legislative branches exercise legal control.

The College Savings Program is a separate legal entity from the State of Illinois, with the assets segregated into a Trust, and the Treasurer appointed as Trustee of the Trust, as established in the Declaration of Trust dated March 27, 2000. However, for financial reporting purposes, the College Savings Program is a part of the primary government. The Program is included in the Illinois Comprehensive Annual Financial Report as a private-purpose trust fund. The scope of the College Savings Program financial statements presented herein is limited to the financial position of the College Savings Program private-purpose trust fund.

2. Fiduciary Fund

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

3. Basis of Accounting and Measurement Focus

The accounts of the College Savings Program are maintained and reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of money market mutual funds and timing differences associated with the purchase of mutual fund shares and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase.

5. Investment Earnings

Investment earnings are a combination of dividend income and interest income generated from mutual fund investments. Mutual fund yields are subject to market rate fluctuations.

6. Fair Value of Investments

Investments in the underlying funds are carried at fair value based on the closing net asset or unit value per share of each Underlying Fund on the day of valuation.

7. Management Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates may differ from actual results.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Net Assets Available to Participants

The net assets available to participants represent investments at fair value based upon quoted market value less accrued liabilities. Investments include cash and cash equivalents, dividend and interest receivable and the effect of market fluctuations on participant deposits.

NOTE B - INVESTMENTS

Governmental Accounting Standards Board Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools,* established standards for accounting for investments held by governmental entities. The College Savings Program has been designed as a qualified state tuition program under Section 529 of the Internal Revenue Code and reports all investments at fair value based upon quoted market value with exception of investments in the Bright Start Principal Protection Income Portfolio which are reported at contract value.

BRIGHT START COLLEGE SAVINGS PROGRAM

1. Permitted Investments

The Treasurer's Bright Start investment activities are governed by the Treasurer's published Bright Start investment policy (included in the supplementary section of this report), which was developed in accordance with the State statute. In addition, the Treasurer has adopted its own investment practices, which supplements the statutory requirements.

2. Investment Options

General Overview

The Bright Start Program offers the following investment portfolios:

Direct-sold Plan:
- Blended Age-Based Portfolios
- Blended Fixed Income Portfolio
- Blended Equity Portfolio
- Blended Balanced Portfolio
- Principal Protection Income Portfolio
- Index Age-Based Portfolios
- Index Fixed Income Portfolio
- Index Equity Portfolio
- Index Balanced Portfolio

Advisor-sold Plan:
- Advisor Age-Based Portfolios
- Advisor Fixed Income Portfolio
- Advisor Equity Portfolio
- Advisor Balanced Portfolio
- Principal Protection Income Portfolio

NOTE B - INVESTMENTS (Continued)

Brief Description of Investment Portfolios

Age-Based Portfolios

The goal of a Portfolio under the Age-Based Option is to seek an asset allocation strategy consistent with the ages of the Beneficiaries of those Account Owners who have invested in that Portfolio.

Based on the age of the Beneficiary, the following Age-Based Portfolios are available:

Direct-sold Plan:

- Blended Age-Based 0-6 Years Portfolio
- Blended Age-Based 7-9 Years Portfolio
- Blended Age-Based 10-11 Years Portfolio
- Blended Age-Based 12-14 Years Portfolio
- Blended Age-Based 15-17 Years Portfolio
- Blended Age-Based 18 Years Portfolio
- Index Age-Based 0-6 Years Portfolio
- Index Age-Based 7-9 Years Portfolio
- Index Age-Based 10-11 Years Portfolio
- Index Age-Based 12-14 Years Portfolio
- Index Age-Based 15-17 Years Portfolio
- Index Age-Based 18 Years Portfolio

Advisor-sold Plan:

- Advisor Age-Based 0-6 Years Portfolio
- Advisor Age-Based 7-9 Years Portfolio
- Advisor Age-Based 10-11 Years Portfolio
- Advisor Age-Based 12-14 Years Portfolio
- Advisor Age-Based 15-17 Years Portfolio
- Advisor Age-Based 18 Years Portfolio

Account assets generally do not remain in the Age-Based Portfolio in which they are initially invested. Account assets are redeemed by the Manager when the Beneficiary attains an age that is greater than the upper limit of the age range that corresponds to a particular Portfolio, including the Portfolio in which assets were invested initially. The Manager then reinvests these assets in the Portfolio that corresponds to the age of the Beneficiary. This continues until the Beneficiary is 18 years old, or the assets are withdrawn from the Account, whichever occurs first. The asset allocation strategy for the Age-Based Portfolio becomes increasingly conservative with each successive Portfolio.

Fixed Income Portfolios

- Blended Fixed Income Portfolio
- Advisor Fixed Income Portfolio
- Index Fixed Income Portfolio

The goal of the Fixed Income Portfolios is to seek the relatively more stable returns of a fixed income investment in exchange for giving up the long-term return potential that the stock market may offer.

Equity Portfolios

- Blended Equity Portfolio
- Advisor Equity Portfolio
- Index Equity Portfolio

NOTE B - INVESTMENTS (Continued)

The goal of the Equity Portfolios is to seek long-term capital appreciation through investments in equity mutual funds. The Equity Portfolio is only appropriate for investors with longer time horizons, who are comfortable with an increased level of risk while seeking higher longer-term returns, or who use this investment portfolio as part of an overall college savings strategy that includes less aggressive investments.

Balanced Portfolios

- Blended Balanced Portfolio
- Advisor Balanced Portfolio
- Index Balanced Portfolio

The goal of the Balanced Portfolios is to seek attractive total return with reasonable safety of principal through investment in equity and fixed income securities.

Principal Protection Income Portfolio

- Principal Protection Income Portfolio

The goal of the Principal Protection Income Portfolio is to seek higher current returns than most money market portfolios, while protecting an investor's principal investment from fluctuations in value typically associated with fixed income portfolios. The Principal Protection Income Portfolio may be appropriate for investors who are seeking current returns with stability of principal and who are willing to forego the return potential that the stock market may offer. The Principal Protection Income Portfolio may also be appropriate as a part of an overall college savings strategy that includes more aggressive investments.

Additional Program Information

Additional information concerning the Bright Start College Savings Program may be obtained online at www.brightstartsavings.com, www.brightstartadvisor.com or by calling toll free 1-877-432-7444.

NOTE B - INVESTMENTS (Continued)

Investment Risk

The fair value of the money market and fixed income funds for the Bright Start Program as of the opening of business January 10, 2011, along with their weighted average maturity ("WAM") and Rating as of December 31, 2010, are as follows:

			December 31, 2010									
		Fair Value	**WAM**	**Rating By Percentage**								
Money Market:	$	140,631,784	46 days	A-1	A-1+	NR						
				33.45	53.80	12.75						
Fixed Income:												
	$	196,945,401	2.08 yrs	AAA	AGY*	TSY**	NR					
				11.90	62.82	25.03	0.25					
	$	119,582,246	2.50 yrs	Aaa								
				100.00								
	$	146,777,925	4.38 yrs	TSY**	AGY*	AAA	AA	A	BBB	BB	B	CCC
				5.84	51.33	17.96	8.59	9.14	6.75	0.30	0.07	0.02
	$	191,223,238	7.00 yrs	AAA	AA	A	BBB	BB	B	CCC	NR	
				64.38	5.55	9.95	13.62	3.60	0.93	1.04	0.93	
	$	313,503,438	7.00 yrs	Aaa	Aa	A	Baa					
				75.70	4.70	10.70	8.90					
	$	37,039,514	8.19 yrs	TSY**	AAA	AA	A	BBB	BB	B	NR	
				0.24	14.68	19.11	12.80	8.07	10.14	3.22	31.74	

*AGY Denotes US Government Agency Securities

* *TSY denotes US Treasury Securities

NOTE B - INVESTMENTS (Continued)

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

The investments in the Bright Start College Savings Program are not guaranteed or insured by the Treasurer, the Program Manager, affiliates of the Program Manager, the FDIC, or any other party.

BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM

1. Permitted Investments

The Treasurer's Bright Directions investment activities are governed by the Treasurer's published Bright Directions investment policy (included in the supplementary section of this report), which was developed in accordance with the State statute. In addition, the Treasurer has adopted its own investment practices, which supplements the statutory requirements.

2. Investment Options

General Overview

The Bright Directions Program offers the following investment portfolios:

- Three Age-Based Tracks, each with five portfolio options
- Seven Target Portfolios
- Twenty-Eight Individual Fund Portfolios
- Seven Female & Minority Owned Portfolios

The three Age-Based portfolios are designed to reduce the Account's exposure to principal loss the closer the Beneficiary reaches college age; the seven Target Portfolios maintain a constant asset allocation between equity, fixed income, and money market securities; the Individual Fund Portfolios each invest in a single mutual fund; and the Female & Minority Owned Portfolios invest in underlying investment funds which are managed by female or minority-owned investment advisors. The Age-Based, Target, Individual, and Female & Minority Owned Fund Portfolios have been designed by the Treasurer, Manager, and Wilshire Funds Management.

Brief Description of Investment Options

Age-Based Portfolios

The Age-Based Portfolios generally invest in a mix of equity, fixed income, and money market funds allocated based on the current age of the Beneficiary. The Age-Based Portfolios adjust over time so that as the Beneficiary nears college age each Age-Based Portfolio's allocation between equity, fixed income, and money market funds becomes more conservative relative to the allocation in earlier years.

NOTE B - INVESTMENTS (Continued)

Program participants may choose from the following three Age-Based Tracks:

- Age-Based Aggressive Portfolio
- Age-Based Growth Portfolio
- Age-Based Balanced Portfolio

The beneficiary age bands within each of the above portfolios include: 0-8 years, 9-12 years, 13-16 years, 17-20 years and 21 years and over.

Target Portfolios

The Target Portfolios are asset allocation portfolios that invest in a set or "static" mix of equity, fixed income, or money market funds. The allocation between equity, fixed income, and money market investments within the Target Portfolios does not change as the Beneficiary gets older.

The seven Target Portfolios, ranging from the most aggressive to conservative, are as follows:

- Fund 100
- Fund 80
- Fund 60
- Fund 40
- Fund 20
- Fund 10
- Fixed Income Fund

Individual Fund Portfolios

The Bright Directions Program offers twenty-eight Individual Fund Portfolios. Each Individual Fund Portfolio is invested solely in shares of a single underlying mutual fund. Account balances may be allocated among one or more Individual Fund Portfolios according to the Account Owners investment objectives, investment time horizon, and risk tolerance.

The Individual Fund Portfolios offered are as follows:

- American Century Equity Growth 529 Portfolio
- American Century Growth 529 Portfolio
- American Century Value 529 Portfolio
- Artisan Emerging Markets 529 Portfolio
- BlackRock Cash Funds 529 Portfolio
- BlackRock Inflation Protected Bond 529 Portfolio
- Calvert Social Investment Equity 529 Portfolio
- Delaware Small Cap Core 529 Portfolio
- Dodge & Cox International Stock 529 Portfolio
- Eaton Vance Large Cap Value 529 Portfolio
- ING Global Real Estate 529 Portfolio
- Northern Bond Index 529 Portfolio

NOTE B - INVESTMENTS (Continued)

- Northern Institutional Equity Index 529 Portfolio
- Northern Institutional International Equity Index 529 Portfolio
- Northern Institutional Small Company Index 529 Portfolio
- Northern Small Cap Value 529 Portfolio
- Oppenheimer International Growth 529 Portfolio
- PIMCO Low Duration 529 Portfolio
- PIMCO Short-Term 529 Portfolio
- PIMCO Total Return 529 Portfolio
- T. Rowe Price Balanced 529 Portfolio
- T. Rowe Price Equity Income 529 Portfolio
- T. Rowe Price Extended Equity Market Index 529 Portfolio
- T. Rowe Price Institutional Large Cap Growth 529 Portfolio
- T. Rowe Price Real Estate 529 Portfolio
- Templeton International Bond 529 Portfolio
- William Blair Mid Cap Growth 529 Portfolio
- William Blair Small Cap Growth 529 Portfolio

Female & Minority Owned Portfolios

The Bright Directions Program offers Seven Female & Minority Owned Portfolios. Each portfolio is invested in funds which are managed by female and/or minority-owned investment advisors.

