

**State of Illinois  
Office of the Treasurer**

**FISCAL OFFICER RESPONSIBILITIES**

**FINANCIAL AUDIT**

For the years ended June 30, 2010 and 2009

**AND COMPLIANCE EXAMINATION**

For the year ended June 30, 2010

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

State of Illinois  
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

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State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

TREASURER'S OFFICE OFFICIALS

Treasurer	Honorable Alexi Giannoulis (through January 10, 2011)
Chief of Staff	Honorable Dan Rutherford (January 10, 2011 - present) 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) Ms. Maureen Lydon (January 10, 2011 - present)
Manager of Banking	Ms. Rhonda Poeschel
Inspector General	Mr. David Wells
Chief Internal Auditor	Ms. Barbara Ringler

During fiscal year 2010, the Office of the Treasurer maintained ten office locations. Subsequent to June 30, 2010, 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  
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 2/9/2011*  
Mt. Vernon Office  
200 West Potomac Boulevard  
Mt. Vernon, Illinois 62864
  - Programmatic - *Closed 2/7/2011*  
Riverdale Office  
13725 South Wabash Ave  
Riverdale, Illinois 60827
  - 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
-



OFFICE OF THE ILLINOIS STATE TREASURER  
**DAN RUTHERFORD**

**MANAGEMENT ASSERTION LETTER**

April 11, 2011

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

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material affect on the operations of the State of Illinois, Office of the Treasurer (Treasurer) Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Treasurer's compliance with the following assertions during the one-year period ended June 30, 2010. Based on this evaluation, we assert that during the year ended June 30, 2010, the Treasurer has materially complied with the assertions below.

- A. The Treasurer has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Treasurer has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

**MANAGEMENT ASSERTION LETTER - CONTINUED**

Yours very truly,

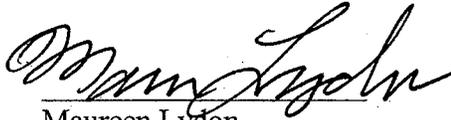
State of Illinois, Office of the Treasurer



Honorable Dan Rutherford  
State Treasurer



Edward W. Buckles  
Deputy Treasurer/Chief Fiscal Officer



Maureen Lydon  
Chief Legal Counsel

State of Illinois  
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

COMPLIANCE REPORT SUMMARY

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

ACCOUNTANTS' REPORTS

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

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	6	1
Repeated findings	1	1
Prior recommendations implemented or not repeated	0	0

Details of the findings are presented in a separate report section.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)			
10-1	11	Weaknesses Identified in the Financial Statement Process	Material Weakness
10-2	13	Weakness in Control over General Ledger Journal Entries	Significant Deficiency
10-3	15	Weaknesses Identified in the Securities Lending Program	Noncompliance

State of Illinois  
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

COMPLIANCE REPORT SUMMARY - CONTINUED

SCHEDULE OF FINDINGS - Continued

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
10-4	18	Unrealized Gains and Losses included in the Investment Income Allocation Process	Significant Deficiency and Noncompliance
10-5	20	Inadequate Controls over Information Technology	Significant Deficiency
10-6	22	Noncompliance with Mandated Duties	Significant Deficiency and Noncompliance

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

10-1	11	Weaknesses Identified in the Financial Statement Process	Significant Deficiency
10-2	13	Weakness in Control over General Ledger Journal Entries	Significant Deficiency
10-3	15	Weaknesses Identified in the Securities Lending Program	Significant Deficiency and Noncompliance

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Treasurer personnel at an exit conference on February 17, 2011. Attending from the Office of the Treasurer were Barb Ringler (Chief Internal Auditor), Nicholas Barnard (Internal Audit), Rhonda Poeschel (Banking Manager), Ed Buckles (Deputy Treasurer/CFO), Maureen Lydon (General Counsel) via phone, Brace Clement (Director of Illinois Technology Program) via phone, Mark Polistina (Portfolio Manager), Jessica Olive (Accounting Manager), Debra Price (Director of Information Technology) and Curt Conrad (Director of Technical and Support Services). Attending from the Office of the Auditor General was Mr. Paul Usherwood (Audit Manager). Attending from Crowe Horwath LLP - Special Assistant Auditors were, Chris Mower (Partner) and Brandon Reed (In-Charge). The responses to the recommendations were provided by Ms. Barb Ringler in an email dated April 7, 2011.

Independent Accountants' Report on State  
Compliance and on Internal Control Over Compliance

Honorable William G. Holland  
Auditor General  
State of Illinois

**Compliance**

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities' (the Treasurer) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2010. The management of the Treasurer is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

- A. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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

In our opinion, the Treasurer complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2010. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 10-1 through 10-6.

### **Internal Control**

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

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

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as items 10-1 through 10-6. A *significant deficiency over compliance* 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.

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

The Treasurer's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine 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, and Treasurer management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Springfield, Illinois  
April 11, 2011

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 and for the year ended June 30, 2010, and have issued our report thereon dated April 11, 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in finding 10-1 in the accompanying schedule of findings to be a material weakness.

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. We consider the deficiencies described in finding 10-2 in the accompanying schedule of findings to be a significant deficiency.

### 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 item 10-3.

We also conducted a State compliance examination of the Treasurer as required by the Illinois State Auditing Act. The results of that examination are reported in the accompanying schedule of findings as items 10-4 through 10-6. We noted certain matters that we reported to management of the Treasurer in a separate letter dated April 11, 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

Springfield, Illinois  
April 11, 2011

State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the years ended June 30, 2010 and 2009

CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-1** (Weaknesses Identified in the Financial Statement Process)

The Illinois Office of the Treasurer's (Office) internal control over the preparation of the Fiscal Officer Responsibilities' financial statements and related notes did not identify errors in the preparation of the financial statements.

During testing of the financial statements and related notes for Fiscal Officer Responsibilities, auditors identified:

- A reclassification entry that was not properly recorded, causing the Available for Appropriation or Expenditure account to be overstated and the Comptroller's Warrants Outstanding account to be understated by \$184,544,307 on the fiscal year 2010 Statement of Assets, Liabilities and Accountabilities. Office management upon being made aware of the reclassification not being properly recorded adjusted the fiscal year 2010 financial statements.
- During fiscal year 2010, the Office failed to reduce the value of an Other Asset on the Statement of Assets, Liabilities, and Accountabilities related to the Illinois Insured Mortgage Pilot Program (IIMPP). Past practice of the Office has been to reduce the Other Asset related to the IIMPP based upon cash payments collected each fiscal year. During fiscal year 2010, the IIMPP Trust sold the only remaining hotel property of the IIMPP; however, the Office failed to reduce the value of the Other Asset related to the cash received from the property sale overstating Other Assets and Total Assets by \$1,543,393. Office management upon being made aware of the issue adjusted the fiscal year 2010 financial statements.

Strong management controls require procedures to include proper checks and balances and adequate supervision of all fiscal related activities to ensure proper financial reporting.

Office personnel stated the error in the Available for Appropriation or Expenditure and Comptroller's Warrants Outstanding accounts was due to a misunderstanding with the Comptroller's Office regarding the June 30, 2010 warrants outstanding confirmation. The Comptroller's Office did not set the end of fiscal year parameters consistent with prior years for extracting the warrants outstanding information.

Office personnel stated the Other Asset related to the IIMPP was recorded to account for the collectible portion of the IIMPP Loan Receivable as in the past. The Office continues collection efforts and expects to continue to collect amounts due on the Collinsville and Springfield Hotel loan balances.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-1** (Weaknesses Identified in the Financial Statement Process - Continued)

Failure to maintain adequate controls over the financial reporting process led to material misstatement of the financial statements (Finding Code No. 10-1, 09-1, 08-1, 07-1).

**RECOMMENDATION:**

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

**TREASURER'S RESPONSE:**

The Treasurer agrees with the finding and recommendation.

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

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-2** (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 fiscal year 2010.

During testing of journal entries posted to the Office's accounting system auditors identified 169 unidentified gaps in the sequential numbering of the general ledger journal entries with up to 5 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. 10-2)

**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 general ledger journal entries.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-2**           (Weakness in Control over General Ledger Journal Entries - Continued)

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 will exist in either the journal entry table or the cancel table, so there will be no “gaps”.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-3** (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 guidelines. At June 30, 2010 the Office had \$3,095,533,634 of securities on loan. The auditors identified the following issues while testing the Office's securities lending program:

- The Office has not developed written policies and procedures covering each of the requirements listed in the Federal Financial Institutions Examination Council (FFIEC) guidelines for securities lending as required by FFIEC guidelines.
- 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.
- 8 of 33 (24%) daily securities lending reports tested were not reviewed by Office personnel.
- 1 of 33 (3%) daily securities lending reports tested did not contain adequate notations to support review by Office personnel.
- 2 of 33 (6%) daily securities lending reconciliations were approved by a Banking Division Supervisor 7 and 9 business days after they were completed. The Office strives to complete their reviews on a daily basis.

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.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-3** (Weaknesses Identified in the Securities Lending Program - Continued)

Without a documented securities lending policy, the Office's securities lending program may not be functioning in accordance with the Federal Financial Institutions Examination Council guidelines as required by the Act. 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.10-3)

**RECOMMENDATION:**

We recommend the Office strengthen its internal controls over the securities lending program to ensure daily securities lending reports and investment reconciliations are reviewed timely and adequately. In addition, the Office should develop written policies and procedures to ensure compliance with the FFIEC guidelines and the Fiscal Officer Investment Policy. Lastly, the Office should ensure adequate internal audits are performed over the securities lending program.

