NEW ISSUE - BOOK-ENTRY ONLY **RATINGS: See "THE OFFERING -- RATINGS" herein**

In the opinion of Gonzalez, Saggio and Harlan, L.L.C. and McGuireWoods LLP, Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Bonds will not be includable in gross income for federal income tax purposes. The Bonds are not "private activity bonds" and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate "alternative minimum taxable income." However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Bonds is not exempt from State of Illinois income taxes. (See "THE OFFERING -- TAX MATTERS" regarding a description of other tax considerations, and "APPENDIX B – PROPOSED FORM OF OPINION OF CO-BOND COUNSEL.")

$108,000,000
STATE OF ILLINOIS
GENERAL OBLIGATION BONDS
SERIES A OF JUNE 2007

Dated: Date of Delivery **Due: June 1, as shown herein**

This Official Statement contains information relating to the State of Illinois (the "*State*") and the State's General Obligation Bonds, Series A of June 2007 (the "*Series 2007A Bonds*" or the "*Bonds*"). The Bonds will be issued only as fully registered book-entry bonds in denominations of $5,000 or any integral thereof. The Bonds, when issued, will be registered under a global book-entry system operated by Cede & Co., as a nominee of The Depository Trust Company ("*DTC*"), New York, New York. See "APPENDIX C – GLOBAL BOOK-ENTRY SYSTEM." The Bonds will bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Bonds will be payable June 1 and December 1 of each year, commencing December 1, 2007. Details of payment of the Bonds are described herein.

The Bonds are subject to redemption prior to maturity as described in this Official Statement under the caption "THE OFFERING -- REDEMPTION."

The Bonds are direct, general obligations of the State, secured by a pledge of its full faith and credit. The Bonds are issued under the General Obligation Bond Act of the State of Illinois, as amended. The Bonds are issued to finance various capital projects and pay the cost of issuance of the Bonds.

The scheduled payment of principal of and interest on the Bonds maturing in the years 2013, 2014 and 2016 through 2025 (the "*Insured Bonds*") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. See "THE OFFERING - BOND INSURANCE."

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The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Gonzalez, Saggio and Harlan, L.L.C., Chicago, Illinois, and McGuireWoods LLP, Chicago, Illinois, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Co-Underwriters Counsel, Golden & Associates, P.C., Chicago, Illinois, and Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about June 26, 2007.

Popular Securities **Loop Capital Markets, LLC**

KeyBanc Capital Markets **M.R. Beal & Company**

Podesta & Co. **Rice Financial Products Company** **SBK-Brooks Investment Corp.**

The date of this Official Statement is June 13, 2007.

MATURITY SCHEDULES

$108,000,000* General Obligation Bonds, Series A of June 2007

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES

MATURITY (JUNE 1)	PRINCIPAL AMOUNT	INTEREST RATE	YIELD	PRICE	CUSIP
2008	$6,000,000	4.250%	3.770%	100.432	452151N74
2009	6,000,000	4.250%	3.890%	100.660	452151N82
2010	6,000,000	4.500%	3.990%	101.394	452151N90
2011	6,000,000	5.000%	4.050%	103.417	452151P23
2012	6,000,000	4.500%	4.110%	101.721	452151P31
2013*	6,000,000	5.000%	4.150%	104.425	452151P49
2014*	6,000,000	5.000%	4.170%	104.948	452151P56
2015	6,000,000	5.500%	4.240%	108.407	452151P64
2016*	6,000,000	5.000%	4.260%	105.446	452151P72
2017*	6,000,000	5.000%	4.310%	105.523	452151P80
2018*	6,000,000	5.000%	4.400%	104.782[1]	452151P98
2019*	6,000,000	5.000%	4.440%	104.454[1]	452151Q22
2020*	6,000,000	5.000%	4.480%	104.128[1]	452151Q30
2021*	6,000,000	5.000%	4.520%	103.803[1]	452151Q48
2022*	6,000,000	5.000%	4.550%	103.560[1]	452151Q55
2023*	6,000,000	5.000%	4.580%	103.317[1]	452151Q63
2024*	6,000,000	5.000%	4.600%	103.156[1]	452151Q71
2025*	6,000,000	5.000%	4.610%	103.076[1]	452151Q89

* Insured Bonds.
[1] Priced to June 1, 2017 call at par.

STATE OF ILLINOIS

Rod R. Blagojevich, ***Governor***

PREFACE

No dealer, broker, salesperson, or other person has been authorized by the State of Illinois (the "*State*") or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion set forth herein have been furnished by the State and include information from other sources which the State believes to be reliable. Such information and expressions of opinion are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change since the date thereof.

The Underwriters are authorized to incorporate the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

In making an investment decision, investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

References in this Official Statement to statutes, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part for any other purposes.

Other than with respect to information concerning Financial Security Assurance Inc. (the "*Bond Insurer*") contained under the caption "THE OFFERING - BOND INSURANCE" and APPENDIX E – "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

FORWARD LOOKING STATEMENTS

This Official Statement contains disclosures which contain "*forward-looking statements*." Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like *"may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan,"* or "*continue*." These forward-looking statements are based on the current plans and expectations of the State and are subject to a number of known and unknown uncertainties and risks, many of which are beyond its control, that could significantly affect current plans and expectations and the State's future financial position including but not limited to changes in general economic conditions, demographic trends and federal programs which may affect the transfer of funds from the federal government to the State. As a consequence, current plans, anticipated actions and future financial positions may differ from those expressed in any forward-looking statements made by the State herein. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in the Official Statement.

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$108,000,000
STATE OF ILLINOIS
GENERAL OBLIGATION BONDS
SERIES A OF JUNE 2007

INTRODUCTION

This introduction contains only a brief summary of certain terms of the Bonds being offered and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Illinois Constitution and laws of the State of Illinois and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions.

This Preliminary Official Statement of the State, including the cover and appendices, presents certain information in connection with the issuance by the State of $108,000,000* aggregate principal amount of its bonds designated as the State of Illinois General Obligation Bonds, Series A of June 2007 (the *"Series 2007A Bonds"* or the *"Bonds"*) issued pursuant to the provisions of the General Obligation Bond Act of the State of Illinois, as amended (the "*Bond Act*").

The issuance of the Bonds will consist of aggregate principal amounts and authorizations in the approximate amounts as follows:

$42,300,000	For Capital Facilities purposes authorized by Section 3 of the Bond Act;
$20,700,000	For Transportation A-Highway purposes authorized by Section 4(a) of the Bond Act;
$19,800,000	For Transportation B-Mass Transit and Public Airport Facilities purposes authorized by Sections 4(b) and 4(c) of the Bond Act;
$15,300,000	For School Construction purposes authorized by Section 5 of the Bond Act; and
$9,900,000	For Coal and Energy Development purposes authorized by Section 7 of the Bond Act.

The proceeds of the Bonds will be used to fund the costs of certain capital projects of the State and to pay costs of issuance of Bonds, including bond insurance premium.

The State plans to issue and deliver a separate issue of general obligation bonds issued under the Bond Act ("*GO Bonds*") pursuant to a separate Official Statement consisting of $329,000,000 aggregate principal amount of its bonds designated as the State of Illinois General Obligation Refunding Bonds, Series B of June 2007, on June 27, 2007, for the purpose of refunding certain outstanding GO Bonds of the State.

Illinois is a sovereign state of the United States and issuer of debt securities. The State's powers and functions are subject to the Illinois Constitution of 1970 (the *"State Constitution"*) and to laws adopted by the Illinois General Assembly (the *"General Assembly"*), limited only by federal law and jurisdiction. See "STATE OF ILLINOIS."

The State has diversified economic strengths. Measured by per capita personal income, the State ranks fourth among the ten most populous states and thirteenth among all states. Illinois ranks second among all states in total cash receipts from crops, second in agricultural exports and ranks among the top states in several measures of manufacturing activity. Chicago, the largest city in the State, is the third most populous city in the United States and serves as the transportation center of the Midwestern U.S. and the headquarters of many of the nation's major corporations and financial institutions. See "STATE OF ILLINOIS" and "APPENDIX A" for further information regarding the State.

SECURITY

The Bonds are direct, general obligations of the State, and, pursuant to the Bond Act, the full faith and credit of the State is pledged for the punctual payment of interest on all general obligation bonds issued under the Bond Act including the Bonds, as it comes due and for the punctual payment of the principal thereof at maturity, or any earlier redemption date, and premium, if any. These provisions cannot be repealed until all GO Bonds are paid in full as to both principal and interest. See "THE OFFERING – SECURITY."

The scheduled payment of principal of and interest on the Bonds maturing in the years 2013, 2014 and 2016 through 2025 (the "*Insured Bonds*") when due will be guaranteed under an insurance policy (the "*Bond Insurance Policy*") to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. (the "*Bond Insurer*"). For additional information, see "THE OFFERING - BOND INSURANCE."

TAX MATTERS

In the opinion of Gonzalez, Saggio and Harlan, L.L.C., Chicago, Illinois, and McGuireWoods LLP, Chicago, Illinois, Co-Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes. Interest on the Bonds is not exempt from present State income taxes. See "THE OFFERING – TAX MATTERS" and "APPENDIX B – PROPOSED FORM OF OPINION OF BOND COUNSEL."

AUTHORITY FOR ISSUANCE

The Bond Act authorizes the State to issue and sell direct, general obligations of the State, for the purposes and in the amounts listed below, and to refund any outstanding GO Bonds. The Bond Act consolidated the authorization contained in prior bond acts into a single act. The Bonds constitute an installment of non-refunding multi-purpose GO Bonds under the Bond Act.

The Bond Act authorizes the State to issue and sell multi-purpose GO Bonds in the aggregate amount of $26,927,149,369, excluding refunding bonds referred to below, for the purposes and in the amounts listed below:

$ 7,320,235,369	For capital facilities within the State;
$ 3,432,129,000	For use by the Illinois Department of Transportation, Roads and Bridges;
$ 1,881,270,000	For use by the Illinois Department of Transportation, Public Transportation, Air and Rail;
$ 3,150,000,000	For grants to school districts;
$ 480,315,000	For anti-pollution purposes;
$ 663,200,000	For coal and energy development purposes; and
$10,000,000,000	GO Pension Funding Bonds for the purpose of funding or reimbursing a portion of the State's contributions to State retirement systems. See "PENSION SYSTEMS."

The Bond Act provides that after issuance of the Bonds, the Governor of the State (the "*Governor*") and the Director (the "*Director*") of the Governor's Office of Management and Budget ("*GOMB*") may provide for the reallocations of unspent proceeds to any of the purposes described above (other than refunding purposes). The State may, from time to time in the future, make such reallocation of unspent proceeds of the Bonds, so long as such reallocations do not adversely affect the tax-exempt status of the Bonds.

The Bond Act authorizes the issuance of GO Bonds in the amount of up to $2,839,025,000, at any time and from time-to-time outstanding, for the purpose of refunding any outstanding GO Bonds. See "INDEBTEDNESS – GENERAL OBLIGATION BONDS" for a description of the authorized and previously issued GO Bonds under the Bond Act.

The State is also authorized to issue additional forms of debt, including short-term certificates. Short-term certificates are authorized pursuant to the State Constitution and Short Term Borrowing Act, as amended (30 ILCS 340/1 et seq.) (the "*Short Term Borrowing Act*"). The Short Term Borrowing Act constitutes an appropriation out of any money in the State Treasury of an amount sufficient to pay the principal and interest on such short-term certificates. See "INDEBTEDNESS -- SHORT-TERM DEBT" for a further discussion of the authorized, previously issued and currently outstanding short-term certificates under the Short Term Borrowing Act.

Amendments to the Bond Act, effective July 30, 2004, place certain restrictions on the issuance of GO Bonds, including the following: (i) at least 25% of the GO Bonds issued within a fiscal year must be sold pursuant to notice of sale and public bid; (ii) GO Bonds must be issued with principal or mandatory redemption amounts in equal amounts in each fiscal year beginning the year following issuance and for a term not to exceed 25 years, with the first maturity issued occurring within the fiscal year in which the GO Bonds are issued or within the next succeeding fiscal year; and (iii) GO Bonds may not be issued if, after their issuance, in the next State fiscal year, the amount of debt service on all then-outstanding GO Bonds exceeds 7% of the General Funds and Road Fund appropriations for the fiscal year immediately prior to the fiscal year of the issuance (the hereinafter defined Treasurer and Comptroller, acting together, can waive this requirement). In addition, no GO Bonds can be issued for refunding purposes unless (i) the refunding produces a net present value savings of at least 3% of the bonds being refunded, (ii) all non-refunding bonds in an issue that includes refunding bonds shall mature no later than the final maturity date of bonds being refunded, and (iii) the maturities of the refunding bonds do not extend beyond the maturities of the bonds they refund. Finally, the amendments also require the GOMB to comply with the Business Enterprise for Minorities, Females, and Persons with Disabilities Act (30 ILCS 575/1, et seq.) in respect to procuring services for the issuance of GO Bonds.

THE OFFERING

DESCRIPTION OF THE BONDS

The Bonds will bear interest from their issue date and interest on the Bonds is payable semiannually on the first days of June and December of each year, beginning on December 1, 2007, at the rates per annum for the respective series set forth on the inside cover page of this official statement.