The Female & Minority Owned Portfolios are as follows:

- Ariel Fund 529 Portfolio
- Earnest Partners Fixed Income 529 Portfolio
- Forward Small Cap Equity 529 Portfolio
- John Hancock Small Company 529 Portfolio
- NCM Capital Mid-Cap Growth 529 Portfolio
- Payden U.S. Growth Leaders 529 Portfolio
- SIT Dividend Growth 529 Portfolio

<u>Additional Program Information</u>

Additional information concerning the Bright Directions College Savings Program, including a complete description of investment options, may be obtained online at www.brightdirections.com or by calling 1-866-722-7283.

NOTE B - INVESTMENTS (Continued)

Investment Risk

The fair value of the money market and fixed income funds for the Bright Directions Program as of the opening of business January 10, 2011, along with their weighted average maturity ("WAM") and Rating as of December 31, 2010 are as follows:

			December 31, 2010	
		Fair Value	**WAM**	**Rating**
Money Market:	$	39,953,939	47 days	AA
Fixed Income:				
	$	41,494,374	0.83 yrs	AA-
	$	12,172,542	1.95 yrs	A
	$	60,794,630	4.41 yrs	A+
	$	53,882	5.74 yrs	AA
	$	7,607,614	6.70 yrs	NA
	$	58,174,777	7.12 yrs	A+
	$	33,470,404	7.40 yrs	AAA
	$	19,933,637	10.08 yrs	AAA

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

The investments in the Bright Directions College Savings Program are not guaranteed or insured by the Treasurer, the Program Manager, affiliates of the Program Manager, the FDIC, or any other party.

NOTE C - ADMINISTRATIVE FEES

To administer the College Savings Program, the Treasurer has a division entitled, "The College Savings Program Division." This division had six employees at the opening of business January 10, 2011. The revenues and expenses of the division are recorded in an enterprise proprietary fund maintained by the Treasurer entitled College Savings Program Administrative Trust Fund No. 668.

The Managers of the College Savings Program receive fees for their services. The Bright Start Program Manager received an amount equal to a charge against the assets of the Trust at an annual rate of 0.15% on the blended and advisor portfolios and 0.14% on the index portfolios of the average daily balance of the net assets of the Trust. The fee is calculated daily but payable monthly. The Bright Directions Program Management fee is at an annual rate of 0.45% of the average daily net assets of each Portfolio.

NOTE C - ADMINISTRATIVE FEES (Continued)

The College Savings Program custodial/advisory fees paid from the Trust and the College Savings Program Administrative Trust Fund expenditures for the period July 1, 2010 through the opening of business January 10, 2011 are as follows:

Custodial/advisory fees	$ 3,971,332
Expenditures	$ 421,030

NOTE D - SETTLEMENT

In late January 2009, the Treasurer launched an investigation of OppenheimerFunds, Inc. through the Illinois Attorney General's Office. The nature of the investigation related to the investment performance of the OFII Core Plus Fixed Income Strategy and whether mismanagement of the underlying investment led to its underperformance in 2008. A formal settlement agreement was reached on December 18, 2009 and OppenheimerFunds, Inc. agreed to pay $77.23 million into a settlement account from which 100% of the proceeds would be distributed to eligible participants (i.e., there is no deduction from the settlement proceeds for administrative or other expenses). As of the opening of business January 10, 2011, 95% of settlement proceeds had been distributed to eligible participants by way of deposits into a Bright Start account or check disbursement.

SUPPLEMENTARY INFORMATION

State of Illinois
Office of the Treasurer
BRIGHT START COLLEGE SAVINGS PROGRAM
STATEMENT OF FIDUCIARY NET ASSETS BY PORTFOLIO
As of the Opening of Business January 10, 2011

	Bright Start Advisor Age Based 0-6 years	Bright Start Advisor Age Based 7-9 years	Bright Start Advisor Age Based 10-11 years	Bright Start Advisor Age Based 12-14 years	Bright Start Advisor Age Based 15-17 years	Bright Start Advisor Age Based 18 years
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ 647,279	$ 865,484	$ 229,031	$ 946,434	$ 20,156,929	$ 28,040,485
Capital Shares Receivable	377,609	594,970	487,248	425,917	237,278	158,583
Securities Sold Receivable	-	-	82,548	-	-	481,749
Dividends Receivable	1,059	3,870	3,983	6,554	9,658	4,264
Mutual Funds	135,519,405	164,100,226	125,373,966	164,772,346	143,331,885	86,377,283
Total Assets	$ 136,545,352	$ 165,564,550	$ 126,176,776	$ 166,151,251	$ 163,735,750	$ 115,062,364
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Payable for Capital Shares	$ 246,806	$ 415,118	$ 477,399	$ 101,108	$ 78,263	$ 639,700
Payable for Securities Purchased	37,393	210,771	-	290,890	129,830	-
Other Liabilities	11,374	12,256	9,525	12,444	12,171	8,425
Total Liabilities	295,573	638,145	486,924	404,442	220,264	648,125
Net Assets Available to Participants	136,249,779	164,926,405	125,689,852	165,746,809	163,515,486	114,414,239
Total Liabilities and Net Assets	$ 136,545,352	$ 165,564,550	$ 126,176,776	$ 166,151,251	$ 163,735,750	$ 115,062,364

State of Illinois
Office of the Treasurer
BRIGHT START COLLEGE SAVINGS PROGRAM
STATEMENT OF FIDUCIARY NET ASSETS BY PORTFOLIO
As of the Opening of Business January 10, 2011

	Bright Start Advisor Choice Based Equity	Bright Start Advisor Choice Based Balanced	Bright Start Advisor Choice Based Fixed Income	Bright Start Principal Protection Income	Bright Start Index Age Based 0-6 years	Bright Start Index Age Based 7-9 years
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ 760,493	$ 5,990,289	$ 4,893,649	$ 5,718,658	$ 492,010	$ 5,899,123
Capital Shares Receivable	273,800	231,409	170,406	823,445	412,963	101,726
Securities Sold Receivable	-	-	51,031	-	-	-
Dividends Receivable	-	183	1,927	19,478	7,195	7,197
Mutual Funds	339,960,081	37,086,123	16,558,160	146,777,925	117,343,808	51,023,411
Total Assets	$ 340,994,374	$ 43,308,004	$ 21,675,173	$ 153,339,506	$ 118,255,976	$ 57,031,457
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Payable for Capital Shares	$ 436,342	$ 110,342	$ 19,010	$ 664,369	$ 81,464	$ 40,671
Payable for Securities Purchased	82,913	49,179	-	-	262,132	147,141
Other Liabilities	25,461	3,609	1,734	117,927	3,124	1,510
Total Liabilities	544,716	163,130	20,744	782,296	346,720	189,322
Net Assets Available to Participants	340,449,658	43,144,874	21,654,429	152,557,210	117,909,256	56,842,135
Total Liabilities and Net Assets	$ 340,994,374	$ 43,308,004	$ 21,675,173	$ 153,339,506	$ 118,255,976	$ 57,031,457

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	Bright Start Index Age Based 10-11 years	Bright Start Index Age Based 12-14 years	Bright Start Index Age Based 15-17 years	Bright Start Index Age Based 18 years	Bright Start Index Choice Based Equity	Bright Start Index Choice Based Balanced
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ 4,042,202	$ 5,980,300	$ 9,904,132	$ 4,839,464	$ 1,064,274	$ 4,904,255
Capital Shares Receivable	97,122	7,454	88,491	18,338	778,465	504,412
Securities Sold Receivable	-	7,529	-	1,229	-	-
Dividends Receivable	7,113	14,719	15,752	10,730	-	11,655
Mutual Funds	33,773,026	52,089,195	38,818,198	18,602,051	167,740,114	41,628,058
Total Assets	$ 37,919,463	$ 58,099,197	$ 48,826,573	$ 23,471,812	$ 169,582,853	$ 47,048,380
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Payable for Capital Shares	$ 5,908	$ 17,494	$ 110,896	$ 169,290	$ 70,459	$ 42,505
Payable for Securities Purchased	44,401	-	30,459	-	579,314	95,541
Other Liabilities	1,001	1,548	1,304	635	4,459	1,229
Total Liabilities	51,310	19,042	142,659	169,925	654,232	139,275
Net Assets Available to Participants	37,868,153	58,080,155	48,683,914	23,301,887	168,928,621	46,909,105
Total Liabilities and Net Assets	$ 37,919,463	$ 58,099,197	$ 48,826,573	$ 23,471,812	$ 169,582,853	$ 47,048,380

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	Bright Start Index Choice Based Fixed Income	Bright Start Blended Age Based 0-6 years	Bright Start Blended Age Based 7-9 years	Bright Start Blended Age Based 10-11 years	Bright Start Blended Age Based 12-14 years	Bright Start Blended Age Based 15-17 years
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ 10,485,025	$ 915,137	$ 490,565	$ 283,747	$ 372,788	$ 13,799,313
Capital Shares Receivable	108,604	417,107	350,464	156,748	272,622	194,616
Securities Sold Receivable	117,098	-	-	32,141	-	-
Dividends Receivable	27,405	-	-	-	-	485
Mutual Funds	41,335,979	141,583,581	163,632,430	106,343,796	129,523,391	97,914,159
Total Assets	$ 52,074,111	$ 142,915,825	$ 164,473,459	$ 106,816,432	$ 130,168,801	$ 111,908,573
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Payable for Capital Shares	$ 132,259	$ 358,036	$ 248,239	$ 295,871	$ 165,818	$ 115,150
Payable for Securities Purchased	-	286,217	61,573	-	51,229	147,592
Other Liabilities	1,411	4,882	5,635	3,658	4,470	3,832
Total Liabilities	133,670	649,135	315,447	299,529	221,517	266,574
Net Assets Available to Participants	51,940,441	142,266,690	164,158,012	106,516,903	129,947,284	111,641,999
Total Liabilities and Net Assets	$ 52,074,111	$ 142,915,825	$ 164,473,459	$ 106,816,432	$ 130,168,801	$ 111,908,573

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	Bright Start Blended Age Based 18 years	Bright Start Blended Choice Based Equity	Bright Start Blended Choice Based Fixed Income	Bright Start Blended Choice Based Balanced	Total
ASSETS					
Deposits and Investments, at market					
Cash and Cash Equivalents	$ 17,493,777	$ 650,658	$ 4,394,127	$ 3,987,339	$ 158,246,967
Capital Shares Receivable	366,071	239,022	28,368	100,519	8,023,777
Securities Sold Receivable	84,802	-	24,833	-	882,960
Dividends Receivable	837	114,971	112	84	269,231
Mutual Funds	53,022,689	237,376,575	14,400,027	25,341,269	2,891,349,157
Total Assets	$ 70,968,176	$ 238,381,226	$ 18,847,467	$ 29,429,211	$ 3,058,772,092
LIABILITIES AND NET ASSETS					
Accrued Liabilities					
Payable for Capital Shares	$ 246,605	$ 242,548	$ 53,911	$ 59,473	$ 5,645,054
Payable for Securities Purchased	-	417,744	-	95,206	3,019,525
Other Liabilities	2,465	8,119	656	1,002	265,866
Total Liabilities	249,070	668,411	54,567	155,681	8,930,445
Net Assets Available to Participants	70,719,106	237,712,815	18,792,900	29,273,530	3,049,841,647
Total Liabilities and Net Assets	$ 70,968,176	$ 238,381,226	$ 18,847,467	$ 29,429,211	$ 3,058,772,092