**TREASURER'S RESPONSE:**

The Treasurer agrees with the finding and recommendation.

1. The Treasurer's Office Banking Division completed written policies and procedures in December 2010. During the analysis and preparation of the procedures, it was believed the division was complying in general with the FFIEC guidelines.
2. An internal audit of the securities lending function is being performed.
3. 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.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-3** (Weaknesses Identified in the Securities Lending Program - Continued)

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.

4. 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.

5. and 6. 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.

7. During the past fiscal year, the office has strengthened internal controls and enhanced reporting in the Treasurer's investment system to provide a more streamlined approach to the reconciliation process. The Treasurer's Office makes every effort to review the reports within a reasonable time period. Any discrepancies found by staff accountants are immediately brought to the supervisors attention for review and resolution.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-4** (Unrealized Gains and Losses included in the Investment Income Allocation Process)

The Illinois Office of the Treasurer (Office) is including unrealized gains and losses incurred in its investment portfolio to calculate the yield used to allocate and distribute investment income to the State of Illinois' pooled funds that are statutorily required to receive interest from investments.

Funds not required to be held separate and apart from the State Treasury are pooled and invested with the General Revenue Fund. The monthly investment yield is used to allocate investment income to the required pooled funds that are not held separate and apart from the State Treasury. The Office implemented Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* at the beginning of fiscal year 1998. GASB Statement No. 31 requires entities to include all investment income, including changes in the fair value of investments in their financial reporting. The Office in implementing GASB Statement No. 31 incorporated the computing of the changes in fair value (unrealized gains and losses) of its investments to its monthly computation of portfolio yield used to allocate and distribute investment income to the required pooled funds. The allocation of the investment income is distributed to the required pooled funds in cash on a monthly basis.

In a month when there are unrealized gains included in the calculated allocation, the Office "borrows" realized income that would have been distributed to the General Revenue Fund to distribute to the required pooled funds. In a month when there are unrealized losses included in the calculated allocation, the Office documents a negative adjustment, but does not repay the General Revenue Fund during that month. The negative adjustment (allocation) is netted against future positive investment income, until such time as investment income becomes positive and available for distribution.

The adjustment amount for the change in fair value, which included unrealized gains and losses for the investments used to determine the yield for the pooled funds, was \$2,029,529 as of June 30, 2010. Due to the cumulative nature of the Office's Interest Allocation System including unrealized gains and losses on long term investments, the amount of realized gains and losses that should have been distributed to the State of Illinois' funds could not be determined.

Legislation establishing the various required pooled funds sets forth requirements that either interest, earnings, or investment income be deposited or remain in the specific required pooled fund. In addition, an interpretation of GASB Statement 31 does not require an entity to journalize fair value adjustments or to keep accounting records based on fair value. The interpretation goes on to note cost based records are acceptable, provided that adjustments to fair value are made when financial statements are prepared.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-4** (Unrealized Gains and Losses included in the Investment Income Allocation Process - Continued)

Office management stated that during FY97 the Office researched and analyzed the impact of the newly issued GASB Statement No. 31 and determined the most effective system and process modifications to comply with the new accounting standard. These process and system modifications were implemented beginning July 1, 1997 and have been in place since that time.

The inclusion of unrealized gains and losses as a result of changes in investment fair values does not result in an actual event that would be a tangible/realized gain or loss that should be included in investment income to be distributed and/or deposited. (Finding Code No. 10-4).

**RECOMMENDATION:**

We recommend the Office revise its investment income allocation process to ensure unrealized gains and losses are recognized as investment income for financial reporting purposes, but are not used to determine the amount of investment income to be distributed in cash to the pooled State funds.

**TREASURER'S RESPONSE:**

The Treasurer agrees with the finding and recommendation and has begun the process of implementing a new interest allocation system that will exclude unrealized gains/losses for Investment Income Allocation purposes.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-5** (Inadequate Controls over Information Technology)

The Illinois Office of the Treasurer (Office) does not have adequate controls over information technology.

During testing of information technology (IT) controls, the following was noted:

- Policies and procedures related to system changes and acquisitions have not been documented.
- Servers and other computer infrastructure were not held in secure locations. At one location servers were in a room that can be locked; however, it is usually unlocked and left open. At two other locations servers were located in open unsecured areas.
- There is not adequate segregation of duties in the IT department as there is no backup for certain mainframe responsibilities.
- IT employees are not prohibited from creating or editing financial transactions and could potentially perform unauthorized transactions.
- Adequate security controls are not in place for the Treasurer's administrative accounts. The administrative accounts have non-expiring passwords.

Generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. These procedures include restrictions over IT employee access to production data and formal policies and procedures for system changes and acquisitions.

The Office's personnel cited numerous causes for the above deficiencies, mainly staff and resource shortages.

An inadequate design in IT controls can prevent information systems from providing complete and accurate information consistent with financial reporting objectives and current needs. In addition, it could lead to the unintentional compromise of the integrity of data, unintentional or deliberate security infractions and/or misappropriation of assets and records. (Finding Code No. 10-5)

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-5** (Inadequate Controls over Information Technology - Continued)

**RECOMMENDATION:**

We recommend the Office establish and implement adequate internal controls over information technology. Specifically, we recommend the Office:

- Document policies and procedures related to system changes and acquisitions.
- Restrict access to computer servers and other computer infrastructure.
- Ensure a backup employee is available for mainframe responsibilities to allow for proper segregation of duties.
- Restrict IT employee access to edit/entry functions in systems. If periodic access is necessary, the Office should establish and enforce compensating controls to ensure appropriate management oversight.
- Create expiring passwords for administrative accounts.

**TREASURER'S RESPONSE:**

The Treasurer agrees with the finding and recommendation.

The Office is currently reviewing all policies and procedures and is receptive to the auditors concerns. Access to servers and infrastructure is restricted to the best of our ability given the constraints of the environment we are provided. A backup mainframe employee has been hired. Employee access to systems is restricted to the fullest degree possible without impeding support for the systems. Administrative passwords are used by numerous services that startup and run independently on servers throughout the Treasurer's Office LAN and WAN environments. Should these passwords change, services would cease to function and considerable man hours would be invested in their recovery.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-6** (Noncompliance with Mandated Duties)

The Illinois Office of the Treasurer (Office) did not comply with duties mandated by State statute. The following issues were noted during testing:

1. The Office did not comply with the Illinois Vehicle Code (Code) (625 ILCS 5/3-651). The Code allows the Secretary of State to issue special U. S. Marine Corps license plates, it also creates the Marine Corps Scholarship Fund in the State treasury and sets forth certain responsibilities to be performed by the State Treasurer. The auditors identified the following issues during testing of the Office's responsibilities:
  - The Code requires proceeds from the Marine Corps Scholarship Fund to be transferred on a quarterly basis by the Office to a separate account with the Marine Corps Scholarship Foundation. The transfers were made by the Secretary of State, rather than the Office.
  - According to the Code, the Office shall require the Marine Corps Scholarship Foundation to establish a separate account for receipt of the proceeds of the Marine Corps Scholarship Fund which shall be subject to audit either annually or at another interval determined by the Office. The Office did not ensure an audit was performed as a copy of the audit report was requested subsequent to auditor inquiry.

Office personnel stated they are currently unable to resolve the Marine Corps Scholarship issue due to the Secretary of State's comprehensive review of all license plate legislation.

2. The Office did not comply with the Deposit of State Moneys Act (Act) (15 ILCS 520/22.5) and the Illinois State Treasurer's Investment Policy. The Act authorizes the State Treasurer with the approval of the Governor to invest in "Short-term obligations of corporations organized in the United States...". In addition, the Illinois State Treasurer's Investment Policy section 5.0(f) mirrors the Act and states the Treasurer has authorized investments in "Commercial paper of a corporation that is organized in the United States..".

The Office maintains a list of approved issuers from which it purchases commercial paper investments. The list of approved issuers as of June 30, 2010 included three entities organized as Limited Liability Companies (LLC) in the United States. An LLC is not a corporation. At June 30, 2010, the Office had commercial paper investments with two of the entities organized as LLCs totaling \$1,197,019,882. There was no commercial paper investments with the third entity noted as an LLC that is on the list as an approved issuer as of June 30, 2010. In addition, the Office could not provide supporting documentation to verify that the members /owners of the LLC's were entities organized in the United States.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-6** (Noncompliance with Mandated Duties - Continued)

In addition, the list of approved issuers includes other foreign companies that, per the Office, are only used for purchasing repurchase agreement investments as permitted by the Deposit of State Moneys Act and Illinois State Treasurer's Investment Policy. The approved issuer list does not segregate the commercial paper approved issuers from the repurchase agreement approved issuers.

Office management stated they have a different interpretation of the Deposit of State Moneys Act (15 ILCS 520/22.5) and section 5.0(f) of the Illinois State Treasurer's Investment Policy.

3. The Office did not comply with the Public Funds Investment Act (Act) (30 ILCS 235/2.5). According to the Act, investment of public funds by a public agency shall be governed by a written investment policy. The Act states "For purposes of the State or a county, the investment policy shall be adopted by the elected treasurer and presented to the chief executive officer and the governing body". The Act goes on to define "public funds", to mean current operating funds, special funds, interest and sinking funds, and funds of any kind or character belonging to or in the custody of any public agency, where as within the Act the definition of "public agency" would encompass the governmental operations of the State of Illinois, other than certain exempted entities.