The Bonds will be issued in denominations of $5,000 principal amount or any integral multiple thereof, and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("*DTC*"). DTC will act as securities depository of the Bonds. Principal of, premium, if any, and interest on the Bonds will be paid by the Illinois State Treasurer (the "*Treasurer*"), as bond registrar and paying agent (the "*Bond Registrar*"), to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. (See "APPENDIX C—GLOBAL BOOK-ENTRY SYSTEM").

RIGHTS OF THE BOND INSURER

So long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the owner of the Insured Bonds insured under the Bond Insurance Policy for purposes of consenting to any supplements or amendments to the bond documents or granting other approvals, consents, notices, directions and waivers on behalf of the Owners with respect to matters that require Owner approval, consent or waiver under the bond documents.

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MATURITY SCHEDULE

The maturity schedule for the Bonds is as follows:

MATURITY AMOUNT	JUNE 1	MATURITY AMOUNT	JUNE 1
$6,000,000	2008	$6,000,000	2017
6,000,000	2009	6,000,000	2018
6,000,000	2010	6,000,000	2019
6,000,000	2011	6,000,000	2020
6,000,000	2012	6,000,000	2021
6,000,000	2013	6,000,000	2022
6,000,000	2014	6,000,000	2023
6,000,000	2015	6,000,000	2024
6,000,000	2016	6,000,000	2025

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REDEMPTION

OPTIONAL REDEMPTION

The Bonds maturing on or after June 1, 2018 are subject to redemption prior to maturity at the option of the State as a whole, or in part, in integral multiples of $5,000, from such maturities as may be selected by the State (less than all of the Bonds of a single maturity to be selected by lot by the Bond Registrar as described under "*REDEMPTION PROCEDURE*" below), on June 1, 2017, and on any date thereafter, at the redemption price of par plus accrued interest to the redemption date.

REDEMPTION PROCEDURE

Bonds will be redeemed only in the principal amount of $5,000 and integral multiples thereof. Notice of any redemption of Bonds will be sent by first-class mail not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each Bond (or portion thereof) to be redeemed at the address shown on the registration books of the State maintained by the Bond Registrar, or at such other address as is furnished in writing by such registered owner to the Bond Registrar.

For purposes of any redemption of less than all of the outstanding Bonds, including the mandatory redemption of Term Bonds, the particular Bonds or portions of Bonds to be redeemed will be selected by the Bond Registrar from the outstanding Bonds subject to such redemption by lot using such method as the Bond Registrar deems fair and appropriate. So long as DTC or its nominee is the registered owner of the Bonds, if fewer than all of the Bonds of any maturity are called for redemption, DTC will determine the portions of such maturity to be redeemed as described in "APPENDIX C -- GLOBAL BOOK-ENTRY SYSTEM."

APPLICATION OF BOND PROCEEDS

The Bond proceeds will be applied approximately as set forth below:

Sources:	
Principal Amount of Bonds	$108,000,000.00
Net Re-Offering Premium	3,998,940.00
Total Sources	$111,998,940.00
Uses:	
Authorized Projects	$111,318,168.00
Underwriter's Discount	296,823.00
Issuance Expenses	235,277.00
Bond Insurance Premium	148,672.00
Total Uses	$111,998,940.00

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SECURITY

DIRECT, GENERAL OBLIGATIONS

The Bonds, together with all other GO Bonds, are direct, general obligations of the State, and by law the full faith and credit of the State is pledged for the punctual payment of interest on the Bonds as the interest becomes due and for the punctual payment of the principal thereof at maturity, or any earlier redemption date, and premium, if any. The Bond Act provides that the sections of the Bond Act making such pledge are irrepealable until all GO Bonds issued under the Bond Act, including the Bonds, have been paid in full.

In order to pay its general fund obligations, including without limitation, principal and interest on the Bonds, the State currently imposes various taxes and fees. See "STATE FINANCIAL INFORMATION – TAX STRUCTURE."

STATE FUNDING PAYMENTS

To provide for the manner of repayment of the Bonds, the Bond Act requires the Governor to include an appropriation in each annual State Budget of moneys in such amount as will be necessary and sufficient, for the period covered by such budget, to pay the interest, as it becomes payable, on all outstanding GO Bonds and to pay and discharge the principal and premium, if any, of such GO Bonds falling due during such period. The Bond Act also creates a separate fund in the State Treasury called the "*General Obligation Bond Retirement and Interest Fund*" (the "*GOBRI Fund*") to be used for such repayment. The Bond Act requires the General Assembly to annually make appropriations to pay the principal of, interest on and premium, if any, on outstanding Bonds from the GOBRI Fund.

If for any reason there are insufficient funds in the General Revenue Fund, or with respect to bonds issued for Transportation A Highway purposes (or bonds issued to refund bonds issued for such purposes) in the Road Fund, to make transfers to the GOBRI Fund as required by the Bond Act, or if for any reason the General Assembly fails to make appropriations sufficient to pay the principal of, interest on and premium, if any, on the Bonds, when due, the Bond Act constitutes an irrevocable and continuing appropriation of all amounts necessary for that purpose, and the irrevocable and continuing authority for and direction to the Treasurer and the Illinois State Comptroller (the "*Comptroller*") to make the necessary transfers, as directed by the Governor, out of and disbursements from the revenues and funds of the State.

Upon delivery of the Bonds, the Bond Act requires the Comptroller to compute and certify to the Treasurer the total amount of principal of and interest on the Bonds that will be payable in order to retire such Bonds and the amount of principal of and interest on such Bonds that will be payable on each payment date during the then current and each succeeding fiscal year.

On or before the last day of each month, the Bond Act requires the Treasurer and Comptroller to transfer from the General Revenue Fund, or with respect to bonds issued for Transportation A Highway purposes (or bonds issued to refund bonds issued for such purposes) in the Road Fund, to the GOBRI Fund an amount sufficient to pay the aggregate of the principal of and interest on such Bonds payable by their terms on the next payment date divided by the number of full calendar months between the date of the Bonds and the first such payment date, and thereafter, divided by the number of months between each succeeding payment date after the first payment date. This transfer of moneys is not required if moneys in the GOBRI Fund are more than the amount otherwise to be transferred as hereinabove provided, and if the Governor or his authorized representative notifies the Treasurer and Comptroller of such fact in writing.

The moneys in the GOBRI Fund are used only for the payment of the principal of and interest on all GO Bonds issued under the Bond Act and for the payment of the principal of and interest on short-term cash flow obligations issued from time to time as described under the heading "INDEBTEDNESS – SHORT-TERM DEBT." However, moneys deposited into the GOBRI Fund to provide for the payment of short-term debt certificates are excluded from any calculation used in determining the ability of the State to suspend transfers to the GOBRI Fund for the payment of the Bonds as described in the preceding paragraph.

BOND INSURANCE

Upon the issuance of the Insured Bonds, Financial Security Assurance Inc. (the "*Bond Insurer*" or "*Financial Security*") will issue a financial guaranty insurance policy for the Insured Bonds (each, a "*Bond Insurance Policy*") that will guarantee the payment of scheduled principal of and interest on the Insured Bonds (referred to herein as the "*Insured Bonds*").

The following information has been furnished by Financial Security for use in this Official Statement. No representation is made by the State or the Underwriters as to the completeness, accuracy or adequacy of such information or the absence of material adverse changes in such information subsequent to the dates indicated. Summaries of or references to the Bond Insurance Policy are made subject to all the detailed provisions thereof to which reference is hereby made and do not purport to be complete statements of any or all of such provisions. See APPENDIX E — "SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

BOND INSURANCE POLICY

Concurrently with the issuance of the Insured Bonds, Financial Security will issue the Bond Insurance Policy. The Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Bond Insurance Policy included as an exhibit to this Official Statement

The Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

FINANCIAL SECURITY ASSURANCE INC.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("*Holdings*"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,601,527,000 and its total net unearned premium reserve was approximately $2,089,989,000 in accordance with statutory accounting principles. At March 31, 2007, Financial Security's consolidated shareholder's equity was approximately $2,753,483,000 and its total net unearned premium reserve was approximately $1,649,524,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Bond Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Board the information presented under this caption for inclusion in the Official Statement.

DEPOSIT OF PROCEEDS AND INVESTMENT OF FUNDS

The proceeds of the sale of non-refunding GO Bonds, including the Bonds, are deposited into the following bond funds in the State Treasury according to the use and purpose for which they were sold: the Capital Development Fund; the Transportation Bond, Series A Fund; the Transportation Bond, Series B Fund; the School Construction Fund; the Anti-Pollution Fund; and the Coal Development Fund (collectively, the "*Bond Funds*"). The proceeds of sale of refunding GO Bonds, are to be used to retire at maturity or redeem the refunded GO Bonds on any maturity or redemption date and, pending such use, are to be deposited into an escrow account established in the bond sale order adopted by the Governor and Director authorizing the issuance of the refunding GO Bonds. Escrowed proceeds may be invested and reinvested in direct obligations of the United States of America maturing at such times and in such amounts as is necessary to ensure the prompt payment, when due, of the principal of and interest and redemption premium, if any, on the refunded GO Bonds. Proceeds of sale of refunding GO Bonds not needed for deposit in the escrow account are to be deposited into the GOBRI Fund.

The Treasurer may, with the Governor's approval, invest and reinvest any money in the Bond Funds which is not needed for current expenditures due or about to become due from the Bond Funds, as permitted in the State's Deposit of State Moneys Act, (15 ILCS 520/1 et seq.) as amended, and Public Funds Investment Act, (30 ILCS 235/1 et seq.) as amended. All earnings from investment of moneys in the Transportation Bond, Series A Fund will be paid into the Road Fund and all earnings from investment of moneys in all other Bond Funds will be paid into the General Revenue Fund.

The Treasurer may, with the Governor's approval, invest and reinvest any money in the GOBRI Fund which is not needed for current expenditures due or about to become due from such Fund in securities constituting direct obligations of the United States government, or obligations the principal of and interest on which are guaranteed by the United States government, or certificates of deposit of any state or national bank or savings and loan association. For amounts not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or their lawful successors, as security the Treasurer is required to accept securities constituting direct obligations of the United States government, or obligations the principal of and interest on which are guaranteed by the United States government. Earnings received from such investments will be paid into the GOBRI Fund.

RATINGS

The Insured Bonds have received ratings of "Aaa" by Moody's Investors Services ("*Moody's*"), "AAA" by Standard & Poor's Rating Service, a Division of The McGraw-Hill Companies, Inc. ("*Standard & Poor's*"), and "AAA" by FitchRatings ("*Fitch*") based on the Bond Insurance Policy for the Insured Bonds to be issued by the Bond Insurer.

The Bonds have also received ratings of "*Aa3*" with a Stable Outlook by Moody's Investor Services, "*AA*" with a Stable Outlook by Standard & Poor's Rating Service, a Division of the McGraw-Hill Companies, and "*AA*" with a Negative Outlook by Fitch Ratings Inc. based upon the creditworthiness of the State and without regard to bond insurance or other credit enhancement. Each such rating reflects only the views of such rating agency. Any explanation of the significance of such ratings may be obtained only from the respective rating agencies. As part of the State's application for the ratings, certain information and materials, some of which are not contained herein, have been supplied to the Rating Agencies. The ratings are neither a "*market*" rating nor a recommendation to buy, sell or hold the Bonds and the ratings and the Bonds should be evaluated independently.

The State will provide appropriate periodic credit information necessary for maintaining ratings on the Bonds to the rating agencies. Except as may be required by the Undertaking as defined below under the subheading "CONTINUING DISCLOSURE," the State undertakes no responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal. There is no assurance that any such rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely. Any downward revision or withdrawal of any such rating may have an adverse effect on the prices at which the Bonds may be resold.

LEGAL OPINIONS

The Bonds are offered subject to the approving opinions of Gonzalez, Saggio and Harlan, L.L.C., Chicago, Illinois, and McGuireWoods LLP, Chicago, Illinois ("*Co-Bond Counsel*"). The validity and enforceability of the Bonds will be confirmed by Co-Bond Counsel, whose approving opinions will be furnished to the Underwriters upon delivery of the Bonds. The form of opinion expected to be delivered by Co-Bond Counsel are contained in "APPENDIX B" hereto. Certain legal matters will be passed upon for the Underwriters by Golden & Associates, P.C., Chicago, Illinois, and Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois.

TAX MATTERS

GENERAL

In the opinion of Co-Bond Counsel, under existing laws, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds (the "*Code*"). The opinion of Co-Bond Counsel is based on certain certifications, covenants and representations of the State and is conditioned on continuing compliance therewith. In the opinion of Co-Bond Counsel, under existing laws, interest on the Bonds is not exempt from income taxes imposed by the State. See "APPENDIX B" for the proposed form of opinion of Co-Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the exclusion from gross income of interest on the Bonds for federal income tax purposes. Noncompliance with such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issue, regardless of the date on which noncompliance occurs. Should the Bonds bear interest that is not excludable from gross income for federal income tax purposes, the market value of the Bonds would be materially and adversely affected. It is not an event of default if interest on the Bonds is not excludable from gross income for federal income tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Bonds.

The interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

The Bonds are not "*qualified tax-exempt obligations*" for purposes of Section 265(b)(3) of the Code.

Although Co-Bond Counsel will render an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Co-Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors with regard to the other tax consequences of owning the Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Bonds.

AMORTIZABLE BOND PREMIUM

The initial public offering price of the Bonds maturing on June 1 in the years 2008, through and including 2025 (collectively, the "*Premium Bonds*"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "*Bond Premium*"). An owner who acquires a Premium Bond in the initial public offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of the Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found in Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

CERTIFICATE OF THE DIRECTOR OF THE GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

The Director will provide to the Underwriters at the time of delivery of the Bonds a certificate confirming that, to the best of her knowledge, the Official Statement was, as of its date, and is, at the time of such delivery, true and correct in all material respects and did not and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE

The State will enter into a Continuing Disclosure Undertaking (the "*Undertaking*") for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "*Rule*") adopted by the Securities and Exchange Commission (the "*SEC*") under the Securities Exchange Act of 1934, as amended (the "*1934 Act*"). See "APPENDIX D – SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING" for a description of the information to be provided annually, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies.

The State is in compliance with each and every undertaking previously entered into by it pursuant to the Rule. A failure by the State to comply with the Undertaking will not constitute a default under the Bond Sale Order, adopted by the Governor and the Director authorizing the issuance of the Bonds (the "*Bond Sale Order*"), and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See "APPENDIX D – SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING -- CONSEQUENCES OF FAILURE OF THE STATE TO PROVIDE INFORMATION." A failure by the State to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

UNDERWRITING

The Bonds are being purchased by an underwriting group (the "*Underwriters*") led by Popular Securities, Inc., pursuant to a Contract of Purchase, dated June 13, 2007, by and among the Underwriters and the State at a purchase price of $111,702,117.00 (being the principal amount of $108,000,000.00 less an Underwriters' discount of $296,823.00 and plus aggregate net original issue premium of $3,998,940.00.

The State has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices and the public offering prices may be changed from time to time by the Underwriters. Any obligations of the Underwriters are the sole obligations of the Underwriters and do not create any obligations on the part of any affiliate of the Underwriters, including any affiliated banks.

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LITIGATION

There is no litigation pending, or to the knowledge of the State threatened, in any way questioning the title of the State officials to their respective offices or any proceedings of the State incident to the authorization and issuance of the Bonds, or in any way concerning the validity or enforceability of the Bonds, or the manner of payment thereof or the appropriation for the payment thereof.

The following describes certain pending lawsuits in Illinois:

Fee Protest Litigation:

In November 2004, the Circuit Court of Cook County ruled that the imposition of a surcharge on workers' compensation insurance policies coupled with a mechanism to transfer a portion of surcharge proceeds to the State's General Funds pursuant to Public Act 93-32 was unconstitutional. As a result, the court escrowed $11.5 million of surcharge proceeds pending final disposition of the case. The State appealed the ruling directly to the Illinois Supreme Court. The Court heard argument in May 2005 and in October 2005 released its opinion reversing the lower court's order granting plaintiff summary judgment and remanding the matter to the circuit court for further proceedings. In October 2005, on the State's motion, the trial court released approximately $1.4 million from escrow to fund Illinois Workers' Compensation Commission ("*IWCC*") operations through November 2005. The court further agreed to the future release, on a monthly basis upon the State's petition, of amounts sufficient to fund ongoing IWCC operations. Since October 2005, the IWCC has on a regular basis requested and the Circuit Court of Cook County has released monies sufficient to fund the IWCC's on-going operations. As of March 2007, approximately $18.7 million remained in escrow. In addition, the trial court has allowed certain insurance companies to make surcharge payments into the Protest Fund. As of March 2007, approximately $22.3 million in such payments have been deposited into the Protest Fund.

Several other special interest groups have filed similar actions challenging the constitutionality of fee increases and the application of legislatively-mandated transfer mechanisms. In an action brought in Sangamon County in December 2004, a group of trade associations representing depository institutions challenged the constitutionality of fee assessments and transfer mechanisms applicable to their industries. In March 2005, a Sangamon County judge issued a preliminary injunction barring further transfers from the funds at issue pending resolution of the matter. In late 2006, fee assessments were sent to depository institutions which did not include certain credits sought by the institutions. The plaintiffs sought a temporary restraining order directing the State to apply credits; however, the plaintiffs' motion was denied in December 2006.

In May and June 2006, trade associations representing property and casualty insurance and real estate sales interests, respectively, and a motorcyclists' organization filed similar actions in Sangamon County challenging certain fees and transfers of funds. The Sangamon County Court entered orders preliminarily preventing the State from transferring monies from the funds at issue, pending further consideration of the matters. In June 2006, in the motorcyclists case, the Sangamon County Court denied the plaintiffs' motion for a temporary restraining order as to all but two funds; plaintiffs had previously sought to enjoin transfers from 39 state funds. In November 2006, the Sangamon County Court granted the State's motion to dismiss the motorcyclists' litigation as to two State funds; litigation regarding a third fund continues. The State anticipates that it will dispose, in whole or substantial part, of the matters pending in Cook and Sangamon Counties based upon prior Illinois Appellate and Supreme Court rulings.

In early 2005, a Sangamon County Court dismissed a suit similar to those described above filed by an aggregate producers' industry association to challenge an increase in permit fees and the transfer of a portion of the funds generated by the fee increase to the State's General Funds. In May 2005, the Illinois Appellate Court upheld the trial court's dismissal, rejecting the plaintiff's challenges to the fees and transfers. The Illinois Supreme Court subsequently refused the plaintiffs' request for review, letting stand the Appellate Court's order upholding dismissal. The State thereafter obtained release of approximately $1.1 million, which had been held in escrow during the litigation.

Retaliatory Tax Litigation:

In May 2005, the Director of Insurance assessed Sun Life Assurance Company of Canada approximately $4 million in additional tax owed pursuant to the so-called "*retaliatory*" statute (215 ILCS 5/444). Sun Life objected to the assessment and filed an action seeking a declaration that the tax is unconstitutional as in violation (among other reasons) of the Commerce Clause. Sun Life has not, to date, paid the tax under protest. Instead, the company sought and obtained an injunction barring the State from collecting the tax. The State prevailed in both the trial and appellate courts. Sun Life's petition for leave to appeal the appellate court's ruling to the Illinois Supreme Court is currently pending. In a separate action, John Hancock Life Insurance Company filed suit in Cook County challenging the State's collection of approximately $7 million in retaliatory tax. The company claims exemption from payment of insurance taxes under the terms of a contract with the State for the provision of group life insurance to State employees. On November 1, 2006, the First District (Illinois) Appellate Court upheld the State's imposition of the retaliatory tax and affirmed the State's legal analysis in all regards. Sun Life has filed a Petition for Leave to Appeal with the Illinois Supreme Court. On March 28, 2007 that court accepted the petition and will hear the appeal. There remains approximately $3.8 million in protest funds relating to ongoing insurance premium tax litigation.

STATE OF ILLINOIS

ORGANIZATION

The State is formally organized according to executive, legislative and judicial functions. The Governor is the chief executive of the State and is generally responsible for the administration of the government exclusive of the offices of other constitutionally-elected officials. The other elected officials of the executive branch include the Lieutenant Governor, the Attorney General, the Secretary of State, the Comptroller and the Treasurer.

The Illinois Constitution provides that all elected officials of the Executive Branch of the State government hold office for four-year terms. Pursuant to the State Constitution, these officials were elected at a general election in November 2006 and took office as of January 13, 2007. The next State general election will be held in November 2010.

The legislative power of the State is vested in the General Assembly, which is composed of the Senate and the House of Representatives. Both the Senate and the House of Representatives meet in annual sessions to enact, amend or repeal laws and to adopt appropriation bills.

The judicial branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts.

CONSTITUTIONAL PROVISIONS RELATING TO REVENUES AND EXPENDITURES

Article VIII, Section 2 of the State Constitution requires the Governor to prepare and submit to the General Assembly, at a time prescribed by law, a State budget for the ensuing fiscal year. Proposed expenditures may not exceed funds estimated to be available for the fiscal year as shown in the budget. Article VIII also requires the General Assembly to review the proposed budget and make appropriations for all expenditures of public funds by the State, which appropriations for a fiscal year may not exceed funds estimated by the General Assembly to be available during that fiscal year.

The State Constitution provides that the Governor may reduce or veto any item of appropriations in a bill passed and presented to him by the General Assembly. Portions of a bill not reduced or vetoed become law. An item vetoed is returned to the house in which it originated and may become law upon approval of three-fifths of the members of each house. An item reduced in amount may be restored to the original amount upon approval of a majority of the members elected to each house.

CONSTITUTIONAL PROVISIONS RELATING TO LONG TERM BORROWING

Section 9(a) of Article IX of the State Constitution defines the term "*State debt*" as "*bonds or other evidences of indebtedness which are secured by the full faith and credit of the State or are required to be repaid, directly or indirectly, from tax revenues.*"

Section 9(b) of Article IX of the State Constitution, pursuant to which the Bond Act was enacted, provides:

> (b) State debt for specific purposes may be incurred or the payment of State or other debt guaranteed in such amounts as may be provided either in a law passed by the vote of three-fifths of the members elected to each house of the General Assembly or in a law approved by a majority of the electors voting on the question at the next general election following passage. Any law providing for

> the incurring or guaranteeing of debt shall set forth the specific purposes and the manner of repayment.

CONSTITUTIONAL PROVISIONS RELATING TO SHORT TERM BORROWING

Section 9(c) of Article IX of the State Constitution, pursuant to which the Short Term Borrowing Act was enacted states:

> (c) State debt in anticipation of revenues to be collected in a fiscal year may be incurred by law in an amount not exceeding 5% of the State's appropriations for that fiscal year. Such debt shall be retired from the revenues realized in that fiscal year.

In February 2007, General Obligation Certificates in the amount of $900 million were issued pursuant to the provisions of the Short Term Borrowing Act authorized by Section 9(c) of Article IX of the State Constitution as set forth above. See "INDEBTEDNESS – SHORT TERM DEBT."

GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

GOMB was created in 2003 by the Governor's Office of Management and Budget Act (20 ILCS 3005/1 *et seq*.). GOMB's predecessor in managing State debt was the Bureau of the Budget, created in 1969 by act of the General Assembly. GOMB is headed by the Director, who is appointed by the Governor. In addition to assisting the Governor in developing the State's annual operating and capital budgets, GOMB provides financial and other information regarding the State to securities investors, Nationally Recognized Municipal Securities Information Repositories (each, a "*NRMSIR*") and others as required by federal securities rules. See "THE OFFERING – CONTINUING DISCLOSURE" and "APPENDIX D – SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING."

STATE FINANCIAL INFORMATION

The tables that follow present pertinent financial information about the State. Data is for the State's fiscal years which run from July 1 through June 30. Tables 1, 1-A, 2, and 6 of this section, unless otherwise noted, are based on information contained in detailed annual reports or records of the Illinois Office of the Comptroller (the "*Comptroller*"). The fiscal year 2006 ("*FY06*") Comprehensive Annual Financial Report ("*CAFR*") may be found at: www.apps.ioc.state.il.us/ioc-pdf/CAFR_2006.pdf. Tables 3, 4 and 5 are based on records of the GOMB, though Tables 4 and 5 also include information drawn from various reports or records of the Comptroller. For purposes of Tables 1 and 2 of this section, expenditures are deemed to be recognized when payment warrants are issued.

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TABLE 1
RECEIPTS AND DISBURSEMENTS[1], GENERAL FUNDS[2]
FISCAL YEARS 2002-2006
($ IN MILLIONS)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Available Balance, Beginning	**$1,126**	**$256**	**$317**	**$182**	**$497**
Receipts					
State Revenues					
Income Tax	8,274	8,079	8,208	9,151	10,063
Sales Tax	6,051	6,059	6,331	6,595	7,092
Public Utility Tax	1,104	1,006	1,079	1,056	1,074
Cigarette Tax	400	400	400	450	400
Inheritance Tax	329	237	222	310	272
Liquor Gallonage Tax	122	123	127	147	152
Insurance Tax & Fees	272	313	362	342	317
Corporate Franchise Tax	159	142	163	181	181
Investment Income	135	66	55	73	153
Intergovernmental Transfers	245	355	428	433	350
Other	550	383	517	652	479
Total, State Revenues	**17,642**	**17,163**	**17,892**	**19,390**	**20,533**
Federal Revenues					
Medicaid & Social Services	4,258	3,940	5,189	4,257	4,725
Transfers In					
From Other State Funds[3,4]	1,479	1,983	3,742	2,513	2,101
Hospital Provider Fund[5]	-	-	-	3	-
Total Revenues	**23,379**	**23,086**	**26,823**	**26,163**	**27,359**
Short-Term Borrowing	-	1,675	-	765	1,000
Total Cash Receipts[3]	**$23,379**	**$24,761**	**$26,823**	**$26,928**	**$28,359**
Cash Disbursements					
Expenditures for Appropriations (See Table 1-A)	22,089	21,959	23,448	22,187	24,193
Transfers Out					
Short-Term Borrowing[6]	-	710	1,417	768	1,014
Debt Service Funds[7]	557	624	584	852	1,026
Other State Funds[3]	1,603	1,407	1,509	2,806	2,033
Total Cash Disbursements	**$24,248**	**$24,700**	**$26,958**	**$26,613**	**$28,266**
Cash Balance, Ending	**$256**	**$317**	**$182**	**$497**	**$590**

1 Based on information from the Illinois Office of the Comptroller.
2 General Funds include the General Revenue Fund, Common School Fund, General Revenue-Common School Special Account Fund and the Education Assistance Fund.
3 Excludes transfers to and from the Budget Stabilization Fund.
4 Fiscal Year 2004 includes $1,498 million of Pension Bond Proceeds.
5 Transfers In reflects the net amount between $982 million received and the $979 million transferred out to the Hospital Provider Fund.
6 All Short-Term certificates issued during the period of this Table were fully retired by June 30, 2006. Also see “INDEBTEDNESS” section for additional information.
7 Reflects debt service on GO Bonds.