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	AllianceBernstein International Value 529 Portfolio	American Century Equity Growth 529 Portfolio	American Century Growth 529 Portfolio	American Century Value 529 Portfolio	Ariel 529 Portfolio	Artisan Emerging Markets 529 Portfolio
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ -	$ 398	$ 1,193	$ 1,005	$ -	$ -
Dividends Receivable	-	-	-	-	-	-
Mutual Funds	-	5,429,309	1,342,247	3,876,710	4,112,869	1,141,107
Total Assets	$ -	$ 5,429,707	$ 1,343,440	$ 3,877,715	$ 4,112,869	$ 1,141,107
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Other Liabilities	$ -	$ 2,721	$ 650	$ 1,917	$ 3,038	$ 487
Total Liabilities	-	2,721	650	1,917	3,038	487
Net Assets Available to Participants	-	5,426,986	1,342,790	3,875,798	4,109,831	1,140,620
Total Liabilities and Net Assets	$ -	$ 5,429,707	$ 1,343,440	$ 3,877,715	$ 4,112,869	$ 1,141,107

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	BlackRock Cash Funds 529 Portfolio	BlackRock Inflation Protected Bond 529 Portfolio	Calvert Income 529 Portfolio	Calvert Social Investment Equity 529 Portfolio	Delaware Small Cap Core 529 Portfolio	Dodge & Cox International Stock 529 Portfolio
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ 19,247,772	$ 5,380	$ -	$ 1,287	$ -	$ -
Dividends Receivable	822	1,040	-	-	-	-
Mutual Funds	-	3,663,123	-	2,508,874	3,508,939	9,419,909
Total Assets	$ 19,248,594	$ 3,669,543	$ -	$ 2,510,161	$ 3,508,939	$ 9,419,909
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Other Liabilities	$ 4,265	$ 1,731	$ -	$ 1,294	$ 1,943	$ 44,093
Total Liabilities	4,265	1,731	-	1,294	1,943	44,093
Net Assets Available to Participants	19,244,329	3,667,812	-	2,508,867	3,506,996	9,375,816
Total Liabilities and Net Assets	$ 19,248,594	$ 3,669,543	$ -	$ 2,510,161	$ 3,508,939	$ 9,419,909

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	Earnest Partners Fixed Income 529 Portfolio	Eaton Vance Large-Cap Value 529 Portfolio	Female & Minority Owned Growth 529 Portfolio	Forward Small Cap Equity 529 Portfolio	ING Global Real Estate 529 Portfolio	John Hancock Small Company 529 Portfolio
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ -	$ -	$ -	$ -	$ 870	$ -
Dividends Receivable	-	-	-	-	-	-
Mutual Funds	53,882	12,668,205	-	117,942	836,360	812,803
Total Assets	$ 53,882	$ 12,668,205	$ -	$ 117,942	$ 837,230	$ 812,803
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Other Liabilities	$ 38	$ 31,831	$ -	$ 64	$ 395	$ 431
Total Liabilities	38	31,831	-	64	395	431
Net Assets Available to Participants	53,844	12,636,374	-	117,878	836,835	812,372
Total Liabilities and Net Assets	$ 53,882	$ 12,668,205	$ -	$ 117,942	$ 837,230	$ 812,803

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	NCM Capital Mid-Cap Growth 529 Portfolio	Northern Bond Index 529 Portfolio	Northern Institutional Equity Index 529 Portfolio	Northern Institutional International Equity Index 529 Portfolio	Northern Institutional Small Company Index 529 Portfolio	Northern Small Cap Value 529 Portfolio
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ -	$ -	$ -	$ 10,096	$ -	$ -
Dividends Receivable	-	6,580	-	-	-	-
Mutual Funds	221,508	4,308,894	6,875,675	5,306,913	2,175,874	4,289,804
Total Assets	$ 221,508	$ 4,315,474	$ 6,875,675	$ 5,317,009	$ 2,175,874	$ 4,289,804
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Other Liabilities	$ 111	$ 4,008	$ 3,701	$ 2,712	$ 1,331	$ 20,457
Total Liabilities	111	4,008	3,701	2,712	1,331	20,457
Net Assets Available to Participants	221,397	4,311,466	6,871,974	5,314,297	2,174,543	4,269,347
Total Liabilities and Net Assets	$ 221,508	$ 4,315,474	$ 6,875,675	$ 5,317,009	$ 2,175,874	$ 4,289,804

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	Oppenheimer International Growth 529 Portfolio	Payden US Growth Leaders 529 Portfolio	Pimco Low Duration 529 Portfolio	Pimco Short-Term 529 Portfolio	Pimco Total Return 529 Portfolio	SIT Dividend Growth 529 Portfolio
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ 6,608	$ -	$ -	$ -	$ -	$ -
Dividends Receivable	-	-	2,858	853	14,148	-
Mutual Funds	10,978,699	173,757	7,702,252	6,222,372	29,013,267	685,799
Total Assets	$ 10,985,307	$ 173,757	$ 7,705,110	$ 6,223,225	$ 29,027,415	$ 685,799
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Other Liabilities	$ 5,653	$ 114	$ 23,804	$ 4,057	$ 36,722	$ 430
Total Liabilities	5,653	114	23,804	4,057	36,722	430
Net Assets Available to Participants	10,979,654	173,643	7,681,306	6,219,168	28,990,693	685,369
Total Liabilities and Net Assets	$ 10,985,307	$ 173,757	$ 7,705,110	$ 6,223,225	$ 29,027,415	$ 685,799

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	T.Rowe Price Extended Equity Market Index 529 Portfolio	T.Rowe Price Balanced 529 Portfolio	T.Rowe Price Equity Income 529 Portfolio	T.Rowe Price Institutional Large Cap Growth 529 Portfolio	T.Rowe Price Real Estate 529 Portfolio	Templeton International Bond 529 Portfolio
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ -	$ 68,413	$ -	$ -	$ 2,592	$ -
Dividends Receivable	-	-	-	-	-	-
Mutual Funds	4,960,464	7,607,614	9,356,844	9,056,415	3,718,625	537,965
Total Assets	$ 4,960,464	$ 7,676,027	$ 9,356,844	$ 9,056,415	$ 3,721,217	$ 537,965
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Other Liabilities	$ 3,009	$ 3,974	$ 5,298	$ 41,642	$ 1,868	$ 285
Total Liabilities	3,009	3,974	5,298	41,642	1,868	285
Net Assets Available to Participants	4,957,455	7,672,053	9,351,546	9,014,773	3,719,349	537,680
Total Liabilities and Net Assets	$ 4,960,464	$ 7,676,027	$ 9,356,844	$ 9,056,415	$ 3,721,217	$ 537,965

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	William Blair Mid Cap Growth 529 Portfolio	William Blair Small Cap Growth 529 Portfolio	Fixed Income Fund	Fund 10	Fund 20	Fund 40
ASSETS						
Deposits and Investments, at market						
Cash and Cash Equivalents	$ -	$ -	$ 2,723,672	$ 8,227,524	$ 9,754,971	$ 180,679
Dividends Receivable	-	-	728	2,801	11,860	20,501
Mutual Funds	3,140,526	6,737,682	2,723,672	12,341,285	39,019,884	86,931,632
Total Assets	$ 3,140,526	$ 6,737,682	$ 5,448,072	$ 20,571,610	$ 48,786,715	$ 87,132,812
LIABILITIES AND NET ASSETS						
Accrued Liabilities						
Other Liabilities	$ 2,125	$ 14,618	$ 11,851	$ 27,640	$ 26,095	$ 45,214
Total Liabilities	2,125	14,618	11,851	27,640	26,095	45,214
Net Assets Available to Participants	3,138,401	6,723,064	5,436,221	20,543,970	48,760,620	87,087,598
Total Liabilities and Net Assets	$ 3,140,526	$ 6,737,682	$ 5,448,072	$ 20,571,610	$ 48,786,715	$ 87,132,812

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	Fund 60	Fund 80	Fund 100	TOTAL
ASSETS				
Deposits and Investments, at market				
Cash and Cash Equivalents	$ -	$ 50,202	$ 124,218	$ 40,406,880
Dividends Receivable	26,934	24,252	-	113,377
Mutual Funds	122,723,202	155,356,213	93,768,276	685,427,392
Total Assets	$ 122,750,136	$ 155,430,667	$ 93,892,494	$ 725,947,649
LIABILITIES AND NET ASSETS				
Accrued Liabilities				
Other Liabilities	$ 147,708	$ 78,781	$ 47,643	$ 655,749
Total Liabilities	147,708	78,781	47,643	655,749
Net Assets Available to Participants	122,602,428	155,351,886	93,844,851	725,291,900
Total Liabilities and Net Assets	$ 122,750,136	$ 155,430,667	$ 93,892,494	$ 725,947,649

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	Bright Start Advisor Age Based 0-6 years	Bright Start Advisor Age Based 7-9 years	Bright Start Advisor Age Based 10-11 years	Bright Start Advisor Age Based 12-14 years	Bright Start Advisor Age Based 15-17 years
Operations					
Revenues (Expenditures)					
Investment Earnings	$ 54,761	$ 130,752	$ 120,785	$ 196,655	$ 276,742
Gain (Loss) on Sale of Securities	1,139,184	1,156,773	156,206	774,963	668,106
Net Change in Fair Value of Investments	24,347,331	23,555,828	15,561,513	17,565,193	11,070,500
Management Fees	(99,493)	(120,628)	(88,928)	(120,948)	(121,598)
Distribution Fees	(165,367)	(168,529)	(126,929)	(170,779)	(167,770)
State Administrative Fees	(19,899)	(24,125)	(17,784)	(24,189)	(24,318)
Insurance Fees	-	-	-	-	-
Net Investment Earnings (Loss)	25,256,517	24,530,071	15,604,863	18,220,895	11,701,662
Participant Transactions					
Program Contributions	18,763,151	34,375,588	39,661,019	37,764,343	38,542,889
Program Distributions	(25,722,814)	(36,231,259)	(29,477,548)	(31,862,202)	(30,266,636)
Total Increase (Decrease) from Participant Transactions	(6,959,663)	(1,855,671)	10,183,471	5,902,141	8,276,253
Net Increase (Decrease) in Net Assets	18,296,854	22,674,400	25,788,334	24,123,036	19,977,915
Net Assets, June 30, 2010	117,952,925	142,252,005	99,901,518	141,623,773	143,537,571
Net Assets, Opening of Business January 10, 2011	$ 136,249,779	$ 164,926,405	$ 125,689,852	$ 165,746,809	$ 163,515,486

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	Bright Start Advisor Age Based 18 years	Bright Start Advisor Choice Based Equity	Bright Start Advisor Choice Based Balanced	Bright Start Advisor Choice Based Fixed Income	Bright Start Principal Protection Income
Operations					
Revenues (Expenditures)					
Investment Earnings	$ 125,073	$ 79,247	$ 10,797	$ 54,819	$ 1,499,460
Gain (Loss) on Sale of Securities	294,184	(244,574)	19,248	19,204	-
Net Change in Fair Value of Investments	3,039,382	69,320,455	4,443,236	176,853	-
Management Fees	(88,175)	(244,080)	(30,394)	(16,537)	(356,326)
Distribution Fees	(117,844)	(341,849)	(52,470)	(26,151)	(84,471)
State Administrative Fees	(17,635)	(48,816)	(6,078)	(3,308)	(23,306)
Insurance Fees	-	-	-	-	(101,191)
Net Investment Earnings (Loss)	3,234,985	68,520,383	4,384,339	204,880	934,166
Participant Transactions					
Program Contributions	33,531,425	20,063,343	8,842,764	5,252,375	36,863,201
Program Distributions	(33,689,030)	(29,951,810)	(5,119,628)	(3,386,369)	(34,356,338)
Total Increase (Decrease) from Participant Transactions	(157,605)	(9,888,467)	3,723,136	1,866,006	2,506,863
Net Increase (Decrease) in Net Assets	3,077,380	58,631,916	8,107,475	2,070,886	3,441,029
Net Assets, June 30, 2010	111,336,859	281,817,742	35,037,399	19,583,543	149,116,181
Net Assets, Opening of Business January 10, 2011	$ 114,414,239	$ 340,449,658	$ 43,144,874	$ 21,654,429	$ 152,557,210