The current published investment policy of the Office only applies to investments in the State Treasury as it states, "This policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists." Therefore, the State does not have a formal policy in accordance with the Act for all investments held outside the State Treasury where no other authorized investment policy would apply.

The Office's personnel attributed the issue to the Office having a different interpretation of the Act.

Failure to comply with mandated responsibilities is noncompliance with statutory requirements and does not fulfill the legislative intent of the Illinois Vehicle Code, the Deposit of State Moneys Act, and the Public Funds Investment Act. (Finding Code No. 10-6)

**RECOMMENDATION:**

We recommend the Office comply with the statutory requirements or seek change to the legislation.

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CURRENT FINDINGS AND RECOMMENDATIONS

**FINDING 10-6** (Noncompliance with Mandated Duties - Continued)

**TREASURER'S RESPONSE:**

The Treasurer agrees with the finding and recommendation.

1. The statute requires the Treasurer to transfer these funds, but we believe that this should be a function of the Secretary of State's Office. We continue to be in contact with them, and are working with them to statutorily change the law.
2. The Office will pursue a statutory remedy to the current provisions in the Deposit of State Moneys Act (15 ILCS 520/22.5) to allow investment in Limited Liability Companies of the United States.
3. The audit finding states that the State Treasurer must have an investment policy for all "public agencies" in the State of Illinois. It is our interpretation that the Public Funds Investment Act was a vehicle to help local units of government to write their policies.

To accommodate the recommendation, we will place an investment policy template on our website for entities to use as a basis for their investment policies, and we will assist them upon request. The Treasurer will send a letter to all public agencies notifying them that a draft investment policy template will be online at the Treasurer's website at [www.treasurer.il.gov](http://www.treasurer.il.gov).

## FINANCIAL STATEMENT REPORT

State of Illinois  
Office of the Treasurer

FISCAL OFFICER RESPONSIBILITIES

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audits of the accompanying statements of assets, liabilities and accountabilities of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer) as of June 30, 2010 and 2009 and the statements of investment income for the years then ended were performed by Crowe Horwath LLP.

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

## AUDITORS' REPORTS

## Independent Auditors' Report

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer) as of and for the years ended June 30, 2010 and 2009, as listed in the Table of Contents. These financial statements are the responsibility of the management of the Treasurer. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, 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 June 30, 2010 and 2009, and the results of its investment activity for the years then ended in conformity with the basis of presentation described in the Summary of Significant Accounting Policies-Basis of Presentation footnote.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 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

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control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Fiscal Officer Responsibilities of the State of Illinois, Office of the Treasurer. The schedules of assets, liabilities and accountabilities, the assets detail, the liabilities and accountabilities detail, the investment income, the administrative responsibilities detail for the protest trust fund, inheritance and estate taxes, and the tobacco settlement recovery fund, the key performance measures, and the investment policy listed in the Table of Contents on pages 51 to 82 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of assets, liabilities and accountabilities, the assets detail, the liabilities and accountabilities detail, the investment income, the administrative responsibilities detail for the protest trust fund, inheritance and estate taxes, and the tobacco settlement recovery fund have been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The key performance measures and the investment policy have not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on them.

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

Springfield, Illinois  
April 11, 2011

## FINANCIAL STATEMENTS

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

ASSETS AND OTHER DEBITS	<u>2010</u>	<u>2009</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Demand Deposits	\$ 204,094,591	\$ 203,677,383
Clearing Account Deposits and Deposits in Transit	29,282,886	62,880,119
Total Cash	233,377,477	266,557,502
Time Deposits	7,000,000	1,585,000
Repurchase Agreements	1,608,144,061	750,886,440
Commercial Paper	599,941,945	899,996,209
Treasury Bills	149,964,481	-
The Illinois Funds	876,200,966	1,017,510,305
Money Market Mutual Funds	471,079,474	3,053,445,996
Mortgage Reserve Fund	532	532
Total Cash and Cash Equivalents	3,945,708,936	5,989,981,984
<b>DEPOSITS AND INVESTMENTS</b>		
Short-Term Investments		
Time Deposits	61,678,141	846,466,157
Commercial Paper	2,543,687,743	499,208,111
Treasury Bills	1,622,619,420	-
Federal Farm Credit Bank Bond	-	591,000
Federal Home Loan Mortgage Corporation	81,432,260	12,834,100
Federal Home Loan Mortgage Corporation Discount Notes	149,804,611	-
Federal Home Loan Bank	150,329,700	76,015,088
Federal Home Loan Bank Discount Notes	149,663,889	-
Federal National Mortgage Association	25,648,253	25,519,862
Federal National Mortgage Association Discount Notes	400,585,182	-
Federal Agricultural Mortgage Corporation	13,501,620	-
Federal Deposit Insurance Corporation Guarantee Notes	25,004,750	-
Foreign Investments	-	10,000,000
Long-Term Investments		
Time Deposits	54,530,326	63,420,988
Federal Farm Credit Bank Notes	-	99,701,586
Federal Home Loan Mortgage Corporation	316,343,255	277,815,546
Federal Home Loan Bank	115,099,155	51,368,972
Federal National Mortgage Association	285,170,095	413,044,626
Federal Deposit Insurance Corporation Guarantee Notes	142,260,150	100,876,050
State of Illinois Secondary Pool Investment Program	470,317	579,180
Illinois Technology Development	22,690,703	18,689,216
Foreign Investments	20,000,000	10,000,000
Total Deposits and Investments	6,180,519,570	2,506,130,482
<b>SECURITIES LENDING COLLATERAL</b>		
Invested in Repurchase Agreements	3,107,545,325	961,058,174
Cash	-	499,228
Total Securities Lending Collateral	3,107,545,325	961,557,402
<b>OTHER ASSETS</b>		
Warrants Cashed, but not Canceled	5,238	2,762,541
Receivables from Universities, Agencies and Retirement Systems for Monies Advanced and Securities Purchased	416,502	384,967
Receivable from City of Edwardsville	281,392	288,982
Investment Income Earned, but not Received	9,659,671	15,081,009
Illinois Insured Mortgage Pilot Program Trust	-	1,543,393
Total Other Assets	10,362,803	20,060,892

The accompanying notes are an integral part of these statements.

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

ASSETS AND OTHER DEBITS - CONTINUED	<u>2010</u>	<u>2009</u>
<b>OTHER DEBITS</b>		
Amount of Future General Revenue Obligated for Debt Service	\$ 38,861,217,880	\$ 33,485,887,771
Total Assets and Other Debits	<u>\$ 52,105,354,514</u>	<u>\$ 42,963,618,531</u>
<b>LIABILITIES AND ACCOUNTABILITIES</b>		
<b>LIABILITIES FOR BALANCES ON DEPOSIT</b>		
Comptroller		
Protested Taxes	\$ 336,133,520	\$ 436,093,830
Available for Appropriation or Expenditure	7,446,421,114	6,166,660,781
Agencies' Deposits Outside the State Treasury	662,082,104	702,686,565
Comptroller's Warrants Outstanding	<u>795,564,563</u>	<u>557,061,122</u>
Total Liabilities for Balances on Deposit	9,240,201,301	7,862,502,298
<b>OTHER LIABILITIES</b>		
Obligations Under Securities Lending	<u>3,107,545,325</u>	<u>961,557,402</u>
Total Other Liabilities	3,107,545,325	961,557,402
<b>GENERAL OBLIGATION INDEBTEDNESS</b>		
Principal and Interest Due Within One Year	2,912,456,024	2,734,718,625
Thereafter	<u>36,834,027,969</u>	<u>31,390,372,513</u>
Total General Obligation Indebtedness	39,746,483,993	34,125,091,138
<b>ACCOUNTABILITIES</b>		
Receivable from City of Edwardsville	281,392	288,982
Investment Income Earned, but not Received (net of cumulative market adjustments)	10,840,009	14,176,222
Federal Reserve Bank Settlement Account Reserve	1,962	1,957
Mortgage Reserve Fund	<u>532</u>	<u>532</u>
Total Accountabilities	<u>11,123,895</u>	<u>14,467,693</u>
Total Liabilities and Accountabilities	<u>\$ 52,105,354,514</u>	<u>\$ 42,963,618,531</u>

The accompanying notes are an integral part of these statements.

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

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	<u>2010</u>	<u>2009</u>
Investment Income Earned	<u>\$ 50,655,198</u>	<u>\$ 165,518,156</u>

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The accompanying notes are an integral part of these statements.

State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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**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.

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Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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

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

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

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

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

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

**NOTE C - COMPENSATING BANKS FOR SERVICES**

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

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State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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**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, US Treasury Bills, US Agency Discount Notes and the investments in the Illinois Technology Program which are valued at amortized cost. The Treasurer's investments in US Treasury Bills and 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.