TABLE 1A
CASH EXPENDITURES BY CATEGORY[1]
FISCAL YEARS 2002-2006
($ IN MILLIONS)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Cash Expenditures					
Operations	$6,939	$6,561	$6,357	$6,347	$6,390
Awards and Grants[2]	15,867	15,468	16,236	16,184	17,616
Permanent Improvements	21	12	9	10	11
Refunds	38	28	23	23	16
Vouchers Payable Adjustments	(770)	(94)	871	(401)	170
Prior Year Adjustments	(5)	(15)	(48)	24	(10)
Total Expenditures for Appropriations	$22,089	$21,959	$23,448	$22,187	$24,193

[1] Based on information from the Illinois Office of the Comptroller.

[2] FY04 reflects additional Medicaid spending facilitated by an $850 million short term borrowing used to maximize federal reimbursements at a higher recovery rate (52.95% vs. 50%) available only in FY04. Spending on FY05 Awards & Grants was reduced by a corresponding amount.

TABLE 2
RECEIPTS AND DISBURSEMENTS[1] - ROAD FUND
FISCAL YEARS 2002-2006
($ IN MILLIONS)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Available Balance, Beginning	**$843**	**$839**	**$337**	**$151**	**$323**
Receipts					
State Revenues					
Motor Vehicle & License Fees	613	567	653	585	788
Certificates of Title	148	145	148	155	90
Property Sales (City & County)	63	62	64	69	65
Miscellaneous	56	41	118	42	39
Total, State Revenues	**880**	**815**	**983**	**851**	**982**
Federal Revenues	834	718	887	868	1,024
Transfers In					
Motor Fuel Fund	318	364	332	337	337
Other Funds	-	-	-	-	-
Total Receipts (Revenues + Transfers In)	**$2,033**	**$1,897**	**$2,202**	**$2,056**	**$2,343**
Disbursements					
Expenditures for Appropriations	1,827	2,138	2,028	1,611	1,592
Transfers Out					
Debt Service Funds[2]	211	225	227	249	249
Other State Funds	-	35	133	24	37
Total Transfers Out	**211**	**260**	**360**	**273**	**286**
Total Disbursements (Expenditures + Transfers Out)	**$2,038**	**$2,399**	**$2,388**	**$1,884**	**$1,878**
Cash Balance, Ending	**$839**	**$337**	**$151**	**$323**	**$788**

[1] Based on information from the Illinois Office of the Comptroller.

[2] Reflects debt service on GO Bonds.

TABLE 3
GENERAL FUNDS APPROPRIATIONS[1]
FY 2006 ACTUAL VS. FY 2007 BUDGET
($ IN MILLIONS)

Category	FY 2006 Actual	FY 2007 Budget [2]	$ Change	% Change
Elementary & Secondary Education	$6,639	$7,273	$634	9.5%
Higher Education	2,190	2,179	(11)	-0.5%
Healthcare & Family Services	7,344	7,609	265	3.6%
Revenue	127	150	23	18.1%
Human Services	3,816	3,914	98	2.6%
Corrections	1,169	1,103	(66)	-5.6%
Children & Family Services	803	760	(43)	-5.4%
Central Management Services	95	93	(2)	-2.1%
State Police	173	193	20	11.6%
Other Agencies	1,747	1,961	214	12.2%
Net Appropriations (Spending)	**$24,103**	**$25,235**	**$1,132**	**4.7%**
Unspent Appropriations (Salvage)	369	532	$163	44.2%
Budgeted Appropriations	**$24,472**	**$25,767**	**$1,295**	**5.3%**

[1] Based on information from the Illinois Office of the Comptroller.
[2] Based on the March 7, 2007 revised FY07 budget forecast.

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TABLE 4
GENERAL FUNDS CASH RECEIPTS[1]
FY 2005 ACTUAL VS. FY 2006 BUDGET & ACTUAL
($ IN MILLIONS)

	FY 2005 Actual	FY 2006 Enacted	FY 2006 Actual	FY 2006 Vs. 2005	Percent Change
Available Cash Balance - July 1	**$182**	**$497**	**$497**	**$315**	**173.1%**
State Sources, Cash Receipts:					
Net Individual Income Tax	7,979	8,461	8,635	656	8.2%
Net Corporate Income Tax	1,172	1,488	1,428	256	21.8%
Net Income Taxes	**9,151**	**9,949**	**10,063**	**912**	**10.0%**
Sales Taxes	**6,595**	**6,950**	**7,092**	**497**	**7.5%**
Other Sources					
Public Utility Taxes	1,056	1,081	1,074	18	1.7%
Cigarette Taxes	450	400	400	(50)	-11.1%
Inheritance Tax (gross)	310	285	272	(38)	-12.3%
Liquor Gallonage Taxes	147	151	152	5	3.4%
Insurance Tax and Fees	342	320	317	(25)	-7.3%
Corporation Franchise Tax & Fees	181	191	181	-	0.0%
Investment Income	73	98	153	80	109.6%
Cook County IGT	433	350	350	(83)	-19.2%
Riverboat Gambling Taxes	152	-	4	(148)	-97.4%
Other	500	523	475	(25)	5.0%
Total: Other State Sources	**3,644**	**3,399**	**3,378**	**(266)**	**-7.3%**
Total: State Revenues	**19,390**	**20,298**	**20,533**	**1,143**	**5.9%**
Transfers In:					
Lottery Fund	614	636	670	56	9.1%
State Gaming Fund	547	678	685	138	25.2%
Other Funds	1,352	771	746	(606)	-44.8%
Total: State Transfers In	**2,513**	**2,085**	**2,101**	**(412)**	**-16.4%**
Total: State Sources	**21,903**	**22,383**	**22,634**	**731**	**3.3%**
Federal Sources					
Cash Receipts[2]	4,257	4,712	4,725	468	11.0%
Total: Federal Sources	**4,257**	**4,712**	**4,725**	**468**	**11.0%**
Total Revenues and Transfers In	**26,160**	**27,095**	**27,359**	**1,199**	**4.6%**
Short-Term Borrowing	765	-	1,000	235	30.7%
Transfer from Budget Stabilization Fund	276	276	276	-	0.0%
Hospital Provider Fund	982	-	-	(982)	-100.0%
Total: Cash Receipts	**$28,183**	**$27,371**	**$28,635**	**$452**	**1.6%**

[1] Source: Illinois Office of the Comptroller and GOMB.

[2] FY04 federal receipts includes reimbursements for additional Medicaid spending facilitated by an $850 million short term borrowing that was utilized to take advantage of a higher reimbursement rate (52.95% vs. 50%) that was available only in FY04. As a result, FY05 federal receipts were lower by a corresponding amount.

FISCAL YEAR 2006 OVERVIEW

The FY06 results are presented in Tables 1 and 1A on a cash basis (receipts and disbursements) with comparative data for FY02 - 06 for the General Funds. Table 2 provides similar cash basis for the Road Fund. Table 3 provides a comparison of appropriations for FY06 and budgeted FY07 for the General Funds. Table 4 compares General Funds cash receipts for FY05 and 06 (budget and actual).

Table 5 – The General Funds Budget Results & Plans – presents operating results on both budget and cash bases, budget basis fund balances, and the accompanying changes in cash. The traditional budget basis used by the Comptroller reflects the cash basis for revenues and accruals for appropriated expenditures. Table 5 encompasses the FY06 actual results, the FY07 adopted and revised (as of March 7, 2007) budgets, as well as a comparison to the Proposed FY08 Budget (hereinafter defined).

The State's traditional budget basis results differ from the cash basis results by the change (increase or decrease) in the amount of accrued expenditures (increases or decreases in accounts payable for appropriations) from one fiscal year to the next. Operating results and fund balances for the two different bases – cash basis and traditional budget basis – are reflected in Table 5 and the accompanying footnotes. That table also incorporates the change in General Funds Cash from year to year as well as cash in the Budget Stabilization Fund. The resulting sum represents the Total Cash amount at June 30th of each fiscal year that was used for general operating purposes by the State during that year.

Table 6 – General Funds Reconciliation – provides a comparison and reconciliation of the three bases of accounting used by the State. That table summarizes adjustments to revenue, expenditure and other sources (uses) amounts reported on the cash basis of accounting. Those adjustments allow reconciliation to the budget basis results; additional adjustments made to the budget basis amounts allow a reconciliation to the GAAP basis results.

FISCAL YEAR 2006 RESULTS

Operating results for FY06 resulted in a budget basis operating surplus of approximately $183 million. On a GAAP basis, and as reported in the FY06 CAFR, the Statement of Revenues, Expenditures and Changes in Fund Balance, reported a $736 million improvement in fund balance during the year, resulting in a $2,328 million fund balance deficit in the General Funds as of June 30, 2006. Complete GAAP basis results can be found in the audited financial statements contained in the State's FY06 CAFR, as prepared by the Comptroller (see: *www.apps.ioc.state.il.us/ioc-pdf/CAFR_2006.pdf*.)

On a budget basis, State Source Revenues totaled $20,533 million in FY06, a $1,143 million or 5.9% increase over FY05, as reported in Table 5. That increase was primarily related to the economically sensitive income and sales taxes and corresponded to the economic recovery experienced by the State beginning in the middle of FY05 and continuing through FY06. Federal Source Revenues increased by $468 million or 11% from FY05. However, FY05 Federal Source Revenues were lower than historical trends due to the acceleration of payments at the end of FY04 to take advantage of the enhanced federal match rate of 52.95%, eligibility for which ended on June 30, 2004. Statutory Transfers In decreased by $412 million or 16.4% over FY05 results, primarily reflecting year-to-year timing differences in such cash transfers. In sum, total base resources (revenues plus transfers in) increased by $1,196 million or 4.6% in FY06, excluding the non-recurring effects of the funds transfers related to short term borrowing proceeds and subsequent repayments.

Appropriations for FY06 increased by $607 million to $24,472 million, or 2.5% over the comparable FY05 amount. Actual appropriated expenditures increased to $24,103 million, which was approximately $1,536 million greater than appropriated expenditures in FY05. Components of this net increase include certain one time reductions in FY05 appropriated expenditures, and programmatic increases to FY06 appropriated expenditures. For example, FY05 appropriated expenditures were reduced by $850 million of Medicaid expenditures accelerated to FY04 in connection with that year's $850 million short term borrowing. Programmatic increases in FY06 appropriated expenditures included $297 million of additional elementary and secondary education grants, $91 million of additional Illinois Department of Human Services awards and grants, and $57 million of increased Higher Education operations, awards and grants.

Statutory Transfers Out decreased by $353 million or 8% in FY06. Major changes in FY06 included a $246 million reduction in short term borrowing repayments (comprised of a $765 million borrowing in March 2005, which was fully repaid in FY05, versus $1,000 million in a November 2005 borrowing, which was fully repaid in FY06), and an $80 million reduction in the Facilities Management Fund in FY06. Those reductions were partially offset by increased transfers out in FY06 including $174 million for debt service purposes and $100 million to the Local Government Distributive Fund (primarily related to increased income tax collections earmarked to local governments) .

Public Act 94-0774 directed the Comptroller and the Treasurer to transfer up to $250 million of certain fund transfers in that were previously suspended by the Treasurer in FY05 and FY06 and re-directed to certain State Special Funds. The Comptroller has previously reflected the $250 million as transfers in to the General Funds, which was consistent with the prior statutory authorization. Those resources were transferred from the General Funds to the State Special Funds that are used solely for Medicaid spending – i.e., the Long-Term Care Provider Fund, the Drug Rebate Fund and the Hospital Provider Fund. The $250 million transfer from the General Funds, in conjunction with multiple cycles of federal reimbursements made directly to the Medicaid special funds (identified above) rather than the General Funds, reduced the outstanding backlog of Medicaid bills by approximately $500 million. That amount was the equivalent of approximately 22 days of the Medicaid bill backlog, which reduced the Medicaid payment cycle to approximately 59 days at the end of FY06.

The FY06 results also reflect an ongoing reduction in State employee headcount. Actual headcount under the Governor's control has declined significantly during the past three fiscal years from approximately 68,800 full time equivalent ("*FTE*") employees at the beginning of FY03 to approximately 56,800 FTE's at the end of FY06. That reduction represents a 12,000 decrease in FTE employees or approximately 17%.