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	Bright Start Index Age Based 0-6 years	Bright Start Index Age Based 7-9 years	Bright Start Index Age Based 10-11 years	Bright Start Index Age Based 12-14 years	Bright Start Index Age Based 15-17 years
Operations					
Revenues (Expenditures)					
Investment Earnings	$ 1,522,773	$ 707,939	$ 469,918	$ 745,757	$ 585,506
Gain (Loss) on Sale of Securities	3,387,796	2,794,836	2,201,632	2,477,005	1,562,312
Net Change in Fair Value of Investments	14,870,030	4,476,953	1,802,807	2,718,816	998,017
Management Fees	(72,344)	(36,632)	(23,873)	(37,260)	(31,506)
Distribution Fees	-	-	-	-	-
State Administrative Fees	-	-	-	-	-
Insurance Fees	-	-	-	-	-
Net Investment Earnings (Loss)	19,708,255	7,943,096	4,450,484	5,904,318	3,114,329
Participant Transactions					
Program Contributions	23,555,436	15,131,618	13,500,205	15,956,475	14,966,415
Program Distributions	(9,714,972)	(9,275,812)	(9,247,595)	(8,861,291)	(6,346,176)
Total Increase (Decrease) from Participant Transactions	13,840,464	5,855,806	4,252,610	7,095,184	8,620,239
Net Increase (Decrease) in Net Assets	33,548,719	13,798,902	8,703,094	12,999,502	11,734,568
Net Assets, June 30, 2010	84,360,537	43,043,233	29,165,059	45,080,653	36,949,346
Net Assets, Opening of Business January 10, 2011	$ 117,909,256	$ 56,842,135	$ 37,868,153	$ 58,080,155	$ 48,683,914

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	Bright Start Index Age Based 18 years	Bright Start Index Choice Based Equity	Bright Start Index Choice Based Balanced	Bright Start Index Choice Based Fixed Income	Bright Start Blended Age Based 0-6 years
Operations					
Revenues (Expenditures)					
Investment Earnings	$ 302,048	$ 2,117,548	$ 585,882	$ 732,964	$ 63
Gain (Loss) on Sale of Securities	343,528	3,362,599	1,767,242	131,444	9,209,726
Net Change in Fair Value of Investments	4,852	25,034,290	2,308,935	(467,296)	17,574,433
Management Fees	(15,850)	(101,458)	(29,118)	(37,775)	(132,982)
Distribution Fees	-	-	-	-	-
State Administrative Fees	-	-	-	-	(20,604)
Insurance Fees	-	-	-	-	-
Net Investment Earnings (Loss)	634,578	30,412,979	4,632,941	359,337	26,630,636
Participant Transactions					
Program Contributions	8,925,902	27,764,196	10,562,377	13,054,618	18,060,875
Program Distributions	(7,032,740)	(6,205,255)	(3,748,129)	(10,404,764)	(24,194,502)
Total Increase (Decrease) from Participant Transactions	1,893,162	21,558,941	6,814,248	2,649,854	(6,133,627)
Net Increase (Decrease) in Net Assets	2,527,740	51,971,920	11,447,189	3,009,191	20,497,009
Net Assets, June 30, 2010	20,774,147	116,956,701	35,461,916	48,931,250	121,769,681
Net Assets, Opening of Business January 10, 2011	$ 23,301,887	$ 168,928,621	$ 46,909,105	$ 51,940,441	$ 142,266,690

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	Bright Start Blended Age Based 7-9 years	Bright Start Blended Age Based 10-11 years	Bright Start Blended Age Based 12-14 years	Bright Start Blended Age Based 15-17 years	Bright Start Blended Age Based 18 years
Operations					
Revenues (Expenditures)					
Investment Earnings	$ 73	$ 46	$ 58	$ 15,422	$ 27,340
Gain (Loss) on Sale of Securities	8,785,557	3,228,182	2,223,417	2,555,491	1,058,357
Net Change in Fair Value of Investments	15,919,539	9,985,379	12,232,972	5,152,418	740,449
Management Fees	(148,373)	(85,241)	(101,384)	(89,084)	(56,845)
Distribution Fees	-	-	-	-	-
State Administrative Fees	(23,890)	(14,817)	(18,939)	(16,423)	(10,798)
Insurance Fees	-	-	-	-	-
Net Investment Earnings (Loss)	24,532,906	13,113,549	14,336,124	7,617,824	1,758,503
Participant Transactions					
Program Contributions	31,652,496	34,098,749	29,798,057	26,825,933	22,801,257
Program Distributions	(31,573,921)	(23,195,555)	(23,467,520)	(20,550,345)	(21,651,590)
Total Increase (Decrease) from Participant Transactions	78,575	10,903,194	6,330,537	6,275,588	1,149,667
Net Increase (Decrease) in Net Assets	24,611,481	24,016,743	20,666,661	13,893,412	2,908,170
Net Assets, June 30, 2010	139,546,531	82,500,160	109,280,623	97,748,587	67,810,936
Net Assets, Opening of Business January 10, 2011	$ 164,158,012	$ 106,516,903	$ 129,947,284	$ 111,641,999	$ 70,719,106

State of Illinois
Office of the Treasurer
BRIGHT START COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	Bright Start Blended Choice Based Equity	Bright Start Blended Choice Based Fixed Income	Bright Start Blended Choice Based Balanced	Total
Operations				
Revenues (Expenditures)				
Investment Earnings	$ 102	$ 3,780	$ 2,570	$ 10,368,880
Gain (Loss) on Sale of Securities	1,794,872	8,140	419,144	51,294,574
Net Change in Fair Value of Investments	46,152,067	155,038	2,784,336	331,524,326
Management Fees	(171,269)	(14,843)	(22,139)	(2,495,083)
Distribution Fees	-	-	-	(1,422,159)
State Administrative Fees	(33,029)	(2,969)	(4,160)	(355,087)
Insurance Fees	-	-	-	(101,191)
Net Investment Earnings (Loss)	47,742,743	149,146	3,179,751	388,814,260
Participant Transactions				
Program Contributions	17,885,544	3,164,015	4,941,750	606,306,016
Program Distributions	(12,870,420)	(3,065,075)	(3,410,175)	(494,879,471)
Total Increase (Decrease) from Participant Transactions	5,015,124	98,940	1,531,575	111,426,545
Net Increase (Decrease) in Net Assets	52,757,867	248,086	4,711,326	500,240,805
Net Assets, June 30, 2010	184,954,948	18,544,814	24,562,204	2,549,600,842
Net Assets, Opening of Business January 10, 2011	$ 237,712,815	$ 18,792,900	$ 29,273,530	$ 3,049,841,647

State of Illinois
Office of the Treasurer
BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	AllianceBernstein International Value 529 Portfolio	American Century Equity Growth 529 Portfolio	American Century Growth 529 Portfolio	American Century Value 529 Portfolio	Ariel 529 Portfolio	Artisan Emerging Markets 529 Portfolio
Operations						
Revenues (Expenditures)						
Investment Earnings	$ -	$ 39,637	$ 6,305	$ 51,563	$ 335	$ 2,430
Gain (Loss) on Sale of Securities	(3,351,064)	(51,956)	8,530	(11,410)	(928)	-
Net Change in Fair Value of Investments	4,955,256	1,034,301	214,323	598,657	1,044,793	18,302
12b-1 Fees	(7,395)	(6,283)	(1,565)	(4,560)	(4,997)	(98)
Management Fees	(12,036)	(11,388)	(2,263)	(7,891)	(8,261)	(334)
Net Investment Earnings (Loss)	1,584,761	1,004,311	225,330	626,359	1,030,942	20,300
Distributions to Shareholders						
Net Investment Income	-	-	-	-	-	-
Total Decrease in Net Assets from Distributions	-	-	-	-	-	-
Participant Transactions						
Program Contributions	513,324	521,906	498,670	574,238	448,095	1,127,926
Program Distributions	(9,106,457)	(478,070)	(90,414)	(220,716)	(254,139)	(7,606)
Distributions Reinvested	-	-	-	-	-	-
Total Increase (Decrease) from Participant Transactions	(8,593,133)	43,836	408,256	353,522	193,956	1,120,320
Net Increase (Decrease) in Net Assets	(7,008,372)	1,048,147	633,586	979,881	1,224,898	1,140,620
Net Assets, June 30, 2010	7,008,372	4,378,839	709,204	2,895,917	2,884,933	-
Net Assets, Opening of Business January 10, 2011	$ -	$ 5,426,986	$ 1,342,790	$ 3,875,798	$ 4,109,831	$ 1,140,620

State of Illinois
Office of the Treasurer
BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	BlackRock Cash Funds 529 Portfolio	BlackRock Inflation Protected Bond 529 Portfolio	Calvert Income 529 Portfolio	Calvert Social Investment Equity 529 Portfolio	Delaware Small Cap Core 529 Portfolio	Dodge & Cox International Stock 529 Portfolio
Operations						
Revenues (Expenditures)						
Investment Earnings	$ 24,420	$ 126,427	$ 62,369	$ -	$ 19,585	$ 126,105
Gain (Loss) on Sale of Securities	-	3,757	2,990	6,941	293	3,829
Net Change in Fair Value of Investments	-	(83,422)	89,543	501,967	719,783	57,360
12b-1 Fees	-	(4,364)	(4,050)	(3,513)	(3,836)	(4,539)
Management Fees	(13,194)	(6,567)	(7,006)	(5,055)	(6,613)	(7,494)
Net Investment Earnings (Loss)	11,226	35,831	143,846	500,340	729,212	175,261
Distributions to Shareholders						
Net Investment Income	(11,604)	-	-	-	-	-
Total Decrease in Net Assets from Distributions	(11,604)	-	-	-	-	-
Participant Transactions						
Program Contributions	8,807,795	1,615,161	376,602	485,624	459,862	9,573,213
Program Distributions	(8,045,564)	(285,017)	(5,050,326)	(213,639)	(116,958)	(372,658)
Distributions Reinvested	11,385	-	-	-	-	-
Total Increase (Decrease) from Participant Transactions	773,616	1,330,144	(4,673,724)	271,985	342,904	9,200,555
Net Increase (Decrease) in Net Assets	773,238	1,365,975	(4,529,878)	772,325	1,072,116	9,375,816
Net Assets, June 30, 2010	18,471,091	2,301,837	4,529,878	1,736,542	2,434,880	-
Net Assets, Opening of Business January 10, 2011	$ 19,244,329	$ 3,667,812	$ -	$ 2,508,867	$ 3,506,996	$ 9,375,816