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, F-1 by Fitch, D-1 by Duff & Phelps Credit Rating Company, A1 by IBCA, and TBW-1 by Thompson Bank Watch,

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State of Illinois  
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FISCAL OFFICER RESPONSIBILITIES  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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

repurchase agreements or other investments approved by State law. As of June 30, 2010, 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 and Walmart/SSB, 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, with the exception of Federal Agricultural Mortgage Corporation obligations. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service or AAA by Fitch 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, except for BNP Paribas Securities Corporation and Deutsche Bank Securities which were rated 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 market value at an established percentage of the deposit based on the type of security pledged. Securities that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts, which require a market value of at least 105% of the deposit. If the obligation of the United States and its agencies is a mortgage backed security, the securities pledged as collateral are required to have a market value of at least 110% of the deposit. Other securities that may be pledged as collateral to secure time deposits are MBIA Certificates (issued by the Municipal Bond Investors Assurance Corporation), Letters of Credit (issued by Federal Home Loan Bank (FHLB)), and Share Certificates (issued by credit unions), which require a market value of at least 102% of the deposit.

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

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**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 market value of at least 102% of the agreement. The agreements require both parties to maintain an acceptable margin on underlying securities to ensure the agreements are adequately collateralized. The Treasurer accepts only obligations of the United States government or its sponsored agencies as collateral for repurchase agreements.

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

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

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

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

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

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

Deposits: The carrying amount of all the Treasurer's demand and time deposits at June 30, 2010, was \$233,377,477 and \$123,208,467, respectively. The carrying amount of all the Treasurer's demand and time deposits at June 30, 2009, was \$266,557,502 and \$911,472,145, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2010, was \$230,643,237 and \$123,208,467, respectively. The bank balance of all the Treasurer's demand and time deposits at June 30, 2009, was \$265,410,891 and \$911,472,145, respectively.

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

Investments: Excluding Time Deposits, the Treasurer had the following investments, stated at fair value except for Commercial Paper, Federal Farm Credit Bank Bond, US Treasury Bills, US Agency Discount Notes and Illinois Technology Development, and maturities as of June 30. (Amounts are in thousands.)

	<u>2010</u>					Total
	Cash Equivalents	Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
Commercial Paper**	\$ 599,942	\$ 2,543,688	\$ -	\$ -	\$ -	\$ 3,143,630
Repurchase Agreements	1,608,144	-	-	-	-	1,608,144
Treasury Bills**	149,965	1,622,619	-	-	-	1,772,584
Federal Home Loan Bank	-	150,330	115,099	-	-	265,429
Federal Home Loan Bank Discount Notes**	-	149,664	-	-	-	149,664
Federal Home Loan Mortgage Corporation	-	81,432	316,343	-	-	397,775
Federal Home Loan Mortgage Corporation Discount Notes**	-	149,805	-	-	-	149,805
Federal National Mortgage Association	-	25,648	285,170	-	-	310,818
Federal National Mortgage Association Discount Notes**	-	400,585	-	-	-	400,585
Federal Deposit Insurance Corporation Guarantee Notes	-	25,005	142,260	-	-	167,265
Federal Agricultural Mortgage Corporation	-	13,502	-	-	-	13,502
State of Illinois Secondary Pool Investment Program	-	-	-	277	193	470
Foreign Investments***	-	-	20,000	-	-	20,000
Securities Lending Collateral Invested in Repurchase Agreements	3,107,545	-	-	-	-	3,107,545
Subtotal	<u>\$ 5,465,596</u>	<u>\$ 5,162,278</u>	<u>\$ 878,872</u>	<u>\$ 277</u>	<u>\$ 193</u>	11,507,216
Illinois Technology Development**						22,691
The Illinois Funds						876,201
Money Market Mutual Funds						471,079
Mortgage Reserve Fund						1
Total Investments and Securities Lending Collateral, excluding Time Deposits						<u>\$ 12,877,188</u>

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

	<u>2009</u>					Total
	Cash Equivalents	Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
Commercial Paper**	\$ 899,996	\$ 499,208	\$ -	\$ -	\$ -	\$ 1,399,204
Repurchase Agreements	750,886	-	-	-	-	750,886
Federal Farm Credit Bank Bond*	-	591	-	-	-	591
Federal Farm Credit Bank Notes	-	-	99,702	-	-	99,702
Federal Home Loan Bank	-	76,015	51,369	-	-	127,384
Federal Home Loan Mortgage Corporation	-	12,834	277,815	-	-	290,649
Federal National Mortgage Association	-	25,520	413,045	-	-	438,565
Federal Deposit Insurance Corporation Guarantee Notes	-	-	100,876	-	-	100,876
State of Illinois Secondary Pool Investment Program	-	-	-	128	451	579
Foreign Investments***	-	10,000	10,000	-	-	20,000
Securities Lending Collateral Invested in Repurchase Agreements	661,058	300,000	-	-	-	961,058
Subtotal	<u>\$ 2,311,940</u>	<u>\$ 924,168</u>	<u>\$ 952,807</u>	<u>\$ 128</u>	<u>\$ 451</u>	4,189,494
Illinois Technology Development**						18,689
The Illinois Funds						1,017,511
Money Market Mutual Funds						3,053,446
Mortgage Reserve Fund						1
Total Investments and Securities Lending Collateral, excluding Time Deposits						<u>\$ 8,279,141</u>

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

\*\* Reported at amortized cost.

\*\*\* Denominated in US dollars.

The Treasurer's net increase/(decrease) in the fair value of investments during 2010 and 2009 was (\$1,172,672) and \$12,191,801, respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year.

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

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount, including accrued interest, was approximately \$1,608,144,061 and \$750,886,440, and the market value of the collateral securities to be resold based on commitments under the repurchase agreements was approximately \$1,679,425,767 and \$788,320,832, as of June 30, 2010 and 2009, respectively.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Treasurer's investment in a single issuer. The following investments exceeded 5 percent of the total investments at June 30, 2010 and 2009. (Amounts are in thousands.)

	2010		2009	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
Repurchase Agreements:				
Mizuho Securities	\$ 982,450	7.63	\$ 526,150	6.36
Commercial Paper:				
G.E. Capital	-	-	499,998	6.04
SSB/Citigroup Global	998,139	7.75	-	-
UBS Finance	897,022	6.97	-	-
Money Market Mutual Fund:				
Goldman Sachs MM Treasury Curve	-	-	1,000,000	12.08
AIM Institutional Funds	-	-	485,000	5.86
Federated MM Treasury Curve	-	-	973,800	11.76
Securities Lending Collateral Invested in Repurchase Agreements:				
Goldman Sachs Group	-	-	425,000	5.13

Securities Lending Transactions: 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.

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

During fiscal year 2010 and 2009, Deutsche Bank Group lent U.S. agency securities 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 market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, 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 fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by 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 and the value of securities on loan for the State Treasurer as of June 30, 2010 were \$3,107,545,325 and \$3,095,533,634, respectively. The total collateral held and the value of securities on loan for the State Treasurer as of June 30, 2009 were \$961,557,402 and \$945,946,339, respectively. Securities on loan are reported at market value with the exception of US Treasury Bills and US Agency Discount notes which are reported at amortized cost.

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

The Illinois Insured Mortgage Pilot Program Trust (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).

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

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 June 30, 2010, the unpaid principal and interest on the President Lincoln and Collinsville Hotels totaled approximately \$23,810,877 and \$1,274,027, 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 the 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 to 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.

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

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 Trust 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.

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 <u>Springfield</u>	Holiday Inn <u>Collinsville</u>	<u>Total</u>
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)
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)
June 30, 2010 - loan balance	<u>\$ 23,051</u>	<u>\$ 1,261</u>	<u>\$ 24,312</u>

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**NOTE F - DEFEASED DEBT**

During fiscal year 2010, the State of Illinois issued General Obligation Refunding Bonds for the purpose of defeasing certain outstanding bonds that carried a higher rate of interest. The defeasance was accomplished by depositing the proceeds from the Refunding Bonds with an escrow trustee for the purchase of U.S. government obligations. The cash from the maturity of the U.S. government obligations and interest thereon will be used to pay all the principal and interest of the defeased bonds as they become due as well as all administrative expenses of the trustee.

For financial reporting purposes, the obligations under the defeased bonds have been fully liquidated by the escrow deposit of the funds from the Refunding bonds, resulting in a net reduction of General Obligation Indebtedness of \$123,954,420 during fiscal year 2010, as follows:

	<u>Balances at June 30, 2010</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Balance of Defeased Bond Issues	\$ 1,527,645,000	\$ 645,270,231	\$ 2,172,915,231
General Obligation Refunding Bonds	<u>1,501,300,000</u>	<u>547,660,811</u>	<u>2,048,960,811</u>
Net decrease	<u>\$ 26,345,000</u>	<u>\$ 97,609,420</u>	<u>\$ 123,954,420</u>

The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$106,022,368 during fiscal year 2010.

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2010 and 2009, \$1,103,030,000 and \$614,125,000, respectively, of bonds outstanding was considered defeased.

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

At June 30, 2010 and 2009, the Treasurer was responsible for \$16,967,958 and \$48,202,424, respectively, of securities held in safekeeping for various State departments, agencies and institutions. Therefore, these are not reflected in the statement of assets, liabilities and accountabilities.