FISCAL YEAR 2007 BUDGET

The Governor's proposed FY07 budget encompassed both an operating budget and a capital budget, which were presented separately.

Table 5 presents the enacted FY07 budget as well as revised forecasts for revenues, expenditures and transfers as of March 7, 2007. As originally proposed, total FY07 resources (revenues plus Statutory Transfers In) on a cash basis were budgeted to increase by $971 million over FY06 amounts, an increase of 3.5%. The March 7th revision reflects a $1,134 million or 4.1% increase over actual FY06 resources. That increase reflects continued growth in State revenues ($984 million or 4.8%) and a budgeted increase in Statutory Transfers In of $72 million or 3.4%. Federal Source Revenues are expected to increase by $78 million, or 1.7% over FY06 amounts. References in this Official Statement to the FY07 budget mean such budget as revised by the March 7, 2007 revisions.

FY07 base revenue growth was estimated at 2.9% for net personal income tax, 19.6% for net corporate income tax, and 2.7% for sales tax, at the time the budget was enacted in May 2006. Through March 15, 2007, FY07 receipts have grown by 8.5% for net personal income tax, 218% for net corporate income tax, and 3.2% for sales tax, versus the same fiscal period ending March 15, 2007. All State revenues, including the income and sales tax components have grown by 5.5% through comparative March 15th ending periods. New revenues of $277 million are budgeted for FY07, primarily consisting of transferring excess cash balances from State Special Funds into the General Funds, and used to fund one-time appropriations. No increases in income or sales tax rates were proposed, nor adopted, in the FY07 Operating Budget.

As summarized in Table 5, FY07 total spending (appropriations plus transfers out) is currently estimated to be $28,350 million on a traditional budget basis. This represents an increase of $1,188 million or 4.4% over FY06 total spending. FY07 operating appropriations are $25,767 million, an increase of $1,295 million, or 5.3% over FY06 appropriations. The largest increases were for elementary & secondary education, Medicaid and the State's pension systems. Enacted appropriations were approximately $5 million more than the Governor's proposed FY07 budget.

The General Assembly passed a supplemental FY07 appropriation on May 31, 2007. That bill has not been sent to the Governor as of this offering. The supplemental appropriation calls for an increase in General Funds appropriations of approximately $196 million, of which $148.5 million is earmarked for capital purposes through school construction grants. Such grants have historically been funded out of bond proceeds rather then General Funds. It is expected that these grants will be integrated into the State's bond program as part of a fiscal year 2008 capital budget. In addition, appropriations of various other state funds were increased; of these increases approximately $1,215 million authorizes payment of earmarked federal funds and associated Health Assessment Taxes as a conduit to local hospitals. The net affect of the increased appropriations of other state funds is that the State anticipates an additional $130 million in State revenues.

Budget forecasts are based solely on information available as of the date of this offering and are subject to subsequent revision without notice.

FISCAL YEAR 2008 BUDGET

The Governor proposed his FY08 budget on March 7, 2007. The proposed FY08 budget (the *"Proposed FY08 Budget"*) encompassed both an operating budget and a capital budget, which were presented separately. The entire Proposed FY08 Budget can be found at: http://www.state.il.us/budget/.

On May 30th the House of Representatives passed a fiscal year 2008 budget bill that differs from the Proposed FY 2008 Budget. That bill remains in the House, due to a subsequent procedural motion. Pursuant to law, after May 31, 2007 a super-majority vote (60% approval) is required in the Senate in order to pass that bill or a substitute fiscal year 2008 budget.

The Governor's Proposed FY08 Operating Budget proposed several significant new initiatives including the following. However, the FY08 budget which is finally adopted may differ from the Governor's Proposed FY08 Budget.

- **Implementation of a Gross Receipts Tax** – A new Gross Receipts Tax (GRT) would impose a 0.5% tax on gross receipts from the sale of goods sold by businesses in the retail, wholesale and manufacturing industries. A rate of 1.8% of sales would apply to gross receipts of businesses in service industries. The proposal includes a small business exemption of $1 million for any business. Exports outside of the State are fully exempt from the tax, as well as sales of food, drugs and all receipts earned by Medicaid providers. Gaming and insurance products, which pay alternative taxes, will also not be subject to the gross receipts tax. The GRT would be utilized to support additional education spending, the "*Illinois Covered Health Care Program*," and replace annual receipt of lottery dollars currently utilized in the General Funds. As proposed, the GRT would be effective as of January 1, 2008 and generate approximately $2.6 billion in FY08. When fully implemented in FY09, the GRT would produce over $6 billion in net new revenues.
- **Elimination of the Corporate Income Tax** – In conjunction with the Gross Receipts Tax, the existing corporate income tax would be phased out over a four year period. During the intervening period, corporations that pay corporate income taxes will receive a 100% credit of their Illinois income taxes paid, which would be applied to their GRT liability.
- **Increase in Educational Funding** – Approximately $10 billion in increased educational spending over the next four years will be funded through the proposed GRT. The Proposed FY08 Budget reflects a $1.5 billion increase, in Preschool-12 school funding. Much of the proposed education funding is tied to performance and accountability measures.
- **Enhanced Pension System Funding** – The Proposed FY08 Budget proposes a $26 billion asset infusion to the five pension systems of the State from two sources: (1) approximately $16 billion of bond proceeds from the issuance of GO Pension Funding Bonds that would be structured in a similar fashion to the 2003 issuance of $10 billion of GO Pension Funding Bonds (see "PENSION SYSTEMS" for additional information regarding the 2003 Bonds), and (2) approximately $10 billion in proceeds from leasing of the Illinois State lottery. The $26 billion asset infusion would reduce the current unfunded liability to approximately $15 billion, resulting in a funded ratio of approximately 83% versus the current level of 60%. In addition, the proposed annual payment schedule that accompanies the asset infusion would result in a 90% funded ratio in 2040, five years earlier than currently required by statute.
- **Expansion of Health Care Benefits** – The Proposed FY08 Budget proposes creation of the "*Illinois Covered Health Care Program*" (the "*Illinois Covered Program*") with four components: (1) *Illinois Covered Assist* provides, childless adults with income under 100% of the federal poverty level (FPL) who are not covered under Medicaid with comprehensive coverage, (2) *FamilyCare* expansion is a proposed increase of eligibility for FamilyCare from 185% FPL to 400% FPL for uninsured working parents, (3) *Illinois Covered Choice* provides small businesses (25 or fewer employees) and individuals whose employers do not offer coverage, access to comprehensive insurance plans with affordable rates irrespective of their health status, and (4) *Illinois Covered Rebate* offers premium assistance for families earning between 100% and 400% FPL. The Illinois Covered Program is funded by the

proposed gross receipts tax and by an employer assessment on businesses that do not offer health insurance to their employees or do not make significant contributions to health insurance for their employees. Employers will be assessed an amount up to 3% of the wages paid to Illinois employees.

Table 5 presents the Governor's Proposed FY08 Budget, as introduced on March 7, 2007. Total Proposed FY08 Budget resources (revenues plus transfers in) on a cash basis are forecast to increase by $3,085 million over revised FY07 amounts, an increase of 10.7%. That increase reflects the new gross receipts tax as well as continued growth in State revenues ($3,289 million or 15.3%) and a budgeted decrease in Transfers In of $553 million. Federal Source Revenues are expected to increase by $349 million, or 7.3% over FY07 amounts.

Proposed FY08 Budget base revenue growth was estimated at 4.3% for net personal income tax, 2.7% for net corporate income tax, and 3% for sales tax. Net new revenues of approximately $2.2 billion are budgeted for Proposed FY08 Budget, primarily consisting of approximately $2.6 billion from the new gross receipts tax, $115 million in proposed gaming rate changes, $63 million of increased federal revenues associated with proposed increase in Medicaid provider rates, and $32 million from enhanced revenue collection efforts by the Department of Revenue. Those increases would be offset by the loss of approximately $650 million in lottery receipts associated with the proposed lease of the Illinois State Lottery for pension funding purposes, as previously described. No increases in income or sales tax rates were proposed in the Proposed FY08 Operating Budget.

As summarized in Table 5, Proposed FY08 Budget total spending (appropriations plus transfers out) is estimated to be $31,562 million on a traditional budget basis. This represents an increase of $3,212 million or 11.3% over FY07 total spending, as revised. Proposed FY08 Budget operating appropriations are $28,860 million, an increase of $3,093 million, or 12% over FY07 appropriations. The largest increases were for elementary and secondary education, Medicaid and the Illinois Choice Program.

FISCAL YEAR 2007 CAPITAL BUDGET

The Governor's enacted FY07 Capital Budget contains total appropriations of $9,882 million, an increase of $196 million or 2.2% versus the FY06 Capital Budget. Emphasis on investment in existing State facilities and assets to achieve maintenance cost efficiencies remains a priority of the FY07 Capital Budget. Within limitations considered by debt affordability analysis, the anticipated GO Bond sales for FY07 are approximately $460 million.

Total bond-financed capital appropriations in the FY07 Capital Budget are $3,165 million, not all of which have corresponding bond authorization, but which provide implementation flexibility between new and re-appropriated projects during FY07.

Total capital funded out of current revenues is $6,185 million, and total federally funded capital is $532 million. Within the current revenue capital plan, the FY07 Capital Budget includes $1,975 million in new pay-as-you-go Road Program appropriations, the primary purpose of which is to maintain existing roads and bridges.

The FY07 GO Capital Budget includes $79 million of new GO Bond funded appropriations consisting of the following categories: $55 million in the Capital Development Fund, $22 million in the Coal Development Fund, and $2 million Transportation Series B. The FY07 Capital Budget also contains $114 million of new appropriations from the Build Illinois Bond Fund.

FISCAL YEAR 2008 CAPITAL BUDGET

The Governor's Proposed FY08 Capital Budget contains total appropriations of $11,004 million, an increase of $1,121 million or 11.3% versus the FY07 Capital Budget. Emphasis on investment in existing State facilities and assets to achieve maintenance cost efficiencies remains a priority of the Proposed FY08 Capital Budget. Within limitations considered by debt affordability analysis, the anticipated GO Bond sales for FY08 are approximately $785.3 million.

Total bond-financed capital appropriations in the Proposed FY08 Capital Budget are $4,477 million, not all of which have corresponding bond authorization, but which provide implementation flexibility between new and re-appropriated projects during FY08.

Total capital funded out of current revenues is $5,991 million, and total federally funded capital is $536 million. Within the current revenue capital plan, the Proposed FY08 Capital Budget includes $1,875 million in new pay-as-you-go Road Program appropriations, the primary purpose of which is to maintain existing roads and bridges.

The Proposed FY08 GO Capital Budget includes $1,776 million of new GO Bond funded appropriations consisting of the following categories: $788 million in the Capital Development Fund, $560 million in the School Construction Fund, $150 million in the Antipollution Fund, $78 million in the Coal Development Fund, and $200 million Transportation Series B. The Proposed FY08 Capital Budget also contains $305 million of new appropriations from the Build Illinois Bond Fund.

The FY08 Budget has not been adopted and may differ from the Governor's Proposed FYO8 Budget.

BUDGET STABILIZATION FUND

Legislation enacted in 2000 required the State to transfer any unencumbered balance in the Tobacco Settlement Recovery Fund as of June 30, 2001 to the newly-created Budget Stabilization Fund. The State transferred $225 million to the Budget Stabilization Fund in July 2001. Public Act 92-11, effective June 11, 2001, authorized the Comptroller to direct the transfer of money from the Budget Stabilization Fund to the General Revenue Fund to meet short-term cash flow needs, with the requirement that all money so transferred must be repaid within the same fiscal year. The FY04 budget included an additional $50 million contribution to the Budget Stabilization Fund, bringing the end of year balance to $276 million, where it remained at June 30, 2006. The FY07 Operating Budget maintains the Budget Stabilization Fund at that same level, and assumes the year-end budget basis accounts payable will be reduced to $850 million, as reflected in Table 5. The FY08 budget proposes increasing the Budget Stabilization Fund by $226 million, to a year-end balance of $500 million. The increase would be funded by transferring fund balances of select State Special Funds whose ongoing revenues and spending would be consolidated into the General Funds. Selection of the Special Funds would be made by a task force composed of members of the Illinois General Assembly and the executive branch.

BASIS OF ACCOUNTING

The Comptroller is responsible for the maintenance of the State's fiscal accounting records. The Comptroller provides accounting control over the cash on hand in a specific fund or funds (the "*Cash Balances*") for which the Treasurer is accountable, control over the issuance of warrants for payments of agencies' expenditures and control to ensure that State payments do not exceed legal appropriations and available fund balances. The Comptroller's records are kept on a basis of accounting wherein receipts are recognized at the time cash funds are ordered into the Treasury by the Comptroller. Prior to FY98, disbursements were recognized when payment warrants were issued. Since FY98, disbursements are recognized when vouchers are approved and released for payment.

As the fiscal control officer of the State, the Comptroller issues an Annual Report detailing receipts and expenditures for each year. Since 1981 the Comptroller has issued a CAFR, which includes General Purpose Financial Statements prepared according to GAAP and statements of budgetary fund balances and changes in budgetary fund balances for all fund groups.