State of Illinois
Office of the Treasurer
BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	Earnest Partners Fixed Income 529 Portfolio	Eaton Vance Large-Cap Value 529 Portfolio	Female & Minority Owned Growth 529 Portfolio	Forward Small Cap Equity 529 Portfolio	ING Global Real Estate 529 Portfolio	John Hancock Small Company 529 Portfolio
Operations						
Revenues (Expenditures)						
Investment Earnings	$ 1,043	$ 79,486	$ 31	$ -	$ 21,566	$ -
Gain (Loss) on Sale of Securities	248	(100,066)	809	3,094	4,234	8,284
Net Change in Fair Value of Investments	(276)	2,220,080	63	24,845	100,267	166,614
12b-1 Fees	(75)	(12,785)	(4)	(197)	(845)	(543)
Management Fees	(99)	(26,939)	(9)	(274)	(1,465)	(1,614)
Net Investment Earnings (Loss)	841	2,159,776	890	27,468	123,757	172,741
Distributions to Shareholders						
Net Investment Income	-	-	-	-	-	-
Total Decrease in Net Assets from Distributions	-	-	-	-	-	-
Participant Transactions						
Program Contributions	24,676	1,347,572	8	11,997	278,943	101,100
Program Distributions	(6,708)	(1,226,516)	(6,103)	(30,437)	(58,961)	(68,520)
Distributions Reinvested	-	-	-	-	-	-
Total Increase (Decrease) from Participant Transactions	17,968	121,056	(6,095)	(18,440)	219,982	32,580
Net Increase (Decrease) in Net Assets	18,809	2,280,832	(5,205)	9,028	343,739	205,321
Net Assets, June 30, 2010	35,035	10,355,542	5,205	108,850	493,096	607,051
Net Assets, Opening of Business January 10, 2011	$ 53,844	$ 12,636,374	$ -	$ 117,878	$ 836,835	$ 812,372

State of Illinois
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BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	NCM Capital Mid-Cap Growth 529 Portfolio	Northern Bond Index 529 Portfolio	Northern Institutional Equity Index 529 Portfolio	Northern Institutional International Equity Index 529 Portfolio	Northern Institutional Small Company Index 529 Portfolio	Northern Small Cap Value 529 Portfolio
Operations						
Revenues (Expenditures)						
Investment Earnings	$ -	$ 60,270	$ 66,612	$ 113,240	$ 23,479	$ 28,713
Gain (Loss) on Sale of Securities	104	(11,385)	(64,661)	(96,885)	10,687	19,739
Net Change in Fair Value of Investments	34,170	(120,722)	1,330,554	1,029,820	469,684	863,394
12b-1 Fees	(204)	(2,240)	(6,346)	(5,419)	(2,072)	(4,400)
Management Fees	(295)	(4,083)	(14,353)	(12,053)	(4,439)	(8,850)
Net Investment Earnings (Loss)	33,775	(78,160)	1,311,806	1,028,703	497,339	898,596
Distributions to Shareholders						
Net Investment Income	-	-	-	-	-	-
Total Decrease in Net Assets from Distributions	-	-	-	-	-	-
Participant Transactions						
Program Contributions	104,971	5,059,862	670,547	559,521	237,842	424,014
Program Distributions	(9,531)	(731,785)	(547,284)	(702,378)	(224,486)	(413,545)
Distributions Reinvested	-	-	-	-	-	-
Total Increase (Decrease) from Participant Transactions	95,440	4,328,077	123,263	(142,857)	13,356	10,469
Net Increase (Decrease) in Net Assets	129,215	4,249,917	1,435,069	885,846	510,695	909,065
Net Assets, June 30, 2010	92,182	61,549	5,436,905	4,428,451	1,663,848	3,360,282
Net Assets, Opening of Business January 10, 2011	$ 221,397	$ 4,311,466	$ 6,871,974	$ 5,314,297	$ 2,174,543	$ 4,269,347

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BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	Oppenheimer International Growth 529 Portfolio	Payden US Growth Leaders 529 Portfolio	Pimco Low Duration 529 Portfolio	Pimco Short-Term 529 Portfolio	Pimco Total Return 529 Portfolio	SIT Dividend Growth 529 Portfolio
Operations						
Revenues (Expenditures)						
Investment Earnings	$ 107,680	$ 308	$ 220,330	$ 63,200	$ 1,826,550	$ 4,957
Gain (Loss) on Sale of Securities	(23,053)	3,014	18,910	14,161	55,367	2,602
Net Change in Fair Value of Investments	1,865,934	33,397	(85,631)	(7,725)	(1,134,224)	84,737
12b-1 Fees	(12,532)	(299)	(9,137)	(9,819)	(43,891)	(696)
Management Fees	(23,502)	(375)	(16,592)	(14,129)	(65,120)	(1,062)
Net Investment Earnings (Loss)	1,914,527	36,045	127,880	45,688	638,682	90,538
Distributions to Shareholders						
Net Investment Income	-	-	-	-	-	-
Total Decrease in Net Assets from Distributions	-	-	-	-	-	-
Participant Transactions						
Program Contributions	1,417,209	14,157	2,008,126	1,689,385	5,825,432	306,466
Program Distributions	(872,734)	(17,044)	(959,747)	(1,365,460)	(3,225,308)	(31,944)
Distributions Reinvested	-	-	-	-	-	-
Total Increase (Decrease) from Participant Transactions	544,475	(2,887)	1,048,379	323,925	2,600,124	274,522
Net Increase (Decrease) in Net Assets	2,459,002	33,158	1,176,259	369,613	3,238,806	365,060
Net Assets, June 30, 2010	8,520,652	140,485	6,505,047	5,849,555	25,751,887	320,309
Net Assets, Opening of Business January 10, 2011	$ 10,979,654	$ 173,643	$ 7,681,306	$ 6,219,168	$ 28,990,693	$ 685,369

State of Illinois
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BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	T.Rowe Price Extended Equity Market Index 529 Portfolio	T.Rowe Price Balanced 529 Portfolio	T.Rowe Price Equity Income 529 Portfolio	T.Rowe Price Institutional Large Cap Growth 529 Portfolio	T.Rowe Price Real Estate 529 Portfolio	Templeton International Bond 529 Portfolio
Operations						
Revenues (Expenditures)						
Investment Earnings	$ 35,698	$ 85,754	$ 91,988	$ 21,032	$ 45,000	$ 1,730
Gain (Loss) on Sale of Securities	24,634	(10,590)	(34,764)	78,729	(11,723)	-
Net Change in Fair Value of Investments	1,087,354	1,033,984	1,613,960	1,881,487	612,533	2,856
12b-1 Fees	(5,329)	(12,803)	(13,104)	(9,146)	(4,749)	(102)
Management Fees	(9,963)	(16,309)	(18,659)	(17,887)	(7,838)	(185)
Net Investment Earnings (Loss)	1,132,394	1,080,036	1,639,421	1,954,215	633,223	4,299
Distributions to Shareholders						
Net Investment Income	-	-	-	-	-	-
Total Decrease in Net Assets from Distributions	-	-	-	-	-	-
Participant Transactions						
Program Contributions	560,037	1,074,236	1,521,713	1,382,313	527,031	534,676
Program Distributions	(419,578)	(711,415)	(700,188)	(694,485)	(254,199)	(1,295)
Distributions Reinvested	-	-	-	-	-	-
Total Increase (Decrease) from Participant Transactions	140,459	362,821	821,525	687,828	272,832	533,381
Net Increase (Decrease) in Net Assets	1,272,853	1,442,857	2,460,946	2,642,043	906,055	537,680
Net Assets, June 30, 2010	3,684,602	6,229,196	6,890,600	6,372,730	2,813,294	-
Net Assets, Opening of Business January 10, 2011	$ 4,957,455	$ 7,672,053	$ 9,351,546	$ 9,014,773	$ 3,719,349	$ 537,680

State of Illinois
Office of the Treasurer
BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	William Blair Mid Cap Growth 529 Portfolio	William Blair Small Cap Growth 529 Portfolio	Fixed Income Fund	Fund 10	Fund 20	Fund 40
Operations						
Revenues (Expenditures)						
Investment Earnings	$ -	$ -	$ 59,614	$ 249,819	$ 831,324	$ 1,624,265
Gain (Loss) on Sale of Securities	14,887	(6,160)	18,839	137,528	267,098	621,588
Net Change in Fair Value of Investments	634,556	1,196,097	(37,871)	251,741	1,420,501	5,919,438
12b-1 Fees	(2,888)	(7,283)	(10,458)	(39,766)	(85,501)	(148,129)
Management Fees	(6,189)	(13,387)	(11,936)	(46,135)	(103,310)	(183,160)
Net Investment Earnings (Loss)	640,366	1,169,267	18,188	553,187	2,330,112	7,834,002
Distributions to Shareholders						
Net Investment Income	-	-	-	-	-	-
Total Decrease in Net Assets from Distributions	-	-	-	-	-	-
Participant Transactions						
Program Contributions	532,953	815,818	2,406,239	7,987,822	15,196,879	21,973,203
Program Distributions	(281,168)	(453,546)	(2,051,137)	(5,973,826)	(9,552,200)	(12,525,953)
Distributions Reinvested	-	-	-	-	-	-
Total Increase (Decrease) from Participant Transactions	251,785	362,272	355,102	2,013,996	5,644,679	9,447,250
Net Increase (Decrease) in Net Assets	892,151	1,531,539	373,290	2,567,183	7,974,791	17,281,252
Net Assets, June 30, 2010	2,246,250	5,191,525	5,062,931	17,976,787	40,785,829	69,806,346
Net Assets, Opening of Business January 10, 2011	$ 3,138,401	$ 6,723,064	$ 5,436,221	$ 20,543,970	$ 48,760,620	$ 87,087,598

State of Illinois
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BRIGHT DIRECTIONS COLLEGE SAVINGS PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS BY PORTFOLIO
For the Period July 1, 2010 through the Opening of Business January 10, 2011

	Fund 60	Fund 80	Fund 100	TOTAL
Operations				
Revenues (Expenditures)				
Investment Earnings	$ 2,185,735	$ 2,142,455	$ 787,718	$ 11,238,773
Gain (Loss) on Sale of Securities	280,263	(789,599)	(1,910,550)	(4,863,635)
Net Change in Fair Value of Investments	13,227,707	24,092,807	19,621,103	88,584,097
12b-1 Fees	(188,572)	(224,003)	(132,401)	(1,040,938)
Management Fees	(250,865)	(316,888)	(190,183)	(1,476,249)
Net Investment Earnings (Loss)	15,254,268	24,904,772	18,175,687	92,442,048
Distributions to Shareholders				
Net Investment Income	-	-	-	(11,604)
Total Decrease in Net Assets from Distributions	-	-	-	(11,604)
Participant Transactions				
Program Contributions	28,802,550	27,801,600	12,596,296	168,797,610
Program Distributions	(15,646,983)	(13,771,733)	(6,405,652)	(104,183,413)
Distributions Reinvested	-	-	-	11,385
Total Increase (Decrease) from Participant Transactions	13,155,567	14,029,867	6,190,644	64,625,582
Net Increase (Decrease) in Net Assets	28,409,835	38,934,639	24,366,331	157,056,026
Net Assets, June 30, 2010	94,192,593	116,417,247	69,478,520	568,235,874
Net Assets, Opening of Business January 10, 2011	$ 122,602,428	$ 155,351,886	$ 93,844,851	$ 725,291,900

State of Illinois
Office of the Treasurer
COLLEGE SAVINGS PROGRAM
BRIGHT START KEY PERFORMANCE MEASURES
As of the Opening of Business January 10, 2011
Unaudited

	Illinois	Non-Illinois	Total
Number of Participant Accounts	165,299	47,923	213,222
Assets	$ 2,356,655,238	$ 692,690,512	$ 3,049,345,750

Notes:

There may be a difference between the assets presented above and the information presented in the statements. Two systems are used to calculate the information and the reports from each system are run at different times.

"Participant Accounts" is defined as the total number of investment portfolios.

State of Illinois
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COLLEGE SAVINGS PROGRAM
BRIGHT DIRECTIONS KEY PERFORMANCE MEASURES
As of the Opening of Business January 10, 2011
Unaudited

	Illinois	Out of State	Total
Number of Participant Accounts	51,276	3,492	54,768
Market Value	$ 672,901,033	$ 52,732,939	$ 725,633,972

Notes:

There may be a difference between the Market Value presented above and the information presented in the statements. Two systems are used to calculate the information and each uses a different level of decimal rounding.

"Participant Accounts" is defined as the number of unique relationships between an account owner and a beneficiary.