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**NOTE H - GENERAL OBLIGATION INDEBTEDNESS**

A summary of the changes from June 30, 2009 to June 30, 2010, in General Obligation Bonded Indebtedness by issue type follows:

	Antipollution Interest Rate 8.75% Series W, due 2010	Multi-Purpose Interest Rates varying from 1.395% to 7.3% Series 1989 through 2010, due serially to 2035	Pension Funding Interest Rates varying from 1.823% to 5.1% Series 2003 and 2010, due serially to 2033	General Obligation Refunding Series 1992 through 2010 Interest Rates varying from 2.0% to 7.3%, due serially to 2025
<b>Balance at June 30, 2009</b>				
Principal	\$ 800,000	\$ 7,200,371,293	\$ 9,900,000,000	\$ 1,850,626,457
Interest	35,000	4,653,635,871	8,972,925,000	507,697,517
Total	<u>835,000</u>	<u>11,854,007,164</u>	<u>18,872,925,000</u>	<u>2,358,323,974</u>
<b>Redemptions charge to Appropriations</b>				
Principal	800,000	423,952,910	50,000,000	162,711,843
Interest	35,000	448,179,732	493,550,000	97,598,311
Total	<u>835,000</u>	<u>872,132,642</u>	<u>543,550,000</u>	<u>260,310,154</u>
<b>Certificates/Bonds issued</b>				
Principal	-	2,456,000,000	3,466,000,000	1,501,300,000
Interest	-	1,905,376,375	381,739,309	547,660,811
Total	<u>-</u>	<u>4,361,376,375</u>	<u>3,847,739,309</u>	<u>2,048,960,811</u>
<b>Refunding</b>				
Principal	-	1,454,149,215	-	73,495,785
Interest	-	638,831,924	-	6,438,306
Total	<u>-</u>	<u>2,092,981,139</u>	<u>-</u>	<u>79,934,091</u>
<b>Balance at June 30, 2010</b>				
Principal	-	7,778,269,168	13,316,000,000	3,115,718,829
Interest	-	5,472,000,590	8,861,114,309	951,321,711
Total	<u>\$ -</u>	<u>\$ 13,250,269,758</u>	<u>\$ 22,177,114,309</u>	<u>\$ 4,067,040,540</u>

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

	Medicaid Funding Interest Rate 2.5% Series 2010, due 2011	Total Bonded Indebtedness	General Obligation Certificates	Total General Obligation Indebtedness
Balance at June 30, 2009				
Principal	\$ -	\$ 18,951,797,750	\$ 1,000,000,000	\$ 19,951,797,750
Interest	-	14,134,293,388	39,000,000	14,173,293,388
Total	-	33,086,091,138	1,039,000,000	34,125,091,138
Redemptions charge to Appropriations				
Principal	-	637,464,753	2,250,000,000	2,887,464,753
Interest	-	1,039,363,043	55,277,778	1,094,640,821
Total	-	1,676,827,796	2,305,277,778	3,982,105,574
Certificates/Bonds issued				
Principal	246,095,000	7,669,395,000	1,250,000,000	8,919,395,000
Interest	5,964,386	2,840,740,881	16,277,778	2,857,018,659
Total	252,059,386	10,510,135,881	1,266,277,778	11,776,413,659
Refunding				
Principal	-	1,527,645,000	-	1,527,645,000
Interest	-	645,270,230	-	645,270,230
Total	-	2,172,915,230	-	2,172,915,230
Balance at June 30, 2010				
Principal	246,095,000	24,456,082,997	-	24,456,082,997
Interest	5,964,386	15,290,400,996	-	15,290,400,996
Total	\$ 252,059,386	\$ 39,746,483,993	\$ -	\$ 39,746,483,993
Amounts due within one year				
Principal		\$ 1,777,330,000	\$ -	\$ 1,777,330,000
Interest		1,135,126,024	-	1,135,126,024
Total		\$ 2,912,456,024	\$ -	\$ 2,912,456,024

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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

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

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
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**NOTE H - GENERAL OBLIGATION INDEBTEDNESS (Continued)**

Interest on zero coupon bonds is reflected in the previous 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 June 30, 2010, are as follows:

Year ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,777,330,000	\$ 1,135,126,024	\$ 2,912,456,024
2012	1,513,880,000	1,113,376,657	2,627,256,657
2013	1,501,360,000	1,064,700,608	2,566,060,608
2014	1,480,035,000	1,011,058,955	2,491,093,955
2015	1,477,610,000	949,421,723	2,427,031,723
2016-2020	3,811,000,000	4,068,210,697	7,879,210,697
2021-2025	4,276,644,985	3,089,269,089	7,365,914,074
2026-2030	5,221,410,104	1,876,175,355	7,097,585,459
2031-2035	3,924,169,911	455,704,885	4,379,874,796
Total	<u>\$ 24,983,440,000</u>	<u>\$ 14,763,043,993</u>	<u>\$ 39,746,483,993</u>

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](http://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.

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Office of the Treasurer  
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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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

The lead case is *Illinois State Chamber of Commerce v. Filan*. This case arose out of the following set of facts. In the fiscal year 2004 Budget Implementation Act, the legislature authorized the Director of the Governor's Office of Management and Budget to transfer funds from specialized or dedicated funds to the General Revenue Fund. Some of the dedicated funds are funded by fees. The Chamber of Commerce, as an employer, pays a surcharge (fee) to the 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the years ended June 30, 2010 and 2009

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

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 settlements 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 July 1, 2010, the State of Illinois issued General Obligation Taxable Build America Bonds series 2010-4, in the amount of \$300,000,000 maturing in 2011 through 2036 at interest rates of 1.75% to 7.1%. On July 21, 2010, the State of Illinois issued General Obligation Taxable Build America Bonds series 2010-5, in the amount of \$900,000,000 maturing in 2011 through 2036 at interest rates of 2.28% to 7.35%.

On July 20, 2010, the State of Illinois issued \$1,300,000,000 of General Obligation Certificates pursuant to the provisions of Article IX, Section 9(c) of the Illinois Constitution and the provisions of the Short Term Borrowing Act, as amended, of the State. The purpose of the borrowing is to make payments on fiscal year 2010 obligations that resulted from a revenue shortfall versus budgeted amounts in that year. The Certificates mature as follows: \$500,000,000 on April 15, 2011, \$400,000,000 on May 20, 2011, and \$400,000,000 on June 14, 2011.

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  
June 30, 2010 and 2009

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

	June 30	
	<u>2010</u>	<u>2009</u>
<b>Assets and Other Debits</b>		
Cash and Cash Equivalents	\$ 3,945,708,936	\$ 5,989,981,984
Deposits and Investments	6,180,519,570	2,506,130,482
Securities Lending Collateral	3,107,545,325	961,557,402
Other Assets	10,362,803	20,060,892
Other Debits	38,861,217,880	33,485,887,771
Total Assets and Other Debits	<u>\$ 52,105,354,514</u>	<u>\$ 42,963,618,531</u>
<b>Liabilities for Balances on Deposit</b>		
Comptroller		
Protested Taxes	\$ 336,133,520	\$ 436,093,830
Available for Appropriation or Expenditure	7,446,421,114	6,166,660,781
Agencies' Deposits Outside the State Treasury	662,082,104	702,686,565
Comptroller's Warrants Outstanding	795,564,563	557,061,122
Total Liabilities for Balances on Deposit	<u>9,240,201,301</u>	<u>7,862,502,298</u>
Other Liabilities	3,107,545,325	961,557,402
General Obligation Indebtedness	<u>39,746,483,993</u>	<u>34,125,091,138</u>
Total Liabilities	52,094,230,619	42,949,150,838
<b>Accountabilities</b>		
Receivable from City of Edwardsville	281,392	288,982
Investment Income Earned, but not Received	10,840,009	14,176,222
Federal Reserve Bank Settlement Account Reserve	1,962	1,957
Mortgage Reserve Fund	532	532
Total Accountabilities	<u>11,123,895</u>	<u>14,467,693</u>
Total Liabilities and Accountabilities	<u>\$ 52,105,354,514</u>	<u>\$ 42,963,618,531</u>

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FISCAL OFFICER RESPONSIBILITIES  
ASSETS - DETAIL  
June 30, 2010 and 2009

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

	June 30	
	2010	2009
Cash and Cash Equivalents		
Demand Deposits	\$ 204,094,591	\$ 203,677,383
Clearing Account Deposits and Deposits in Transit	29,282,886	62,880,119
Time Deposits	7,000,000	1,585,000
Repurchase Agreements	1,608,144,061	750,886,440
Commercial Paper	599,941,945	899,996,209
Treasury Bills	149,964,481	-
The Illinois Funds	876,200,966	1,017,510,305
Money Market Mutual Funds	471,079,474	3,053,445,996
Mortgage Reserve Fund	532	532
Total Cash and Cash Equivalents	\$ 3,945,708,936	\$ 5,989,981,984

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.