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TABLE 5

GENERAL FUNDS CASH RECEIPTS

FY 2006 ACTUAL VS. FY 2007 ADOPTED BUDGET, MARCH 7, 2007 REVISED FY 2007 BUDGET, AND THE PROPOSED FY 2008 BUDGET

(IN $MILLIONS)

GENERAL FUNDS - COMPARATIVE BUDGET RESULTS & PLANS: FY2006 - FY2008

	Fiscal Year 2006 Actual		Fiscal Year 2007 Adopted Budget		Fiscal Year 2007 Revised Budget		Fiscal Year 2008 Proposed Budget	
OPERATING REVENUES PLUS TRANSFERS IN								
REVENUES								
State Sources	$ 20,533		$ 21,232		$ 21,517		$ 24,806	
Federal Sources	$ 4,725		$ 4,803		$ 4,803		$ 5,152	
TOTAL REVENUES		**$ 25,258**		**$ 26,035**		**$ 26,320**		**$ 29,958**
STATUTORY TRANSFERS IN								
Statutory Transfers In	$ 2,101		$ 2,295		$ 2,173		$ 1,620	
TOTAL TRANSFERS		**$ 2,101**		**$ 2,295**		**$ 2,173**		**$ 1,620**
TOTAL OPERATING REVENUES PLUS TRANSFERS IN		**$ 27,359**		**$ 28,330**		**$ 28,493**		**$ 31,578**
OPERATING EXPENDITURES AND TRANSFERS OUT								
CURRENT YEAR EXPENDITURES								
APPROPRIATIONS (Total Budget)	$ 24,472		$ 25,767		$ 25,767		$ 28,860	
Less: **Unspent Appropriations** (Unspent Budget plus Uncashed Checks)	($369)		($532)		($299)		($398)	
Equals: **CURRENT YEAR EXPENDITURES** (Net Appropriations Spent)		**$ 24,103**		**$ 25,235**		**$ 25,468**		**$ 28,462**
STATUTORY TRANSFERS OUT								
Legislatively Required Transfers (Diversions to Other Funds)	$ 2,632		$ 2,659		$ 2,453		$ 2,631	
Pension Obligation Bond Debt Service	$ 427		$ 432		$ 429		$ 470	
TOTAL TRANSFERS OUT		**$ 3,059**		**$ 3,091**		**$ 2,882**		**$ 3,101**
TOTAL OPERATING EXPENDITURES AND TRANSFERS OUT		**$ 27,162**		**$ 28,325**		**$ 28,350**		**$ 31,562**
BUDGET BASIS FINANCIAL RESULTS AND BALANCE								
BUDGET BASIS OPERATING SURPLUS (DEFICIT) [Receipts less Disbursements]		**$ 197**		**$ 5**		**$ 143**		**$ 15**
OTHER FINANCIAL SOURCES (USES)								
Short-Term Borrowing Proceeds	$ 1,000		$ -		$ 900		$ -	
Repay Short-Term Borrowing (includes interest)	($1,014)		$ -		($911)		$ -	
TOTAL OTHER FINANCIAL SOURCES (USES)		**($14)**		**$ -**		**($11)**		**$ -**
BUDGET BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR		**$ 183**		**$ 5**		**$ 132**		**$ 15**
Plus: Budget Basis Fund Balance at Beginning of the Fiscal Year		**($474)**		**($291)**		**($291)**		**($159)**
BUDGET BASIS FUND BALANCE (DEFICIT) AT END OF FISCAL YEAR		**($291)**		**($287)**		**($159)**		**($144)**
CASH BASIS FINANCIAL RESULTS								
BUDGET BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR		**$ 183**		**$ 5**		**$ 132**		**$ 15**
Change in Accounts Payable (Change in Lapse Period Amounts)								
Accounts Payable at End of Prior Fiscal Year	$ 971		$ 881		$ 881		$ 850	
Less: Accounts Payable at End of Current Fiscal Year	($881)		($881)		($850)		($850)	
Equals: **Increase/(Paydown) of Accounts Payable During Fiscal Year**		**($90)**		**$0**		**($31)**		**$0**
CASH BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR [1]		**$ 93**		**$ 5**		**$ 101**		**$ 15**
CASH POSITION								
CASH BASIS SURPLUS (DEFICIT) FOR FISCAL YEAR		**$ 93**		**$ 5**		**$ 101**		**$ 15**
Plus: **Cash Balance in General Funds at Beginning of Fiscal Year**		**$ 497**		**$ 590**		**$ 590**		**$ 691**
Equals: **Cash Balance in General Funds at End of Fiscal Year**		**$ 590**		**$ 595**		**$ 691**		**$ 706**
Plus: **Cash Balance in Budget Stabilization Fund at End of Fiscal Year** [2]		**$ 276**		**$ 276**		**$ 276**		**$ 500**
Equals: **Total Cash at End of Fiscal Year**		**$ 866**		**$ 871**		**$ 967**		**$ 1,206**

[1] **Cash Basis Surplus (Deficit) is equal to Budget Basis Surplus (Deficit) minus (plus) Other Cash Uses (Sources) relating to changes in Accounts Payable during the fiscal year.**

[2] **Reflects FY2008 transfer to the Budget Stabilization Fund of cash balances from various State Special Funds being consolidated into the General Funds.**

TABLE 6
GENERAL FUNDS RECONCILIATION
FISCAL YEAR 2006
($ IN MILLIONS)

	Cash Basis	Adjustments for Budgetary Basis	Budgetary Basis	Adjustments for GAAP	GAAP Basis
Revenues:					
Income Taxes (net)	10,062	-	10,062	209	10,272
Sales Taxes (net)	7,085	7	7,092	(126)	6,965
Public Utility Taxes (net)	1,074	-	1,074	(15)	1,059
Federal Government (net)	4,647	-	4,647	1,671	6,318
Other (net)	2,297	(7)	2,290	1,298	3,588
Total Revenues	25,165	0	25,165	3,037	28,203
Expenditures:					
Current:					
Health and Social Services	12,544	(58)	12,487	1,964	14,451
Education	8,848	61	8,909	90	8,999
General Government	639	(29)	610	125	735
Employment and Economic Development	163	(59)	104	44	148
Transportation	115	1,563	1,678	(1,578)	100
Public Protection and Justice	1,721	(1,562)	159	1,735	1,894
Environment and Business Regulation	111	(5)	106	21	127
Debt Service:					
Principal	-	-	-	3	3
Interest	-	-	-	1	1
Capital Outlays	35	(2)	33	(23)	11
Total Expenditures	24,176	(90)	24,086	2,382	26,469
Excess of Revenues Over Expenditures	989	90	1,079	655	1,734
Other Sources (Uses) of Financial Resources:					
Operating Transfers In	5,315	-	5,315	(2,409)	2,906
Operating Transfers Out	(7,211)	-	(7,211)	3,301	(3,910)
Proceeds from short-term borrowings	1,000		1,000	(1,000)	-
Proceeds from Capital Lease Financing		-	-	1	1
Other financial sources	-	-	-	4	4
Net Other (Uses) of Financial Resources	(896)	-	(896)	(102)	(998)
Excess of Revenues Over Expenditures and Net Other (Uses) of Financial Resources	93	90	183	553	736
Fund Balances (Deficit) July 1, 2005	497	(971)	(474)	(2,590)	(3,064)
Increase (Decrease) for Changes in Inventories	-	-	-	420	420
Fund Balances (Deficit) June 30, 2006	**590**	**(881)**	**(291)**	**(2,037)**	**(2,327)**

Source: Based on information from the Comptroller and derived from the State's Comprehensive Annual Financial Report, which may be found at: *www.apps.ioc.state.il.us/ioc-pdf/CAFR_2006.pdf*).
Note: Columns may not add due to rounding.

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GAAP FINANCIAL REPORT

The complete General Purpose Financial Statements for FY06, prepared in accordance with GAAP, have been filed with each NRMSIR and are incorporated herein by reference thereto. Such Statements are also available upon request from the Comptroller at (217) 782 6000 or from the Comptroller's webpage at www.illinoiscomptroller.com. These statements were prepared by the Comptroller and examined and certified by the State Auditor General. For FY06, the Auditor General has expressed an unqualified opinion on the General Purpose Financial Statements.

Note 1 – Cash/Budget to GAAP Perspective Difference

On the GAAP basis, the Medicaid Provider Assessment Program Funds and the Income Tax Refund Fund are reported as part of the General Fund; whereas, they are not considered part of the General Fund on the budgetary basis or the cash basis.

Note 2 – Cash to Budget Adjustments

The budgetary basis fund balance deficit of $290,887 equals the June 30, 2006 cash balance of $590,434 less cash lapse period expenditures of $881,321. Adjustments from the cash basis of accounting for FY06 to the budgetary basis include adding FY06 lapse period spending (July 1 – August 31, 2006) and subtracting FY05 lapse period spending (July 1 – August 31, 2005). Lapse period expenditures are payments between July 1 – August 31 for services received and for goods "encumbered" (ordered or contracted for) on or before June 30 and received no later than August 31 which are paid from FY05 "lapsing accounts." These expenditures include refunds which have been netted against the related revenue.

Note 3 – Budget to GAAP Adjustments

A detail of the reconciliation of the budgetary basis vs. GAAP is presented in the Notes to Required Supplemental Information in the CAFR. Significant differences noted in the financial statements include recording accounts receivable, deferred revenue and accounts payable at year-end. Accounts payable include liabilities which will be paid from future year appropriations (e.g., income tax refunds, Public Aid medical reimbursements and payments to local school boards for State Board of Education reimbursement programs).

There were also classification differences between the budgetary basis and GAAP. Interest paid on income tax refunds is reported as general government expenditures for GAAP reporting purposes and as a reduction of revenues in the budgetary presentation. In addition, transfers from the General Revenue Fund to the Common School Fund and from the Common School Special Account to the Common School Fund, which are reported on the budgetary basis, have been eliminated for GAAP reporting purposes.

TAX STRUCTURE

GENERAL FUNDS

The General Funds receive the major share of tax revenues from the following five sources:

Personal Income Tax: The personal income tax liability is 3.0 percent of each taxpayer's Illinois base income with an exemption allowed for the taxpayer and each dependent. There are also additional exemptions for the elderly, blind and disabled. The standard exemption is $2,000.

The Income Tax Refund Fund (the "*Refund Fund*") was created in 1989. Both corporate and personal income tax refunds are paid from the Refund Fund rather than the General Revenue Fund. Statutorily, the annual percentage of corporate or personal income tax collections deposited into the Refund Fund (the "*Refund Fund Rate*") is determined by a formula, the numerator of which is the prior year income tax refunds paid or approved for payment, and the denominator is the prior year income tax collections.

The Refund Fund rate for personal income taxes was statutorily set at 7.1 percent for FY99 - 01 to accommodate increases to the personal exemption. In FY02, the Refund Fund rate for personal income taxes was determined by the statutory formula, with a cap of 7.6 percent. In FY03, the Refund Fund rate for personal income taxes was set at 8.0 percent pursuant to Public Act 92-600. The Refund Fund rate for FY04 for personal income taxes was set at 11.7 percent pursuant to Public Act 93-32. After FY04, Public Act 93-32 provides that the Refund Fund rate for personal income taxes is determined by the statutory formula. The statutory rates were set at 10% for FY05, and 9.75% subsequently, including the proposed FY08 budget.

All personal income tax collections not deposited into the Refund Fund are deposited into the General Funds. During FY04, the personal income tax accounted for approximately 30.6 percent of General Funds revenues. The State Constitution requires that the basic corporate income tax rate not exceed the personal income tax rate by more than a ratio of 8:5.

Corporate Income Tax: The corporate income tax liability is 4.8 percent of each corporation's taxable income with a $1,000 exemption. The State Constitution requires that the basic corporate income tax rate not exceed the personal income tax rate by more than a ratio of 8:5. Multi-state corporations have corporate income tax liability based on their property, payroll and sales attributable to Illinois.

The Refund Fund rate for corporate income taxes was statutorily set at 19.0 percent for FY99 - 01 to accommodate the changes to the apportionment formula. In FY02, the Refund Fund rate for corporate income taxes was determined by the statutory formula, with a cap of 23.0 percent. In FY03, the Refund Fund rate for corporate income taxes was set at 27.0 percent pursuant to Public Act 92-600. The Refund Fund rate for FY04 for corporate income taxes was set at 32 percent pursuant to Public Act 93 32. After FY04, Public Act 93-32 provides that the Refund Fund rate for corporate income taxes will be determined by the statutory formula. The statutory rates were set at 24%, 20% and 17.5% for FY05, 06 and 07, respectively. The FY08 budget assumes the current 17.5% rate.

State corporate income taxes not deposited into the Refund Fund are deposited into the General Funds. During FY06, corporate income taxes accounted for approximately 5.2 percent of General Funds revenues.

Corporations are subject to a supplemental income tax at a rate of 2.5 percent (1.5 percent for a partnership, trust, or Subchapter S corporation), imposed to replace for local governments the corporate personal property tax which was abolished on January 1, 1979. The replacement income tax is distributed to local governments by the State.