I. Statement of Purpose of Investment Policy

The purpose of this Statement is to assist contractors retained by the Treasurer to provide services related to the management of the assets of the Bright Start College Savings Program (the “Program”) and to assist the Treasurer’s Office in evaluating the performance of such contractors by:

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

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

II. Establishment and Authority of Entity

The Program has been established as a “qualified tuition program” in accordance with Section 529 of the Internal Revenue Code of 1986, as amended. It was established to provide families with a new opportunity to invest toward future college education expenses.

III. Investment Philosophy

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

In its investment strategy, the Treasurer has relied on prevailing financial theory, which currently utilizes a long-term diversified asset allocation strategy. A prudently allocated investment program possesses a significant level of diversification, which produces risk reduction. In terms of impact, diversification shall be considered along the following lines: (1) asset classes (stocks, bonds, cash, etc.), (2) geography/country, (3) sector, (4) maturity, and (5) duration.

Contributions to the Program will be directed to one of several portfolios (the “Portfolios”), each with a designated mix of investments. The determination of the investment parameters of each Portfolio shall be made by the Treasurer and shall take into account the financial characteristics of the investments in the Program. The investment parameters will also give due consideration to the fact that the investment horizon for Account Owners will vary from a few months to over 18 years.

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

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

A. Short-term Investments

B. Money Market Instruments

C. Domestic Fixed-Income Securities

D. International Fixed-Income Securities

E. Large Capitalization U.S. Stocks

F. Small Capitalization U.S. Stocks

G. International Stocks

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

The administration and offering of the Program should not be relied upon as a guarantee to Account Owners. Each Account Owner should seek appropriate advice, as he or she deems necessary.

IV. Investment Objectives

The overall investment program for the Program and, as applicable, the individual Portfolios provided to the Account Owners shall seek to achieve the following long-term investment objectives:

A. A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section VII hereof, and a long term rate of return on investments that is competitive with each investment's peer group.

B. A long-term competitive rate of return on investments through indexed fund portfolios that approximately equal the applicable benchmarks shown in Section VII hereof.

C. An investment program flexible enough to meet the needs of Account Owners based upon their age or investment objective or the age of the beneficiary and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

V. Investment Responsibilities

The Treasurer is responsible for the investment policy, the direction of investments and administration of the assets of the Program. In order to properly carry out his or her responsibilities, the Treasurer may rely on one or more contractors to assist in the administration of the Program. The Treasurer has engaged, and plans to rely heavily on, OFI Private Investments Inc. (the "*Manager*") for various investment management and related administrative services. The Treasurer also plans to rely heavily on an external investment consultant for investment advisory services. Among the current responsibilities of the Manager is the implementation of the investment strategy outlined in this Policy and the rebalancing (as described in Section VI) of the Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. The Treasurer's Office and the Manager shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

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

VI. Investment Parameters

Contributions will be invested in one of several Portfolios, each with a designated mix of investments that is appropriate for the investment objective of the Portfolio. Each Portfolio allocates assets in a combination of underlying investments investing among large capitalization U.S. stocks, small capitalization U.S. stocks, international stocks, fixed-income and/or short-term investments. The asset allocation of each Portfolio will be established by the Treasurer and managed by the Manager. The Treasurer may adjust the weighting in stocks, bonds and cash in each Portfolio and may change the underlying investments within the Portfolios consistent with this Investment Policy Statement and its agreement with the Manager.

The policy target asset allocations and benchmarks for the underlying investments within the Portfolios are shown below. Under normal market conditions, there is a permissible range of plus or minus a 10% deviation from the target allocation for each underlying investment category. However, during periods of extreme volatility or market crisis, the actual asset allocations for each underlying investment may exceed plus or minus 10% of the target allocations, and any rebalancing will occur quarterly.

VII.

Direct Plan: Blended Age Based Portfolios

Underlying Investment Category	Benchmark*	#1 Portfolio (0-6 yrs)	#2 Portfolio (7-9 yrs)	#3 Portfolio (10-11 yrs)	#4 Portfolio (12-14 yrs)	#5 Portfolio (15-17 yrs)	#6 Portfolio (18+ yrs)
Large Cap Equity	S&P 500 Index	63%	49%	42%	35%	21%	7%
Small Cap Equity	Russell 2000 Index	9%	7%	6%	5%	3%	1%
International Equity	MSCI EAFE Index	18%	14%	12%	10%	6%	2%
Aggregate Bond	Barclays Capital Aggregate Bond Index	10%	25%	25%	25%	20%	15%
Short Term Bond	Barclays Capital 1-3 Yr. Government Index	0%	5%	15%	25%	35%	35%
Money Market	iMoney Net First Tier Institutional Money Market Index	0%	0%	0%	0%	15%	40%

Direct Plan: Index Age Based Portfolios

Underlying Investment Category	Benchmark*	#1 Portfolio (0-6 yrs)	#2 Portfolio (7-9 yrs)	#3 Portfolio (10-11 yrs)	#4 Portfolio (12-14 yrs)	#5 Portfolio (15-17 yrs)	#6 Portfolio (18+ yrs)
Large Cap Equity	S&P 500 Index	63%	49%	42%	35%	21%	7%
Small Cap Equity	S&P Completion Index	9%	7%	6%	5%	3%	1%
International Equity	MSCI EAFE Index	18%	14%	12%	10%	6%	2%
Aggregate Bond	Barclays Capital Aggregate Bond Index	10%	20%	30%	40%	50%	70%
Short Term Bond	Barclays Capital 1-3 Yr. Government Index	0%	0%	0%	0%	0%	0%
Money Market	iMoney Net First Tier Institutional Money Market Index	0%	10%	10%	10%	20%	20%

Direct Plan: Blended Fixed Income, Equity or Balanced Options

Underlying Investment Category	Benchmark*	Fixed Inc Portfolio	Equity Portfolio	Balanced Portfolio
Large Cap Equity	S&P 500 Index	0%	70%	35%
Small Cap Equity	Russell 2000 Index	0%	10%	5%
International Equity	MSCI EAFE Index	0%	20%	10%
Aggregate Bond	Barclays Capital Aggregate Bond Index	80%	0%	40%
Short Term Bond	Barclays Capital 1-3 Yr. Government Index	0%	0%	0%
Money Market	iMoney Net First Tier Institutional Money Market Index	20%	0%	10%

Direct Plan: Index Fixed Income, Equity or Balanced Options

Underlying Investment Category	**Benchmark***	**Fixed Inc Portfolio**	**Equity Portfolio**	**Balanced Portfolio**
Large Cap Equity	S&P 500 Index	0%	70%	35%
Small Cap Equity	S&P Completion Index	0%	10%	5%
International Equity	MSCI EAFE Index	0%	20%	10%
Aggregate Bond	Barclays Capital Aggregate Bond Index	80%	0%	40%
Short Term Bond	Barclays Capital 1-3 Yr. Government Index	0%	0%	0%
Money Market	iMoney Net First Tier Institutional Money Market Index	20%	0%	10%

Advisor Plan: Active Age Based Portfolios

Underlying Investment Category	Benchmark*	#1 Portfolio (0-6 yrs)	#2 Portfolio (7-9 yrs)	#3 Portfolio (10-11 yrs)	#4 Portfolio (12-14 yrs)	#5 Portfolio (15-17 yrs)	#6 Portfolio (18+ yrs)
Large Cap Equity	Russell 1000 Index	25%	21%	18%	15%	9%	3%
	Russell 1000 Value Index	16%	12%	10%	8.5%	5%	2%
	Russell 1000 Growth Index	16%	12%	10%	8.5%	5%	2%
Small Cap Equity	Russell 2000 Index	15%	11%	10%	8%	5%	1%
International Equity	MSCI EAFE Index	13%	10%	8.5%	7%	4.5%	1.5%
	MSCI Emerging Markets Index	5%	4%	3.5%	3%	1.5%	0.5%
Aggregate Bond	Barclays Capital Aggregate Bond Index	9%	15%	20%	22.5%	25%	16%
International Bond	Citi World Government Bond Index (ex-U.S.)	1%	3%	4%	5%	7%	4%
Short Term Bond	Barclays Capital 1-3 Yr. Government Index	0%	12%	16%	22.5%	28%	55%
Money Market	iMoney Net First Tier Institutional Money Market Index	0%	0%	0%	0%	10%	15%

Advisor Plan: Active Fixed Income, Equity or Balanced Options

Underlying Investment Category	Benchmark*	Fixed Inc Portfolio	Equity Portfolio	Balanced Portfolio
Large Cap Equity	Russell 1000 Index	0%	25%	15%
	Russell 1000 Value Index	0%	19.5%	9%
	Russell 1000 Growth Index	0%	19.5%	9%
Small Cap Equity	Russell 2000 Index	0%	16%	7%
International Equity	MSCI EAFE Index	0%	14%	7%
	MSCI EMG Mkts. Index	0%	6%	3%
Aggregate Bond	Barclays Capital Aggregate Bond Index	30%	0%	25%
International Bond	Citi World Government Bond Index (ex-U.S.)	10%	0%	0%
Short Term Bond	Barclays Capital 1-3 Yr Government	35%	0%	10%
Money Market	iMoney Net First Tier Institutional Money Market Index	25%	0%	15%

*Benchmarks are subject to change as mutually agreed by the Treasurer and Manager in order to ensure that they remain appropriate for each underlying investment and consistent with industry standards.

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

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

Principal Protection Income Portfolio

The Principal Protection Income Portfolio attempts to reduce significantly under normal circumstances fluctuations in the value of its assets, other than money market securities and money market fund securities, by investing in Security Backed Investment Contracts (also called Synthetic Guaranteed Investment Contracts or Synthetic GICs). Security Backed Investment Contracts are comprised of two components: investment contracts (also called “Wrapper Agreements) and an underlying portfolio of marketable fixed income securities which are held and owned by the Portfolio on behalf of investors.

Wrapper Agreements are issued by high quality financial institutions such as an insurance company or a bank (a "Wrapper Provider") whose long-term credit rating at the time the Wrapper Agreement is entered into is in the highest two categories as determined by S&P and Moody's. A Wrapper Agreement enables the Portfolio, regardless of market fluctuations, to value the assets of the Portfolio covered by the Wrapper Agreement (the "Covered Assets") at their book value. Book value generally means all Contributions allocated to the Portfolio that are invested in Covered Assets, plus all income accrued at the “Crediting Rate”, as in effect from time to time, less the sum of withdrawals from the Covered Assets. Should the amount received from liquidating all of the Covered Assets ever be insufficient to satisfy requested withdrawals from the Portfolio that are covered by the Wrapper Agreements, under normal circumstances the Wrapper Provider would be obligated to pay the amount of the shortfall to the Portfolio. It is expected that the Portfolio will value the Wrapper Agreements at the difference between the book value and the market value of the Covered Assets. If the market value of the Covered Assets exceeded their book value, the difference would not be reflected in the Portfolio’s valuation of the Covered Assets. Transamerica Life Insurance Company serves as the initial Wrapper Provider. The Treasurer has approved Galliard Capital Management, Inc. to manage the assets of the Portfolio and acknowledges that neither OFI nor any of its affiliates are liable to the Portfolio for impairments to Book Value as described in the Wrapper Agreement.

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

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

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

2.0 Establishment and Authority of Entity: The Bright Directions College Savings Program has been established as part of the Illinois College Savings Pool, and is intended to qualify as a qualified tuition program in accordance with Section 529 of the Internal Revenue Code of 1986, as amended. The Program is sold through financial advisors and was established to compliment the existing Bright Start College Savings Program by allowing families to utilize a financial advisor to assist them with investing toward future college education expenses.