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ASSETS - DETAIL - CONTINUED  
June 30, 2010 and 2009

	June 30, 2010 Bank Balances			June 30, 2009 Bank Balances		
	<u>Collected</u>	<u>Float</u>	<u>Total</u>	<u>Collected</u>	<u>Float</u>	<u>Total</u>
Demand Deposits						
Associated Bank	\$ 200,065,754	\$ -	\$ 200,065,754	\$ 100,020,548	\$ -	\$ 100,020,548
Bank of America	-	-	-	331,265	-	331,265
JP Morgan	123,077	969,546	1,092,623	126,365	-	126,365
Illinois National Bank	1,515	-	1,515	4,971	-	4,971
National City	-	-	-	50,734	1,757,829	1,808,563
Northern Trust Company, Chicago	186,593	-	186,593	156,946	-	156,946
U.S Bank	-	-	-	100,039,350	-	100,039,350
Wells Fargo Bank	13,866	-	13,866	14,509	-	14,509
	<u>\$ 200,390,805</u>	<u>\$ 969,546</u>	201,360,351	<u>\$ 200,744,688</u>	<u>\$ 1,757,829</u>	202,502,517
Net reconciling items (e.g., deposits-in-transit and outstanding drafts)			<u>2,734,240</u>			<u>1,174,866</u>
Total Demand Deposits			<u>\$ 204,094,591</u>			<u>\$ 203,677,383</u>

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  
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FISCAL OFFICER RESPONSIBILITIES  
ASSETS - DETAIL - CONTINUED  
June 30, 2010 and 2009

	June 30, 2010 Bank Balances			June 30, 2009 Bank Balances		
	<u>Collected</u>	<u>Float</u>	<u>Total</u>	<u>Collected</u>	<u>Float</u>	<u>Total</u>
Clearing Account Deposits and deposits in transit						
Bank of America	\$ -	\$ 258,494	\$ 258,494	\$ 1,376,560	\$ 163,484	\$ 1,540,044
National City	-	-	-	619	-	619
DuQuoin State Bank	13,970	-	13,970	17,151	-	17,151
JP Morgan	-	-	-	65,517	59,360,223	59,425,740
Fifth Third	31,858	27,749,973	27,781,831	-	-	-
Illinois National Bank	-	630,239	630,239	-	696,807	696,807
US Bank-Springfield	101,117	-	101,117	101,093	-	101,093
Northern Trust Company, Chicago	102,498	11,391	113,889	153,985	143,565	297,550
International Bank of Chicago	72,808	-	72,808	84,057	-	84,057
MB Financial	64,655	240,718	305,373	59,995	679,912	739,907
Wells Fargo Bank	5,165	-	5,165	5,406	-	5,406
	<u>\$ 392,071</u>	<u>\$ 28,890,815</u>	29,282,886	<u>\$ 1,864,383</u>	<u>\$ 61,043,991</u>	62,908,374
Net reconciling items (e.g., deposits-in- transit and outstanding drafts)			-			(28,255)
Total Clearing Account Deposits			<u>\$ 29,282,886</u>			<u>\$ 62,880,119</u>

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  
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FISCAL OFFICER RESPONSIBILITIES  
ASSETS - DETAIL - CONTINUED  
June 30, 2010 and 2009

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**Deposits and Investments**

Most of the Treasurer's investments at June 30, 2010 and 2009 are short-term due to the responsibility to keep funds "liquid" to reimburse banks for warrants paid.

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

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ASSETS - DETAIL - CONTINUED  
June 30, 2010 and 2009

**Deposits and Investments (Continued)**

	June 30	
	<u>2010</u>	<u>2009</u>
Short-Term Investments		
Time Deposits	\$ 61,678,141	\$ 846,466,157
Commercial Paper	2,543,687,743	499,208,111
Treasury Bills	1,622,619,420	-
Federal Farm Credit Bank Bond	-	591,000
Federal Home Loan Mortgage Corporation	81,432,260	12,834,100
Federal Home Loan Mortgage Corporation Discount Notes	149,804,611	-
Federal Home Loan Bank	150,329,700	76,015,088
Federal Home Loan Bank Discount Notes	149,663,889	-
Federal National Mortgage Association	25,648,253	25,519,862
Federal National Mortgage Association Discount Notes	400,585,182	-
Federal Agricultural Mortgage Corporation	13,501,620	-
Federal Deposit Insurance Corporation Guarantee Notes	25,004,750	-
Foreign Investments	-	10,000,000
Total Short-Term Investments	<u>5,223,955,569</u>	<u>1,470,634,318</u>
Long-Term Investments		
Time Deposits	54,530,326	63,420,988
Federal Farm Credit Bank Notes	-	99,701,586
Federal Home Loan Mortgage Corporation	316,343,255	277,815,546
Federal Home Loan Bank	115,099,155	51,368,972
Federal National Mortgage Association	285,170,095	413,044,626
Federal Deposit Insurance Corporation Guarantee Notes	142,260,150	100,876,050
State of Illinois Secondary Pool Investment Program	470,317	579,180
Illinois Technology Development	22,690,703	18,689,216
Foreign Investments	20,000,000	10,000,000
Total Long-Term Investments	<u>956,564,001</u>	<u>1,035,496,164</u>
Total Deposits and Investments	<u>\$ 6,180,519,570</u>	<u>\$ 2,506,130,482</u>

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FISCAL OFFICER RESPONSIBILITIES  
ASSETS - DETAIL - CONTINUED  
June 30, 2010 and 2009

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**Deposits and Investments (Continued)**

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

The average yield for investments including amounts listed as cash equivalents on the 2010 and 2009 financial statements was .59% and 2.05%, respectively.

**Securities Lending Collateral**

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

	June 30	
	<u>2010</u>	<u>2009</u>
Securities Lending Collateral		
Invested in Repurchase Agreements	\$ 3,107,545,325	\$ 961,058,174
Cash	-	499,228
Total Securities Lending Collateral	\$ 3,107,545,325	\$ 961,557,402

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ASSETS - DETAIL - CONTINUED  
June 30, 2010 and 2009

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**Other Assets**

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

	June 30	
	2010	2009
Warrants Cashed, but not Cancelled	\$ 5,238	\$ 2,762,541
Receivables from Universities, Agencies, and Retirement Systems for Monies Advanced and Securities Purchased	416,502	384,967
Receivable from City of Edwardsville	281,392	288,982
Investment Income Earned, but not Received	9,659,671	15,081,009
Illinois Insured Mortgage Pilot Program Trust	-	1,543,393
Total Other Assets	\$ 10,362,803	\$ 20,060,892

The account balances of warrants cashed but not canceled and the receivable from universities, agencies and retirement systems represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2010 and 2009. The balances in these accounts will vary significantly from day to day, depending on the availability of investable funds and the timing of warrant presentation for payment.

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

Repayments received for the years ended June 30, 2010 and 2009, were \$7,590 and \$6,893, respectively.

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

State of Illinois  
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FISCAL OFFICER RESPONSIBILITIES  
ASSETS - DETAIL - CONTINUED  
June 30, 2010 and 2009

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

The following summary reflects the general revenue obligated for debt service during fiscal year 2010 and thereafter:

	General Obligation Bonds
Certificates, Bond, and Coupons Maturing in Fiscal Year 2011	\$ 2,912,456,024
Less - Balance on Deposit in State Treasury at June 30, 2010, for Certificate and Bond Redemption and Interest	(885,266,113)
Amount Obligated from Future General Revenue	
Fiscal Year 2011 General Revenue	2,027,189,911
After June 30, 2011	36,834,027,969
 Amount of Future General Revenue Obligated for Debt Service at June 30, 2010	 \$ 38,861,217,880

A summary of the changes during the period July 1, 2009 through June 30, 2010, in the amount of future general revenue obligated for debt service is as follows:

	General Obligation Bonds
Balance at June 30, 2009	\$ 33,485,887,771
Issuance of Certificates and Bonds	11,776,413,659
Bonds and Coupons Redeemed and Bonds Refunded	(3,982,105,574)
Bonds and Coupons Refunded	(2,172,915,230)
Net Increases in Balances on Deposits in State Treasury	(246,062,746)
Balance at June 30, 2010	\$ 38,861,217,880

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

<u>General Obligation Bonds</u>	<u>2010</u>	<u>2009</u>
Amount of Future General Revenue Obligated for Debt Service	\$ 38,861,217,880	\$ 33,485,887,771
Balance on Deposit in the State Treasury at June 30 for Bond Redemption and Interest	885,266,113	639,203,367
Total Indebtedness at June 30	\$ 39,746,483,993	\$ 34,125,091,138

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ASSETS - DETAIL - CONTINUED  
June 30, 2010 and 2009

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**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 fiscal year 2010 included one issue. The issue of General Obligation Certificates occurred on August 27, 2009, for principal of \$1,250,000,000 and premium of \$8,308,456. Of this amount, \$1,250,000,000 was deposited into the General Revenue Fund, and \$8,308,456 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on June 8, 2010.

General Obligation Certificates issued under the Short Term Borrowing Act during fiscal year 2009 included two issues. One issue of General Obligation Certificates occurred on December 22, 2008, for principal of \$1,400,000,000 and premium of \$2,870,129. Of this amount, \$1,400,000,000 was deposited into the General Revenue Fund, and \$2,870,129 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on June 22, 2009. The second issue of General Obligation Certificates occurred on May 21, 2009, for principal of \$1,000,000,000 and premium of \$20,242,939. Of this amount, \$1,000,000,000 was deposited into the General Revenue Fund, and \$20,242,939 was deposited into the General Obligation Bond Retirement and Interest Fund. The final payment was made on May 18, 2010.

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.

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LIABILITIES AND ACCOUNTABILITIES - DETAIL  
For the years ended June 30, 2010 and 2009

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**Liabilities for Balances on Deposit**

Protested Taxes: Substantially all of the \$336,133,520 and \$436,093,830 at June 30, 2010 and 2009, respectively, in the Protest Trust Fund has been enjoined by the courts pending the outcome of cases in process. By statute, a taxpayer making a tax payment "under protest" has 30 days to initiate a court suit and obtain an injunction. If not enjoined, the tax payments are transferred to the fund in the State Treasury that would have received the original deposit.