Sales Tax: The State levies a tax on retail sales subject to certain exemptions, including food and drugs. The sales and use tax rate is 6.25 percent, comprised of the State's portion of 5.0 percent and the local government's portion of 1.25 percent. The 6.25 percent tax is applied to a standard base, meaning counties and municipalities must tax the same items as the State. In FY06, sales taxes provided approximately 25.9 percent of General Funds revenues.

Public Utility Taxes: Public utility tax receipts are comprised of taxes on electricity, natural gas, and telecommunications. In FY06, public utility taxes provided 3.9 percent of General Funds revenues. The tax for natural gas is imposed on gas utilities at the lesser of 5.0 percent of gross receipts or 2.4 cents per therm. The tax on electricity is a per kilowatt hour tax on end-user usage, with the marginal tax rate declining as usage increases during the month. Non-residential customers may opt to be "self-assessing purchasers" and pay at the rate of 5.1 percent of purchase price of the electricity that is used or consumed in a month.

The Telecommunications Excise Tax Act was amended in 1998 to raise the tax on all telecommunications billed to Illinois consumers from 5.0 to 7.0 percent of gross receipts. One half of the additional revenue is deposited into the Common School Fund, a General Fund, and one-half is deposited into the School Infrastructure Fund. Transfers from the School Infrastructure Fund are made to the GOBRI Fund as a supplementary source for debt service on school construction bonds issued under Section 5(e) of the Bond Act.

Cigarette Tax: The cigarette tax is 98 cents per package of 20 cigarettes and was last increased by 40 cents per package of 20 cigarettes in June 2002. From the total tax collected, $33.3 million a month is deposited into the General Funds and $5 million a month is deposited into the School Infrastructure Fund for debt service payments on an expansion of the school construction grant program. Remaining cigarette tax revenues are deposited into the Long Term Care Provider Fund.

ROAD FUND

The Road Fund receives the bulk of its State revenues from motor fuel taxes and vehicle registration fees.

Motor Fuel Tax: The State imposes the following taxes on motor fuel used for highway transportation on a per gallon basis:

- Motor fuel tax of 19 cents per gallon;
- Additional diesel tax of 2.5 cents per gallon; and
- Leaking Underground Storage Tank (LUST) tax of 0.3 cents per gallon.

Motor fuel tax receipts are deposited into the Motor Fuel Tax ("*MFT*") Fund. The revenues from the MFT Fund are split between the State and local government units after certain administrative expenses and a series of transfers out to other State funds. These revenues are split 45.6 percent to the State and 54.4 percent to the local governments. Of the State's share, 37 percent is deposited into the State Construction Account Fund and 63 percent is deposited into the Road Fund. The local share of receipts is awarded as grants to municipalities, counties, townships and road districts.

The revenues from the additional diesel tax are deposited directly into the State Construction Account Fund which is used for highway construction. The revenues from the 0.3 cents per gallon LUST tax are scheduled to be transferred into the Underground Storage Tank Fund until January 1, 2013.

Motor Vehicle Fees: Revenue from motor vehicle fees is derived primarily from vehicle registrations, with fees from operators' and chauffeurs' licenses and vehicle titles representing a smaller portion of the total. Approximately 60 percent of these fees are paid into the Road Fund, and the remainder is paid into the State Construction Account Fund and other smaller funds. Motor vehicle registration fees are $78 annually and large truck and trailer registration fees were on a scale ranging from $135 for an 8,000 pound truck to $2,790 for an 80,000 pound truck. Certificate of title fees are $65. Since calendar year 2000, $48 of each title fee increase have been deposited into the Road Fund and the remaining $4 have been deposited into the Motor Vehicle License Plate Fund.

TAX BURDEN

Two of the most commonly cited measures of tax burden are tax receipts per capita and tax receipts per $1,000 of personal income. According to the United States Department of Commerce, Bureau of the Census, State Government Finances: 2004 (revised May 2006), to assess tax burden in a state, these measures are applied to the state's total general revenue collections (general revenue includes state taxes, intergovernmental revenue, current charges and other miscellaneous general revenue) and to state tax collections (state tax collections include sales and gross receipts, corporate income, personal income and other taxes). In 2004, the State's general revenue collections per capita of $3,465 ranked seventh lowest among the states, below the national average of $4,074. When taking into consideration the wealth of states in the United States, the State's 2004 total of $100 General Revenue Funds collected per $1,000 of personal income ranked well below the national average of $123.

With respect to state tax collections only, the State's 2005 per capita collections of $2,069 ranked as the 22nd lowest among the states in the United States, about $120 below the national average. The State's 2005 total of $57 collected per $1,000 of personal income compares to the national average total of $63 collected per $1,000.

MONEY PAID TO THE STATE UNDER PROTEST

Money paid to the State under protest is required to be placed by the Treasurer in a special fund known as the Protest Fund. Corporate income tax, personal property replacement tax, liquor tax and Insurance Privilege Tax comprise approximately 70% of the receipts into this fund. After 30 days from the date of payment into the Protest Fund, the money is to be transferred from the Protest Fund to the appropriate fund in which it would have been deposited had there been no protest. However, the party making the payment under protest may, within that 30-day period, file a complaint and secure a temporary injunction restraining the transfer from the Protest Fund. Under the injunction, the money is to remain in the Protest Fund until a final order or decree of a court determines the proper disposition of the money. As of April 30, 2007, the total Protest Fund balance was $281.0 million.

INDEBTEDNESS

SHORT-TERM DEBT

Pursuant to the State Constitution and the Short Term Borrowing Act, the Governor, Comptroller and Treasurer are authorized (i) to borrow an amount not exceeding 5% of the State's appropriations for any fiscal year in anticipation of revenues to be collected in that fiscal year, which borrowing is to be repaid by the close of that fiscal year and (ii) to borrow an amount not exceeding 15% of the State's appropriations for any fiscal year to meet failures in revenues, which borrowing is to be repaid within one year.

The Short Term Borrowing Act constitutes an appropriation out of any money in the State Treasury of an amount sufficient to pay the principal and interest on short term certificates issued pursuant to such Act.

The following table summarizes the State's history of issuing short term debt.

TABLE 7
SHORT TERM CERTIFICATES ISSUED
($ IN MILLIONS)

Date Issued	Amount Issued	Final Maturity
February 2007	$ 900	June 2007
November 2005	1,000	June 2006
March 2005	765	June 2005
June 2004	850	October 2004
May 2003	1,500	May 2004
July 2002	1,000	June 2003
August 1995	500	June 1996
August 1994	687	June 1995
August 1993	900	June 1994
October 1992	300	June 1993
August 1992	600	May 1993
February 1992	500	October 1992
August 1991	185	June 1991
February 1987	100	February 1988
June-July 1983	200	May 1984

GENERAL OBLIGATION BONDS

GO Bonds of the State may be authorized by a vote of three-fifths of the members of each house of the General Assembly or by a majority of the voters at a general election. The Bond Act consolidated the authorization contained in prior bond acts into a single act and currently authorizes the issuance of multiple purpose GO Bonds in the aggregate amount of $16,927,149,369, excluding general obligation refunding bonds, for capital purposes and $10 billion of GO Bonds for Pension funding purposes. The State issued $10 billion of GO Pension Funding Bonds in June 2003 for the purpose of funding or reimbursing a portion of the State's contributions to State retirement systems. See "PENSION SYSTEMS -- ISSUANCE OF GO PENSION FUNDING BONDS AND ALLOCATION OF PROCEEDS."

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The following table shows the statutory general obligation bond authorization and all GO Bonds outstanding as of June 2, 2007 and does not include the Series 2007A Bonds and the effect of the refunding by the issuance of the Series 2007B Bonds.

TABLE 8
GENERAL OBLIGATION BONDS
(AS OF JUNE 2, 2007)

Authorization Category	Amount Authorized	Amount Issued	Authorized Unissued	Amount Outstanding
Anti-Pollution[1]	$ 599,000,000	$ 599,000,000	$ -	$ 7,720,000
Capital Development[1]	1,737,000,000	1,737,000,000	-	-
Coal and Energy Development[1]	35,000,000	35,000,000	-	-
School Construction[1]	330,000,000	330,000,000	-	-
Transportation Series A[1]	1,326,000,000	1,326,000,000	-	-
Transportation Series B[1]	403,000,000	403,000,000	-	-
Multi-purpose	16,927,149,369	14,758,386,352	2,168,763,017	7,915,313,774
Subtotal – New Money Bonds[2]	$21,357,149,369	19,188,386,352	2,168,763,017	7,923,033,774
Refunding Bonds[2]	2,839,025,000	4,240,524,239	938,284,485	1,900,740,515
Subtotal – New Money and Refunding[2]	$24,196,174,369	23,428,910,591	3,107,047,502	9,823,774,289
Pension Refunding	10,000,000,000	10,000,000,000	-	10,000,000,000
Total – Capital and Pension[2]	$34,196,174,369	$33,428,910,591	$3,107,047,502	$19,823,774,289

[1] Issued under predecessor statutes to the Bond Act.

[2] The State is authorized to issue $2,839,025,000 of GO Bonds, at any time and from time to time outstanding, for the purpose of refunding any outstanding GO Bonds. The authorized unissued amount of refunding bonds is the difference between the amount authorized and the amount outstanding. Refunding bonds in the aggregate amount of $2,339,783,724 were issued, have matured or have been refunded, and are no longer outstanding.

Pursuant to the Bond Act, amounts in the Anti-Pollution bond retirement and interest fund were transferred to and consolidated in the GOBRI Fund. The GOBRI Fund is used to make debt service payments on outstanding GO Bonds issued for these purposes, on multiple purpose and refunding bonds issued under the Bond Act, and on short term certificates issued as described above under "SHORT-TERM DEBT."

As of May 31, 2007 a total of $494.3 million was available in the GOBRI Fund. Since these moneys are not segregated as to amounts of principal and interest, the amounts of outstanding GO Bonds shown above have not been reduced by this $494.3 million.

INTEREST RATE EXCHANGE AGREEMENTS

In October 2003, the State entered into five separate, but substantially identical, interest rate exchange agreements (collectively, the "*Agreements*") to convert the variable rate on its Variable Rate GO Bonds, Series B of October 2003, to a synthetic fixed rate. The Agreements have an aggregate notional amount of $600 million, bear a fixed rate of interest of 3.89% and were allocated among five separate counterparties (each a "*Counterparty*" and collectively, the "*Counterparties*"). The Agreements are proportionate among the Counterparties, and the Agreement amounts are identified to and amortize with the Series B of October of 2003 variable rate bonds until their final maturity on October 1, 2033. Pursuant to Section 9(b) of the Bond Act, net payments under the Agreements shall be considered interest on such bonds, which shall be subject to continuing appropriation for payment by the General Assembly, and are general obligations of the State.

The State entered into the Agreements as a means of (1) lowering its borrowing costs when compared to fixed-rate bonds at the time of issuance and (2) limiting interest rate risk inherent in variable rate debt. The Agreements may expose the State to certain market and credit risks. The State may terminate the Agreements at any time at market value, or upon the occurrence of certain events. In addition, either the State or the Counterparties may terminate the Agreements if the other party fails to perform under the terms of the Agreements. A Counterparty may terminate its related Agreement if the State's rating falls below "BBB" from S&P, "Baa" from Moody's and "BBB" from Fitch.

If the Agreements are terminated, the related bonds would continue to bear interest at a variable rate, and the State could be liable for a termination payment if the Agreements have a negative market value.

HISTORICAL BORROWING

The following table summarizes the level of bond sales from FY02-06 and estimated as of June 30, 2007 for FY07.

TABLE 9
GENERAL OBLIGATION BOND SALES
($ IN MILLIONS)

Fiscal Year	Capital Improvement	Refunding	Pension Funding
2002	$ 1,500.0	$ 398.5	$ -
2003	1,650.0	627.0	10,000.0
2004	1,175.0	617.2	-
2005	875.0	-	-
2006	925.0	275.0	-
2007[1]	258.0	-	-

1 Estimated amount of GO Bond issuance for Capital Improvement purposes (including the Series 2007A Bonds), and is subject to change.

INDEBTEDNESS IN PRIOR YEARS

The following table shows the outstanding general obligation indebtedness of the State at the end of each fiscal year from FY02-06 and as of June 2, 2007 for FY07.

TABLE 10
GENERAL OBLIGATION BONDS OUTSTANDING
FISCAL YEARS 2002-2007
($ IN MILLIONS)

Fiscal Year	Capital Improvement	Pension Funding[1]
2002	$7,629.9	$ -
2003	8,812.6	10,000.0
2004	9,556.3	10,000.0
2005	9,893.0	10,000.0
2006	10,251.4	10,000.0
2007[2]	9,823.8	10,000.0

1 Principal and Interest on the Pension Bonds is funded with corresponding reductions to the Unfunded Actuarial Accrued Liability payments appropriated from the General Funds as an unfunded liability replacement financing pursuant to Public Acts 88-593 and 93-009.

2 Does not include the Series 2007A Bonds and the effect of the refunding by the issuance of the Series 2007B Bonds.

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DEBT SERVICE PAYMENTS

Debt service of the State's GO Bonds is paid from the GOBRI Fund. The GOBRI Fund receives transfers from the Road Fund to pay debt service on bonds issued for Transportation A Highways purposes, from the School Infrastructure Fund and the General Revenue Fund to pay debt service on bonds issued under Section 5(e) of the Bond Act and from the General Revenue Fund to pay debt service on bonds issued for all other purposes.