3.0 Participating Financial Institution: Accounts in the Program will be distributed through registered broker-dealers and financial institutions that have entered into a Selling Agent Agreement with Northern Trust Securities, Inc., acting as distributor for the Program. All new accounts in the Program will be processed through Union Bank & Trust Company ("Union Bank") as a participating financial institution. Union Bank has elected not to accept deposits in the Program as provided in Illinois Public Act 91-0607.

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

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

Contributions to the Program will be directed to one or more of the available underlying portfolios (the "Underlying Portfolios"), each composed of a designated mix of investments or an individual investment fund. The determination of the investment parameters of each Underlying Portfolio shall be made by the Treasurer and shall take into account the financial characteristics of the investments in the Program. The investment parameters will also give due consideration to the fact that the investment horizon for participants will vary from a few months to over 18 years.

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

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

A. Short Term Investments

B. Fixed Income Investments

C. Real Estate Investments

D. Domestic Equity Investments

E. International Equity Investments

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

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

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

- A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section VII hereof.

- An investment program flexible enough to meet the needs of participants based upon their age or investment objective and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

6.0 Investment Responsibilities: The Treasurer is responsible for the investment policy, the direction of investments and administration of the assets of the Program. In order to properly carry out his responsibilities, the Treasurer may rely on one or more contractors to assist in the administration of the Program. The Treasurer has engaged, and plans to rely heavily on Union Bank for administrative services and on Union Bank and its investment advisor, Wilshire Funds Management, the investment management business unit of Wilshire Associates Incorporated, for investment management services. The Treasurer also plans to rely heavily on an external investment consultant for investment advisory services. Among the current responsibilities of Union Bank is the implementation of the investment strategy outlined in this Policy and the rebalancing of the Underlying Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. With the Treasurer's approval, Union Bank has retained Wilshire Funds Management to provide it with portfolio design, due diligence and ongoing monitoring services with respect to the Underlying Portfolios and the implementation of the investment strategy outlined in this policy. The Treasurer's Office and Union Bank shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

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

7.0 Investment Parameters: Contributions will be invested in one or more of the available Underlying Portfolios, each composed of a designated mix of investments or an individual investment fund, which is appropriate for the age of the participant or the investment objective of the Portfolio. Each Underlying Portfolio may allocate assets among domestic equity, international equity, real estate, fixed-income, and/or money market investments. The asset allocation of each Underlying Portfolio will be established by the Treasurer and managed by Union Bank. The Treasurer may adjust the weighting in stocks, bonds, real estate, and cash in each Underlying Portfolio and may change the mutual funds within the Underlying Portfolios consistent with this Investment Policy Statement.

The policy target asset allocations and benchmarks for the mutual funds within the Age-Based and Target Portfolios are shown below. There is a permissible range of plus or minus 10% of the target allocation for each mutual fund.

Age-Based Aggressive **Age of Beneficiary**

	Benchmark	0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs
Large Cap Value Large Cap Blend Large Cap Growth	Russell 1000 Value S&P 500 Russell 1000 Growth	19.00% 19.00% 19.00%	15.00% 15.00% 15.00%	11.00% 11.50% 11.00%	7.00% 7.00% 7.00%	3.50% 3.50% 3.50%
Small Cap Value Small Cap Blend Small Cap Growth	Russell 2000 Value Russell 2000 Russell 2000 Growth	3.50% 4.00% 3.50%	3.00% 3.00% 3.00%	2.00% 2.00% 2.00%	2.00% 2.00% 2.00%	1.00% 1.00% 1.00%
Global Real Estate	FTSE EPRA/NAREIT Global	3.00%	2.00%	2.00%	2.00%	1.50%
Foreign Stock	MSCI EAFE MSCI Emerging Markets	25.00% 4.00%	21.00% 3.00%	16.50% 2.00%	10.00% 1.00%	5.00% 0.00%
Money Market Ultra-Short Bond Short Bond Intermediate Bond	3-month T-Bills 3-month T-Bills ML 1-3 yr Treasury Barclays U.S. Aggregate Bond	0.00% 0.00% 0.00% 0.00%	0.00% 0.00% 0.00% 16.00%	0.00% 0.00% 20.00% 14.00%	0.00% 20.00% 19.00% 12.00%	20.00% 23.00% 17.00% 12.00%
Foreign Bonds	Citigroup World Gov't Bond	0.00%	4.00%	3.00%	2.00%	0.00%
U.S. TIPS	Barclays U.S. TIPS	0.00%	0.00%	3.00%	7.00%	8.00%

Age-Based Growth **Age of Beneficiary**

		Benchmark		0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs
Large Cap Value Large Cap Blend Large Cap Growth		Russell 1000 Value S&P 500 Russell 1000 Growth		15.00% 15.00% 15.00%	11.00% 11.50% 11.00%	7.00% 7.00% 7.00%	3.50% 3.50% 3.50%	2.00% 2.00% 2.00%
Small Cap Value Small Cap Blend Small Cap Growth		Russell 2000 Value Russell 2000 Russell 2000 Growth		3.00% 3.00% 3.00%	2.00% 2. 00% 2.00%	2.00% 2.00% 2.00%	1.00% 1.00% 1.00%	0.50% 0.50% 0.50%
Global Real Estate		FTSE EPRA/NAREIT Global		2.00%	2.00%	2.00%	1.50%	0.00%
Foreign Stock		MSCI EAFE MSCI Emerging Markets		21.00% 3.00%	16.50% 2.00%	10.00% 1.00%	5.00% 0.00%	2.50% 0.00%
Money Market Ultra-Short Bond Short Bond Intermediate Bond		3-month T-Bills 3-month T-Bills ML 1-3 yr Treasury Barclays U.S. Aggregate Bond		0.00% 0.00% 0.00% 16.00%	0.00% 0.00% 20.00% 14.00%	0.00% 20.00% 19.00% 12.00%	20.00% 23.00% 17.00% 12.00%	40.00% 25.00% 15.00% 0.00%
Foreign Bonds		Citigroup World Gov't Bond		4.00%	3.00%	2.00%	0.00%	0.00%
U.S. TIPS		Barclays U.S. TIPS		0.00%	3.00%	7.00%	8.00%	10.00%

Age-Based Balanced **Age of Beneficiary**

		Benchmark		0 - 8 yrs	9 - 12 yrs	13 - 16 yrs	17 - 20 yrs	21+ yrs
Large Cap Value Large Cap Blend Large Cap Growth		Russell 1000 Value S&P 500 Russell 1000 Growth		11.00% 11.50% 11.00%	7.00% 7.00% 7.00%	3.50% 3.50% 3.50%	2.00% 2.00% 2.00%	0.00% 0.00% 0.00%
Small Cap Value Small Cap Blend Small Cap Growth		Russell 2000 Value Russell 2000 Russell 2000 Growth		2.00% 2. 00% 2.00%	2.00% 2.00% 2.00%	1.00% 1.00% 1.00%	0.50% 0.50% 0.50%	0.00% 0.00% 0.00%
Global Real Estate		FTSE EPRA/NAREIT Global		2.00%	2.00%	1.50%	0.00%	0.00%
Foreign Stock		MSCI EAFE MSCI Emerging Markets		16.50% 2.00%	10.00% 1.00%	5.00% 0.00%	2.50% 0.00%	0.00% 0.00%
Money Market Ultra-Short Bond Short Bond Intermediate Bond		3-month T-Bills 3-month T-Bills ML 1-3 yr Treasury Barclays U.S. Aggregate Bond		0.00% 0.00% 20.00% 14.00%	0.00% 20.00% 19.00% 12.00%	20.00% 23.00% 17.00% 12.00%	40.00% 25.00% 15.00% 0.00%	50.00% 28.00% 12.00% 0.00%
Foreign Bonds		Citigroup World Gov't Bond		3.00%	2.00%	0.00%	0.00%	0.00%
U.S. TIPS		Barclays U.S. TIPS		3.00%	7.00%	8.00%	10.00%	10.00%

Target Portfolios

	Benchmark	Fund 100	Fund 80	Fund 60	Fund 40	Fund 20	Fund 10	Fixed Income
Large Cap Value	Russell 1000 Value	19.00%	15.00%	11.00%	7.00%	3.50%	2.00%	0.00%
Large Cap Blend	S&P 500	19.00%	15.00%	11.50%	7.00%	3.50%	2.00%	0.00%
Large Cap Growth	Russell 1000 Growth	19.00%	15.00%	11.00%	7.00%	3.50%	2.00%	0.00%
Small Cap Value	Russell 2000 Value	3.50%	3.00%	2.00%	2.00%	1.00%	0.50%	0.00%
Small Cap Blend	Russell 2000	4.00%	3.00%	2.00%	2.00%	1.00%	0.50%	0.00%
Small Cap Growth	Russell 2000 Growth	3.50%	3.00%	2.00%	2.00%	1.00%	0.50%	0.00%
Global Real Estate	FTSE EPRA/NAREIT Global	3.00%	2.00%	2.00%	2.00%	1.50%	0.00%	0.00%
Foreign Stock	MSCI EAFE	25.00%	21.00%	16.50%	10.00%	5.00%	2.50%	0.00%
	MSCI Emerging Markets	4.00%	3.00%	2.00%	1.00%	0.00%	0.00%	0.00%
Money Market	3-month T-Bills	0.00%	0.00%	0.00%	0.00%	20.00%	40.00%	50.00%
Ultra-Short Bond	3-month T-Bills	0.00%	0.00%	0.00%	20.00%	23.00%	25.00%	28.00%
Short Bond	ML 1-3 yr Treasury	0.00%	0.00%	20.00%	19.00%	17.00%	15.00%	12.00%
Intermediate Bond	Barclays U.S. Aggregate Bond	0.00%	16.00%	14.00%	12.00%	12.00%	0.00%	0.00%
Foreign Bonds	Citigroup World Gov’t Bond	0.00%	4.00%	3.00%	2.00%	0.00%	0.00%	0.00%
U.S. TIPS	Barclays U.S. TIPS	0.00%	0.00%	3.00%	7.00%	8.00%	10.00%	10.00%

Individual Fund Portfolios

Participants in the Program open their Accounts through registered broker-dealers and other financial advisors. As a result, the Treasurer deems it appropriate to offer individual mutual funds as separate Underlying Portfolios in the Program. The individual mutual funds the Treasurer selects will be described in the Program's current Program Disclosure Statement and may include the following asset classes:

Asset Class	Benchmark
Money Market/Ultra Short Bond	3 Month T-Bill
Low Duration	ML 1-3 Treasury Index
Corporate Bond	Barclays U.S. Credit Index
Intermediate Bond	Barclays U.S. Aggregate Bond Index
Foreign Bonds	Citigroup World Government Bond Index
U.S. TIPS	Barclays U.S. TIPS Index
Balanced	Barclays U.S. Aggregate Bond Index; S&P 500; MSCI EAFE
Large Cap Value	Russell 3000 Value, Russell 1000 Value
Large Cap Growth	Russell 1000 Growth
Large Cap Blend	Russell 1000, S&P 500
Mid-Cap Value	Russell 2500 Value
Mid-Cap Growth	Russell Mid-Cap Growth
Mid-Cap Blend	Wilshire 4500 Index
Small-Cap Value	Russell 2000 Value
Small-Cap Growth	Russell 2000 Growth
Small-Cap Blend	Russell 2000
Foreign Stock	MSCI EAFE and MSCI Emerging Markets
Socially Responsible	S&P 500
Real Estate	DJ Wilshire Real Estate Securities
Global Real Estate	FTSE EPRA/NAREIT Global Index

7.0 Investment Parameters – Continued

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

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

8.0 Female- and Minority-Owned Portfolios

The Program has included the Female- and Minority-Owned Individual Fund Portfolios for participants who would like to have a more diverse set of fund options. The female and minority owned funds utilized in the program were screened on three initial criteria: 1) firms with at least 50% female and/or racial minority ownership or 2) funds that have a female and/or racial minority investment manager that makes the portfolio management decisions (i.e. a minority owned subadvisor), and 3) funds that delivered above median returns over a 3-year and/or 5-year time period. The mutual fund options provided in the program include relatively high scoring female and minority owned investment managers representing a diverse set of asset classes.