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

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

	<u>2010</u>	<u>2009</u>
Treasurer's Clearing Account Balances	\$ 214,085,365	\$ 194,527,361
Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury	79,514,123	212,176,561
Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts	247,865,004	264,947,138
Deposits in Demand Accounts in Process of Being Ordered into the State Treasury	<u>120,617,612</u>	<u>31,035,505</u>
Total Agency Deposits Outside the State Treasury	<u>\$ 662,082,104</u>	<u>\$ 702,686,565</u>

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.

State of Illinois  
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FISCAL OFFICER RESPONSIBILITIES  
LIABILITIES AND ACCOUNTABILITIES - DETAIL - CONTINUED  
June 30, 2010 and 2009

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**Other Liabilities**

Obligations under securities lending: This amount represents cash collateral received and invested in repurchase agreements 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  
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FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT INCOME  
For the years ended June 30, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
General revenue fund	\$ 25,067,590	\$ 76,967,317
Other State funds	24,006,058	81,627,871
Segregated State trust funds	<u>1,581,550</u>	<u>6,922,968</u>
	<u>\$ 50,655,198</u>	<u>\$ 165,518,156</u>

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

	<u>2010</u>	<u>2009</u>
Fund participating in pooled investments		
General Revenue Fund	\$ 25,067,590	\$ 76,967,317
Aggregated Operations Regulatory Fund	1,324	4,347
Airport Land Loan Revolving Fund	601	2,099
Alternative Compliance Market Account Fund	2,351	6,768
Ambulance Revolving Loan Fund	20,684	95,082
AML Reclamation Set Aside Fund	71,337	203,835
Assisted Living and Shared Housing Regulatory Fund	1,770	6,501
Auction Recovery Fund	1,918	8,635
Auction Reg. Administration Fund	630	16,835
Autism Research Checkoff Fund	421	1,464
Autoimmune Disease Research Fund	292	959
Bank & Trust Company Fund	125,244	1,149,087
Brownfields Redevelopment Fund	13,954	56,702
Build Illinois Bond Retirement and Interest Fund	34,594	134,491
Build Illinois Capital Revolving Loan Fund	52,994	193,678
Build Illinois Fund	112,157	439,855
Capital Litigation Fund	16,907	119,038
Capital Project Fund	54,415	-
Care Provide Per W Dev. Dis.	34,105	84,839
Cemetery Consumer Protection Fund	4,927	24,299
Charitable Trust Stabilization Fund	10,736	27,412
Child Abuse Prevention Fund	2,786	17,466
Clean Air Act (CAA) Permit Fund	60,173	266,550
Coal Mining Regulatory Fund	7,646	4,502
Common School Fund	228,530	627,432
Community College Health Insurance Security Fund	12,076	140,160
Community DD Services Medicaid Trust Fund	98,833	237,406
Community Mental Health Medical Trust Fund	106,101	173,717
Community Water Supply Laboratory Fund	3,167	23,217

State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT INCOME - CONTINUED  
For the years ended June 30, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Fund participating in pooled investments		
County Automobile Renting Tax Fund	\$ 43	\$ 273
County Hospital Services Fund	22,480	175,218
County Option Motor Fuel Tax Fund	28,057	117,873
County Water Commission Tax Fund	48,138	203,919
Credit Union Fund	11,511	288,493
Criminal Justice Trust Fund	451,144	572,768
Design Professionals Administration and Investigation Fund	8,281	25,629
Diabetes Research Checkoff Fund	631	1,729
Drug Rebate Fund	209,840	873,028
Drycleaner Environmental Response Trust Fund	27,595	120,092
DuQuoin State Fair Harness Racing Trust Fund	42	150
Early Intervention Services Fund	22,852	70,051
Electronics Recycling Fund	1,876	87
Environmental Laboratory Certification Fund	1,987	5,250
EPA Court Ordered Trust Fund	40	141
Explosive Regulatory Fund	633	2,036
Facilities Management Fund	44,996	269,962
Fair Share Trust	1,379	4,467
Family Care Fund	11,933	17,992
Federal Asset Forfeiture Fund	9,104	39,649
Federal Home Investment Trust Fund	5,482	35,973
Federal Moderate Rehab Housing Fund	1,290	7,721
Federal Student Loan Fund	261,950	985,944
Federal Workforce Training Fund	1,297	3,840
Fire Service & Small Equipment Fund	13,646	47,714
Fire Truck Revolving Loan Fund	4,620	239,578
Fish and Wildlife Endowment Fund	11,862	35,985
Food and Drug Safety Fund	870	4,348
Gaining Early Awareness Fund	56,116	148,897
General Assembly Retirement Excess Benefits Fund	78	172
General Assembly Retirement Fund	21,896	67,733
General Obligation Bond Retirement and Interest Fund	4,212,137	12,305,538
General Professions Dedicated Fund	37,888	258,335
Group Home Loan Revolving Fund	230	229
Group Insurance Premium	86,644	419,080
Group Workers Compensation Pool	10,088	35,453
Hansen-Therkelsen Memorial Deaf Student College Fund	4,516	22,326
Health and Human Services Medicaid Trust Fund	228,335	1,357,618
Health Insurance Reserve Fund	410,233	1,253,638
Healthcare Providers Relief Fund	322,221	-
Hearing Instrument Dispenser Examining and Disciplinary Fund	360	2,967

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State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT INCOME - CONTINUED  
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Fund participating in pooled investments		
Help Illinois Vote Fund	\$ 101,322	\$ 446,106
Home Inspector Administration Fund	6,590	41,924
Home Rule City Retailers' Occupation Tax Fund	549,368	1,932,214
Home Rule Municipal Retailers' Occupation Tax Fund	414,033	1,830,460
Hospital Provider Fund	658,737	655,778
Human Service Priority Cap Program Fund	22,818	159,052
Illinois Affordable Housing Trust Fund	42,811	112,595
Illinois Beach Marina Fund	1,564	10,332
Illinois Clean Water Act	71,473	487,481
Illinois Equity Fund	5,390	16,312
Illinois Farmer and Agri-Business Loan Guarantee Fund	50,264	182,526
Illinois Habitat Fund	21,150	60,599
Illinois Power Agency Trust Fund	174,619	610,703
Illinois State Dental Disciplinary Fund	23,210	46,519
Illinois State Medical Disciplinary Fund	15,154	327,162
Illinois State Pharmacy Disciplinary Fund	6,593	16,099
Illinois State Podiatric Disciplinary Fund	2,174	9,892
Illinois Veteran's Assistance Fund	19,311	87,093
Industrial Commission Surcharge Escrow Fund	94,438	443,589
Injured Workers Benefit Fund	8,906	7,116
Innovations in Long-Term Care Quality Demonstration Grants	18,615	76,890
Intercity Passenger Rail Fund	1,041	12,528
Interpreters for the Deaf Fund	809	539
Judges Retirement Excess Benefits Fund	1,276	2,708
Judges Retirement Fund	131,931	331,917
Juvenile Accountability Incentive Block Grant Fund	29,834	97,769
Kaskaskia Commons Permanent School Fund	1,527	5,432
Large Business Attraction Fund	8,807	34,801
Law Enforcement Camera Grant Fund	15,880	63,334
Local Government Health Insurance Reserve Fund	31,952	162,866
Long-Term Care Provider Fund	323,556	1,009,232
Medicaid Buy-In Program Revolving Fund	5,899	34,275
Metro East Mass Transit District Tax Fund	28,355	141,919
Metropolitan Pier and Exposition Authority Trust Fund	41,965	160,668
Money Follows the Person Budget Fund	2,364	457
Motor Vehicle Theft Prevention Fund	26,980	76,531
Multiple Sclerosis Research Fund	11,866	11,012
Municipal Automobile Renting Tax Fund	6,005	21,484
Municipal Economic Development Fund	344	1,316

State of Illinois  
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FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT INCOME - CONTINUED  
For the years ended June 30, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Fund participating in pooled investments		
Non-Home Rule Municipal Retailer's Occupation Tax Fund	\$ 81,386	\$ 309,135
Nuclear Safety Emergency Preparedness Fund	24,741	162,782
Nursing Dedicated and Professional Fund	24,721	259,822
Off-highway Vehicle Trails Fund	8,198	38,477
Optometric Licensing and Disciplinary Committee Fund	1,538	19,221
Personal Property Tax Replacement Fund	407,149	1,617,693
Petroleum Violation Fund	7,643	44,758
Plugging and Restoration Fund	3,996	13,028
Post Trans Main and Retention	245	1,994
Private Sewage Disposal Program	339	-
Professional Services Fund	21,801	142,687
Professions Indirect Cost Fund	26,358	160,461
Public Agriculture Loan Guarantee	65,592	257,156
Public Health Services Revolving Fund	834	40,531
Public Infrastructure Construction Loan Revolving Fund	12,809	91,124
Public Pension Regulation Fund	8,250	16,413
Quality of Life Endowment Fund	12,023	32,375
Radiation Protection Fund	6,510	14,631
Radioactive Waste Facility Development and Operation Fund	3,121	23,262
Rail Freight Loan Repayment Fund	21,984	89,841
Rate Adjustment Fund	123,510	327,656
Real Estate Audit Fund	1,258	4,413
Real Estate License Administration Fund	173,589	537,237
Real Estate Recovery Fund	4,861	20,025
Real Estate Research and Education Fund	3,352	23,747
Regional Transit Authority Public Transportation Tax Fund	24	119
Regional Transit Authority Sales Tax Trust Fund	555,025	2,840,856
Registered CPA Administration and Disciplinary Fund	22,082	35,227
Replacement Vehicle Tax-Municipal Trust Fund	-	15
Response Contractor's Indemnification Fund	-	5
Road Fund	3,589,678	9,567,341
Road Transportation A Fund	1,734,809	253,499
Salmon Fund	835	4,268
Savings and Residential Finance Regulatory Fund	15,034	775,155
School Technology Revolving Loan Fund	12,476	49,481
Second Injury Fund	3,500	16,561
Securities Audit and Enforcement Fund	55,161	75,042
Self-Insurers Administration Fund	1,428	9,001
Self-Insurers Security Fund	227,538	701,796