Contributions will be invested in one or more of the available Underlying Portfolios, each composed of an individual investment fund, which is appropriate for the investment objective of the Portfolio. The Treasurer may change the mutual funds within the Female- and Minority-Owned Portfolios consistent with this Investment Policy Statement.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH G*OVERNMENT 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 College Savings Program of the State of Illinois, Office of the Treasurer as of the opening of business January 10, 2011 and for the period July 1, 2010 through the opening of business January 10, 2011, and have issued our report thereon dated May 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Office of the Treasurer's internal control over financial reporting of the College Savings Program 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 State of Illinois, Office of the Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Office of the Treasurer's internal control over financial reporting.

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 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.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the State of Illinois, Office of the Treasurer, College Savings Program's 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
May 24, 2011

**AGREED-UPON PROCEDURES
RELATING TO THE TRANSITION
OF THE STATE OF ILLINOIS
OFFICE OF THE TREASURER**

For the Period July 1, 2010 through the
Opening of Business January 10, 2011

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

Part IV

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES

Honorable William G. Holland
Auditor General
State of Illinois

Honorable Alexi Giannoulias
Outgoing State Treasurer
State of Illinois

Honorable Dan Rutherford
State Treasurer
State of Illinois

As Special Assistant Auditors for the Auditor General, we have performed each of the procedures enumerated below, which were agreed to by the Auditor General, the Outgoing State Treasurer and the State Treasurer, solely to assist the users in evaluating management's assertions regarding insurance in force, fixed assets, unclaimed property, locally held funds, and unexpended appropriations reported in the *Turnover Book* as of the opening of business January 10, 2011, and for the period July 1, 2010 through the opening of business January 10, 2011. The State of Illinois, Office of the Treasurer management is responsible for the information presented. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

The procedures we performed and our findings are as follows:

Insurance in Force

1. We agreed the list of insurance policies in force, as reported in the *Turnover Book*, to the insurance policies, insurance policy declaration pages or other documentation supporting existence of those policies provided by management.

   The procedure was completed with no issues noted.

2. We confirmed with the insurance companies or the Department of Central Management Services the policy numbers, policy terms, description of coverage, including dollar limitations and deductible amounts of each policy.

   The procedure was completed with no issues noted.

3. We confirmed with the insurance companies or the Department of Central Management Services that the insurance policies listed as being in force remained in force as of the opening of business January 10, 2011.

   The procedure was completed with no issues noted.

Fixed Assets

1. We haphazardly selected a sample of 50 assets from the Fixed Asset List by Building/Floor provided by management. We located each item in the sample selected and performed the following procedures:

   a. Agreed the property identification number listed in the Fixed Asset List by Building/Floor to the property identification tag number on the asset.

      The procedure was completed with no issues noted.

   b. Agreed the asset to the description noted in the Fixed Asset List by Building/Floor.

      Issues: 1 of 50 (2%) items selected was not found in the location listed on the Fixed Asset List by Building/Floor. The item, a camera, was found but not in the location listed on the Fixed Asset List by Building/Floor.

      Management Comments: Management agrees with the issue noted. Management stated that the equipment item in question, a camera, is considered a portable asset and will not always be located in a specific office. At the time of auditor testing, management knew the location of the camera and was able to produce the camera for auditor inspection.

   c. Traced each asset in the sample into the total item count reported in the Fixed Asset List by Building/Floor.

      The procedure was completed with no issues noted.

2. We haphazardly selected a sample of 50 assets from various locations in the Chicago and Springfield offices. We traced each item in the sample selected to the Fixed Asset List by Building/Floor and performed the following procedures:

   a. Agreed the property identification tag number to the number listed in the Fixed Asset List by Building/Floor.

      The procedure was completed with no issues noted.

   b. Agreed the asset to the description noted in the Fixed Asset List by Building/Floor.

      The procedure was completed with no issues noted.

   c. Traced each asset in the sample into the total item count reported in the Fixed Asset List by Building/Floor.

      The procedure was completed with no issues noted.

3. We recalculated the Fixed Asset List by Building/Floor for mathematical accuracy.

   The procedure was completed with no issues noted.

4. We agreed the total property count reported on the Fixed Asset List by Building/Floor to the item count reported in the *Turnover Book*.

   The procedure was completed with no issues noted.

Fixed Assets - Continued

5. We inquired with management whether the Office of the Treasurer entered into any lease or installment agreements during the period July 1, 2010 through opening of business January 10, 2011 and obtained a listing of all lease and installment agreements entered into during this time period.

   The procedure was completed with no issues noted.

6. We contacted the Illinois Office of the Comptroller (IOC) and inquired whether any Accounting for Leases-Lessee forms (SCO-560) were filed with the IOC for the period July 1, 2010 through opening of business January 10, 2011 and obtained a listing of all Forms SCO-560 filed during this time period.

   The procedure was completed with no issues noted.

7. For each Form SCO-560, we performed the following procedures:

   a. Agreed the terms of the lease or installment purchase agreement to Form SCO-560 and determined the information on the form was in compliance with Statewide Accounting Management System Manual procedure 27.20.60.

      The procedure was completed with no issues noted.

   b. Obtained the classification and asset value documentation from the IOC and agreed that documentation to the assets recorded in the Agency Report of State Property, if applicable.

      The procedure was completed with no issues noted.

Unclaimed Property

1. We haphazardly selected a sample of 55 items from the Safekeeping Property Items Report provided by management. We located each item in the sample selected and performed the following procedures:

   a. Agreed the property identification number listed in the Safekeeping Property Items Report to the identification number on the property.

      See "Issues" after procedure b below.

   b. Agreed the item to the description noted in the Safekeeping Property Items Report.

      Issues: 4 of 55 (7%) items selected could not be located; therefore, the property identification number and description listed in the Safekeeping Property Items Report could not be agreed to the property. The items not located included two life insurance policies, a will, and a white band with white stones.

      ***Management Comments*:** Management agrees with the issue noted. Management stated the four items which could not be immediately located were determined to have been auctioned, claimed, or destroyed during the 1980s.

Documentation verifying these actions was in manual logs kept during that time frame. This pre-dates both the current staff and software. The staff continues the process of updating information as discrepancies are identified.

Unclaimed Property - Continued

2. We haphazardly selected a sample of 55 items from locations within the vault. We traced each item in the sample selected to the Safekeeping Property Items Report and performed the following procedures:

   a. Agreed the property identification number to the number listed in the Safekeeping Property Items Report.

      See “Issues” after procedure b below.

   b. Agreed the item to the description noted in the Safekeeping Property Items Report.

      Issues: 1 of 55 (2%) items selected was not listed in the Safekeeping Property Items Report; therefore, the property identification number and description could not be agreed to the Safekeeping Property Items Report. The item not included on the Safekeeping Property Items Report was a bond.

      ***Management Comments*:** Management agrees with the issue noted. Management stated the single item selected and not listed was remitted in 1986, during the timeframe when manual logs were maintained. The manual logs predate both current staff and software. The staff continues the process of updating information as discrepancies are identified.

3. We agreed the total unclaimed property item count reported on the Safekeeping Property Items Report to the item count reported in the *Turnover Book*.

   The procedure was completed with no issues noted.

4. We confirmed with ACS/Mellon the shares of stock and mutual funds held as of January 7, 2011 and agreed the number of shares to the Treasurer’s records.

   The procedure was completed with no issues noted.

5. We agreed the confirmed number of shares held by ACS/Mellon as of January 7, 2011 to the number of shares reported in the *Turnover Book*.

   The procedure was completed with no issues noted.

6. For a haphazard sample of 25 other mutual fund brokers, we confirmed the number of shares held as of December 31, 2010 and agreed the number of shares to the Treasurer’s records.

   Issues: 11 of 25 (44%) other mutual fund brokers confirmed a number of shares held as of December 31, 2010 that differed from the amount of shares per the Treasurer’s records. In total the number of shares confirmed was 1,852.075 shares greater than the amount per the Treasurer’s records.

   ***Management Comments*:** Management agrees with the issue noted. Management stated in the case of eight of the 11 discrepancies, the initial information provided as the Treasurer’s records was based on the most current account statements. As the most current statements were not as of December 31, 2010, any transactions from the statement date to December 31st were not reflected in the amount of shares per the Treasurer's records.

Unclaimed Property - Continued

One account was closed prior to December 31, 2010; however, the Treasurer's records had not been updated because an account statement had not yet been received from the mutual fund broker.

The remaining two errors appear to be attributable to human error.

7. We agreed the total number of shares reported in the *Turnover Book* as held by other mutual fund brokers to the total number of shares recorded in the Treasurer's records as of December 31, 2010.

   The procedure was completed with no issues noted.

Locally Held Funds

1. We obtained a list of all Locally Held Funds maintained by the Treasurer's Office.

   The procedure was completed with no issues noted.

2. We confirmed the cash balance in each Locally Held Fund with the appropriate financial institutions as of the opening of business January 10, 2011.

   The procedure was completed with no issues noted.

3. We agreed the confirmed cash balances as of the opening of business January 10, 2011 for each Locally Held Fund to the amount reported in the *Turnover Book*.

   Note: Three locally held funds, The Illinois Funds (Fund 1111), Illinois Insured Mortgage Pilot Program (Fund 1267), and College Savings Pool (Fund 1668), were not reported as locally held funds in the *Turnover Book.* The funds were reported elsewhere in the *Turnover Book* under various exhibits.

   Issues: The cash balance confirmed for the Securities in Safekeeping Fund was $9,010.59 more than the amount reported in the *Turnover Book*.

   ***Management Comments*:** Management agrees with the issue noted. Management stated that the $9,010.59 was not reported because the amounts are not a required asset of any estate in the Securities in Safekeeping Fund. Approximately $2,000 relates to the return of income that will be distributed when the related estates are released. The remaining $7,000 relates to amounts that were released; however, the proper owners could not be located. Management will work with the Attorney General to ensure proper handling of these funds.

Unexpended Appropriations

1. We obtained the Unexpended Appropriations Schedule from the Office of the Treasurer and re-computed the mathematical accuracy of the Unexpended Appropriations Schedule.

   The procedure was completed with no issues noted.

2. We obtained the Recap of the Treasurer's FY11 Budget/Spending Schedule (Recap) from the Office of the Treasurer and traced the fund name, fund number, original appropriation, year to date expenditures and unexpended appropriations from the Unexpended Appropriations Schedule to the Recap.

   The procedure was completed with no issues noted.

Unexpended Appropriations - Continued

3. We obtained the Voucher Report – Expenditure Summary by Appropriation Code Report (VO 710) and traced the expenditures on the VO 710 to the Unexpended Appropriations Schedule.

   The procedure was completed with no issues noted.

4. We obtained the Office of the Treasurer Voucher Report – Appropriation and Detail Object Expenditures by Quarter Report (VO 300) and traced the appropriation detail on the VO 300 to summary amounts on the Recap.

   The procedure was completed with no issues noted.

5. We traced expenditure detail on the VO 300 to the summary amounts on the VO 710.

   The procedure was completed with no issues noted.

6. We obtained the Office of the Comptroller – Expenditure Object Report by fund and compared the appropriation amounts to the Office of the Treasurer records.

   The procedure was completed with no issues noted.

7. We compared expended and unexpended amounts from the Office of the Treasurer records to the Comptroller's Records and related reconciliations.

   The procedure was completed with no issues noted.

8. We agreed the unexpended appropriations in the Office of the Treasurer records to the amounts reported in the *Turnover Book.*

   The procedure was completed with no issues noted.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the identity and amount of moneys, papers and property listed in the *Turnover Book*. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Crowe Horwath LLP

Springfield, Illinois
May 24, 2011