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State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT INCOME - CONTINUED  
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Fund participating in pooled investments		
Sheffield February 1982 Agreed Order Fund	\$ 26,250	\$ 94,091
Special Tax Inc.	11,292	48,554
State Assets Forfeiture Fund	6,832	44,536
State Board of Elections Federal Trust Fund	4,531	4,490
State Construction Account Fund	976,423	6,110,308
State Employees Retirement Excess Benefits Fund	306	586
State Employees Retirement System Fund	795,068	7,128,464
State Employees' Deferred Compensation Plan Fund	30,841	107,301
State Furbearer Fund	869	3,678
State Migratory Waterfowl Stamp Fund	22,282	64,974
State Pheasant Fund	4,558	12,630
State Rail Freight Loan Repayment Fund	85,197	273,811
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	5,789	15,378
Student Loan Operating Fund	42,592	295,192
Supreme Court Historic Preservation Fund	31,731	122,396
Teachers' Health Insurance Security Fund	313,504	1,294,951
Teachers' Retirement Excess Benefits Fund	67,725	75,911
Teachers' Retirement System Fund	614,076	2,014,559
Ticket for the Cure Fund	9,920	82,239
TOMA Consumer Protection	702	-
Underground Resource Conservation Enforcement Trust Fund	2,996	13,236
University of Illinois Income Trust Fund	1,030	441
Vince Demuzio Memorial Colon Cancer Fund	377	1,319
Violent Crime Victims Assistance Fund	7,196	38,887
Water Pollution Control Revolving Fund	2,778,553	10,270,642
Wildlife and Fish Fund	143,104	593,782
Wildlife and Prairie Park Fund	179	1,348
Worker's Compensation Benefit Trust Fund	10	36
Worker's Compensation Revolving Fund	104,802	519,794
	<hr/>	<hr/>
Total pooled investment income	49,073,648	158,595,188

State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT INCOME - CONTINUED  
For the years ended June 30, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Segregated Investments		
Agrichemical Incident Response Trust Fund	\$ 47	\$ 734
College Savings Pool Administration Fund	2,025	12,924
Commodity Trust Fund	-	35
Deferred Lottery Prize Winners Trust Fund	5,424	32,746
Horse Racing Equity Trust	6,834	-
Illinois Habitat Endowment Trust Fund	15,033	100,078
Illinois Municipal Retirement Fund	29,837	140,153
Illinois Prepaid Tuition Trust Fund	27,399	72,843
Illinois Rural Rehabilitation Fund	8	241
Illinois State Toll Highway Revenue Fund	1,433,017	5,780,061
National Heritage Endowment Trust Fund	785	9,091
Radioactive Waste Facility Closure and Compensation Fund	144	983
Title III Social Security and Employment Service	9,602	151,170
Tobacco IPTIP	43,833	556,626
Unemployment Compensation Special Administration Fund	7,562	65,283
	<u>1,581,550</u>	<u>6,922,968</u>
Total segregated investment income		
	<u>\$ 50,655,198</u>	<u>\$ 165,518,156</u>
Total investment income		

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State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT INCOME - CONTINUED  
For the years ended June 30, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
The Illinois Funds	\$ 808,427	\$ 4,647,862
Time Deposits	7,940,533	37,780,434
Now Accounts	957,127	60,822
Money Market Mutual Fund	2,111,681	9,224,992
Repurchase Agreements	691,501	4,663,124
Commercial Paper	5,642,043	12,536,551
Federal Farm Credit Bank Bond Private Placement	4,937	5,593,047
Federal Farm Credit Bank Notes	1,251,024	1,758,491
State of Illinois Secondary Pool Investment Program	24,127	20,069
Federal National Mortgage Association	12,349,444	34,775,881
Federal Agricultural Mortgage Corporation	85,714	-
Foreign Investments	446,129	474,049
Federal Home Loan Mortgage Corporation	5,163,003	21,250,805
Federal Home Loan Bank Notes	3,111,777	27,429,274
Federal Deposit Insurance Corporation Guarantee Notes	3,444,562	1,448,639
Treasury Bills	4,865,007	-
Illinois Technology Development	176,612	(3,075,521)
Clearing account	-	6,669
	<hr/>	<hr/>
Total pooled investment income	<u>\$ 49,073,648</u>	<u>\$ 158,595,188</u>

State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
ADMINISTRATIVE RESPONSIBILITIES  
June 30, 2010 and 2009

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**PROTEST TRUST FUND**

	<u>2010</u>	<u>2009</u>
Liability at beginning of year	\$ 436,093,830	\$ 414,881,860
Add		
Trust receipts collected by other State agencies	126,662,813	84,793,091
	562,756,643	499,674,951
Deduct		
Trust disbursements for refunds of successfully protested tax payments	60,196,800	39,337,967
Transfers to other funds	166,426,323	24,243,154
	226,623,123	63,581,121
Liability at end of year	\$ 336,133,520	\$ 436,093,830

**INHERITANCE AND ESTATE TAXES**

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

Gross inheritance and estate tax receipts for the fiscal years ended June 30, 2010 and 2009, were \$243,378,978 and \$287,757,169, respectively. These amounts do not reflect refunds and fees distributed to county treasurers.

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Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
ADMINISTRATIVE RESPONSIBILITIES - CONTINUED  
For the years ended June 30, 2010 and 2009

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**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:

	<u>2010</u>	<u>2009</u>
Tobacco Settlement proceeds	\$ 283,887,103	\$ 340,172,903
Interest and other investment income	<u>56,624</u>	<u>794,113</u>
Total receipts and deposits	<u>\$ 283,943,727</u>	<u>\$ 340,967,016</u>

On December 8, 2010, the State Treasurer deposited into the Tobacco Settlement Recovery Fund the proceeds from the Tobacco Settlement Revenue Bonds, Series 2010 in the amount of \$1.35 billion.

State of Illinois  
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FISCAL OFFICER RESPONSIBILITIES  
KEY PERFORMANCE MEASURES  
June 30, 2010  
(Unaudited)

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- The Illinois Funds asset base at 6/30/10 was \$5,366,073,532.
- Earned interest income of \$6.9 million during FY10 for The Illinois Funds.
  
- Funded 376 Cultivate IL Annual AG deposits totaling \$25,395,320.
- Funded 25 Cultivate IL Long Term AG deposits totaling \$1,742,812.
- Funded 1 Banking Development Program loan totaling \$674,074.
- Funded 1 Employ IL Business Loans – Child Care Providers totaling \$1,340,000.
- Funded 1 Employ IL Small Business Loans totaling \$220,000.
- Funded 11 Citizen Soldiers Welcome Home loans totaling \$87,300.
- Funded 2 Opportunity IL Community Development Loans totaling \$4,950,000.
- Funded 1 Opportunity IL Disaster Recovery Loans totaling \$10,001.
- Funded 8 Opportunity IL – Citizen Soldiers Loans totaling \$60,300.
  
- Total number of warrants successfully issued, countersigned and recorded: 7,775,459
- Total number of warrants successfully canceled, paid and recorded: 7,493,807
- Total amount of warrants successfully issued, countersigned and recorded: \$71,170,889,945
  
- Total amount of estate tax collections: \$243,378,978
- Total amount of estate tax distributions: \$14,292,768
- Total amount of estate tax refunds: \$7,624,537
  
- The investment portfolio earned approximately \$50,655,198 during fiscal year 2010.
- Investments yielded approximately .59% throughout the current year.
- The average investment base increased approximately \$555,099,127 from the prior year.
  
- The value of the Illinois Technology Development account at cost as of 6/30/10 was \$22,690,703.
- The value of the Illinois Technology Development account at estimated market value as of 6/30/10 was \$26,517,008. Market values were estimated by the individual technology development accounts' management not the State Treasurer's Office or an independent third party.

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Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT POLICY  
June 30, 2010  
(Unaudited)

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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.

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Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT POLICY - CONTINUED  
June 30, 2010  
(Unaudited)

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**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<sup>1</sup>, 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.

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<sup>1</sup> *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.*

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State of Illinois  
Office of the Treasurer  
FISCAL OFFICER RESPONSIBILITIES  
INVESTMENT POLICY - CONTINUED  
June 30, 2010  
(Unaudited)

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**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).

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.

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Office of the Treasurer  
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INVESTMENT POLICY - CONTINUED  
June 30, 2010  
(Unaudited)

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**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.
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**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<sup>2</sup> 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.

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<sup>2</sup> *The Treasurer maintains a list of acceptable collateral.*

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**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,

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- 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.

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**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;**
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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;

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

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

**i)** The date and time that the emergency powers were invoked;

**ii)** The date and time that emergency powers were repealed;

**iii)** The section or sections of the Investment Policy that were affected by the emergency or use of emergency powers; and

**iv)** The reason for deviating from the written investment policy.