Not including debt service on short term debt certificates as may be from time to time outstanding, the following table shows debt service payments on GO Bonds from FY02 - 06 and the funds from which the transfers originate.

TABLE 11
GENERAL OBLIGATIONS BONDS
DEBT SERVICE PAYMENTS[1]
($ IN MILLIONS)

	FY 03	FY 04	FY 05	FY 06	FY 07
Road Fund	$215.0	$189.3	$237.5	$258.5	$256.3
School Infrastructure Fund	127.5	154.6	196.7	225.9	231.1
General funds	628.9	576.1	664.5	668.8	692.2
General Funds-Pension[1]	-	481.0	496.2	496.2	496.2

1 Interest on GO Pension Bonds for FY04 was funded from Pension Bond proceeds. Principal and Interest on the GO Pension Bonds is funded with corresponding reductions to the Unfunded Actuarial Accrued Liability payments appropriated from the General Funds as an unfunded liability replacement financing pursuant to Public Acts 88-593 and 93-009.

MEASURES OF DEBT BURDEN

Tables 12, 13, 14 and 15 show various measures of the relative burden of the State's GO debt and debt service.

TABLE 12
RATIO OF GENERAL OBLIGATION DEBT SERVICE
TO TOTAL GENERAL AND ROAD FUND APPROPRIATIONS
FISCAL YEARS 2002-2006

Fiscal Year	Total Expenditures[1] (In Millions)	Capital Improvement Bonds[2] % of Expenditures	Pension Bonds % of Expenditures
2002	$27,022	3.15	-
2003	26,560	3.67	-
2004	26,915	3.39	1.84
2005	26,804	4.10	1.85
2006	27,842	4.14	1.78

1 Includes aggregate appropriations from the General Funds and the Road Fund as of the end of each fiscal year.
2 Includes debt service on GO Refunding Bonds for capital improvement purposes.

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TABLE 13
RATIO OF GENERAL OBLIGATION DEBT
TO ILLINOIS PERSONAL INCOME
FISCAL YEARS 2002-2006

Fiscal Year	Illinois Personal Income[1] (In Billions)	Capital Improvement and Refunding Bonds % of Personal Income	Pension Bonds % of Personal Income
2002	$416.1	1.83	-
2003	432.5	2.04	2.31
2004	453.1	2.11	2.21
2005	472.7	2.10	2.12
2006	495.6	2.07	2.02

[1] U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 14
GENERAL OBLIGATION DEBT PER CAPITA
FISCAL YEARS 2002-2006

	2002	2003	2004	2005	2006[3]
Population (in Thousands)[1]	12,532	12,582	12,632	12,763	12,827
Capital Improvement and Refunding Bonds	$609	$700	$757	$775	$799
Pension Bonds Debt per Capita[2]	-	$795	$792	$784	$780

[1] U.S. Department of Commerce, Bureau of the Census, July 2005.
[2] Approximately 73% of the Pension Bond debt per capita is offset by corresponding unfunded pension liability per capita.
[3] GOMB Estimate. Population assumed to grow at 0.5% over year 2005.

TABLE 15
RATIO OF GENERAL OBLIGATION DEBT TO EQUALIZED ASSESSED VALUATION[1]
FISCAL YEARS 2001-2005

Equalized Assessed Value ("EAV")		Capital Improvement And Refunding Bonds		Pension Bonds	
Year	($Millions)	($Millions)	% of EAV	($ Millions)	% of EAV
2001	$220,330	$6,599.6	3.00	$ -	-
2002	240,810	7,629.9	3.17	-	-
2003	259,727	8,812.6	3.39	10,000.0	3.85
2004	277,898	9,556.3	3.44	10,000.0	3.60
2005[1]	290,993	9,893.0	3.40	10,000.0	3.44

Source: Illinois Department of Revenue.
[1] Estimate provided by the Illinois Department of Revenue.

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TABLE 16

MATURITY SCHEDULE - GENERAL OBLIGATION BONDS

Bond Issuances through June 2, 2007**

	General Obligation Capital Improvement Bonds						General Obligation Pension Bonds		
Fiscal Year June 30	Anti-Polution	Multiple Purpose	Refunding	Total Principal	Total Interest	Total Debt Service	Total Principal	Total Interest	Total Debt Service
2008	4,560,000	421,074,415	147,635,980	573,270,394	602,683,347	1,175,953,741	50,000,000	496,200,000	546,200,000
2009	2,360,000	392,575,376	156,015,768	550,951,143	589,824,199	1,140,775,343	50,000,000	494,950,000	544,950,000
2010	800,000	408,739,814	161,524,938	571,064,753	530,416,462	1,101,481,215	50,000,000	493,550,000	543,550,000
2011	-	362,541,202	187,278,829	549,820,031	514,131,912	1,063,951,943	50,000,000	491,900,000	541,900,000
2012	-	340,898,439	168,335,000	509,233,439	463,965,060	973,198,499	100,000,000	490,125,000	590,125,000
2013	-	260,630,751	253,080,000	513,710,751	423,366,668	937,077,419	100,000,000	486,375,000	586,375,000
2014	-	262,489,607	252,970,000	515,459,607	377,436,009	892,895,616	100,000,000	482,525,000	582,525,000
2015	-	391,035,720	145,125,000	536,160,720	326,902,371	863,063,091	100,000,000	478,575,000	578,575,000
2016	-	418,671,341	105,165,000	523,836,341	302,145,809	825,982,150	100,000,000	474,525,000	574,525,000
2017	-	414,976,341	81,070,000	496,046,341	270,501,190	766,547,531	125,000,000	470,175,000	595,175,000
2018	-	401,607,806	71,125,000	472,732,806	234,577,928	707,310,734	150,000,000	464,737,500	614,737,500
2019	-	382,102,317	59,060,000	441,162,317	208,101,058	649,263,375	175,000,000	458,212,500	633,212,500
2020	-	367,251,629	48,110,000	415,361,629	188,949,158	604,310,788	225,000,000	449,550,000	674,550,000
2021	-	342,645,883	56,575,000	399,220,883	161,601,797	560,822,679	275,000,000	438,412,500	713,412,500
2022	-	373,357,410	7,670,000	381,027,410	132,157,415	513,184,825	325,000,000	424,800,000	749,800,000
2023	-	364,492,922	-	364,492,922	118,101,740	482,594,663	375,000,000	408,712,500	783,712,500
2024	-	328,653,968	-	328,653,968	94,159,303	422,813,271	450,000,000	390,150,000	840,150,000
2025	-	287,388,835	-	287,388,835	80,834,707	368,223,542	525,000,000	367,200,000	892,200,000
2026	-	278,030,000	-	278,030,000	63,897,542	341,927,542	575,000,000	340,425,000	915,425,000
2027	-	266,945,000	-	266,945,000	50,025,833	316,970,833	625,000,000	311,100,000	936,100,000
2028	-	232,605,000	-	232,605,000	36,896,250	269,501,250	700,000,000	279,225,000	979,225,000
2029	-	201,370,000	-	201,370,000	25,476,917	226,846,917	775,000,000	243,525,000	1,018,525,000
2030	-	146,260,000	-	146,260,000	17,692,917	163,952,917	875,000,000	204,000,000	1,079,000,000
2031	-	102,215,000	-	102,215,000	11,528,083	113,743,083	975,000,000	159,375,000	1,134,375,000
2032	-	43,335,000	-	43,335,000	7,610,000	50,945,000	1,050,000,000	109,650,000	1,159,650,000
2033	-	42,625,000	-	42,625,000	5,406,833	48,031,833	1,100,000,000	56,100,000	1,156,100,000
2034	-	80,795,000	-	80,795,000	2,323,333	83,118,333	-	-	-
Total	7,720,000	7,915,313,774	1,900,740,515	9,823,774,289	5,840,713,842	15,664,488,131	10,000,000,000	9,964,075,000	19,964,075,000

General Obligation Debt Service payments in progress for Fiscal Year 2007:

06/02/07	4,960,000	425,954,579	146,678,057	577,592,635	602,035,182	1,179,627,817	-	496,200,000	496,200,000
06/30/07	-	-	-	-	-	-	-	-	-
FY 2007	4,960,000	425,954,579	146,678,057	577,592,635	602,035,182	1,179,627,817	-	496,200,000	496,200,000

** Does not include the Series 2007A Bonds and the effect of the refunding by the issuance of the Series 2007B Bonds..

REVENUE BONDS

Revenue bonds are either those bonds for which the State dedicates a specific revenue source for debt service or those bonds under which the State is committed to retire debt issued by certain authorities or municipalities created and organized pursuant to law and operating within the State. The State's commitment is based upon various Illinois statutes and upon contractual arrangements with the issuers. Table 17 identifies the type and current level of revenue bonded indebtedness. A description of each bond program follows the table.

TABLE 17
REVENUE BONDS
(AS OF JUNE 30, 2006)

Revenue Bond Program	Bonds Outstanding
Build Illinois (Sales Tax Revenue Bonds) [1]	$2,319,562,614
Metropolitan Exposition and Auditorium Authorities - Civic Center Program	122,895,732
MPEA[2] - Dedicated State Tax Revenue Bonds	202,545,000
MPEA[2,3] - McCormick Place Expansion Project and Refunding Bonds	2,206,192,821
Illinois Sports Facilities Authority	485,098,042
Illinois Certificates of Participation	27,570,000
Total	**$5,363,864,208**

[1] The State expects to issue $50 Millions in Build Illinois Bonds in July 2007.
[2] Metropolitan Pier and Exposition Authority ("*MPEA*").
[3] Bonds outstanding include capital appreciation bonds expressed in the amount of original principal issuance.

BUILD ILLINOIS

The Build Illinois ("*BI*") program funds initiatives in business development, infrastructure construction and replacement, education, and environmental protection. BI Bonds are dedicated State tax revenue bonds. The current BI bond authorization is $3,806 million. Public Act 93-0839 (effective July 30, 2004) amended the BI Bond Act, 30 ILCS 425 et. seq., to include restrictions similar to those contained in the GO Bond Act.

The BI Fund receives 3.8 percent of State sales tax collections to support debt service on BI Bonds and project spending. To the extent these revenues are insufficient in any month to provide specified amounts set forth in law to secure BI Bonds, an additional amount equal to the deficiency will be paid from the State's sales tax collections.

BI Bonds are limited obligations of the State payable solely from the specified State tax receipts. BI Bonds are not general obligations of the State and are not secured by a pledge of the full faith and credit of the State. BI Bond holders may not require the levy or imposition of any taxes or the application of other State revenue or funds to the payment of the bonds, except for the specified tax revenues pledged to the bonds.

METROPOLITAN EXPOSITION AND AUDITORIUM AUTHORITIES -- CIVIC CENTER PROGRAM

In 1989, the State was authorized to issue Civic Center Bonds. Prior to this change, eligible civic center authorities, and later the Department of Commerce and Community Affairs, issued State-supported bonds to finance the development of community civic centers.

State of Illinois Civic Center Bonds are direct, limited obligations of the State payable from and secured by an irrevocable pledge and lien on moneys deposited in the Illinois Civic Center Bond Retirement and Interest Fund. The payment of debt service is subject to annual appropriation by the General Assembly. The bonds are not general obligations of the State and are not secured by a pledge of the full faith and credit of the State. The bondholders may not require the levy or imposition of any taxes or the application of other State revenues or funds to the payment of the bonds.

METROPOLITAN PIER AND EXPOSITION AUTHORITY -- DEDICATED STATE TAX REVENUE BONDS

Legislation effective in July 1984 dedicated a revenue stream from a variety of State sources to provide financing for the North Building expansion of the McCormick Place complex in Chicago and to redeem outstanding Exposition Building Revenue Bonds. These bonds are secured primarily by revenues from State sales and hotel taxes. The Dedicated State Tax Revenue Bonds are special obligations of the Metropolitan Pier and Exposition Authority ("*MPEA*"); neither the full faith and credit nor the taxing power of the State, other than the specific dedicated taxes, is pledged to the payment of the principal or interest on the bonds. Debt service on the bonds is subject to annual appropriation.

METROPOLITAN PIER AND EXPOSITION AUTHORITY -- EXPANSION PROJECT BONDS

MPEA is authorized to issue McCormick Place Expansion Project Bonds. These bonds are secured by locally imposed taxes including hotel/motel, restaurant, car rental and airport departure taxes. Surplus from the Illinois Sports Facilities Authority hotel tax also is pledged as security for the bonds. If revenues from the taxes imposed by MPEA are insufficient to pay debt service on the Expansion Project Bonds, remaining State sales tax revenues, following required deposits to the Build Illinois Fund, are pledged to meet the deficiency.

ILLINOIS SPORTS FACILITIES AUTHORITY

The Illinois Sports Facilities Authority ("*ISFA*") was created in 1987, with authorization to finance construction of a professional sports stadium within the City of Chicago. Pursuant to legislation effective June 1, 2001, ISFA was authorized to finance reconstruction of a stadium for the Chicago Bears and related lakefront improvements in Chicago (the "*Soldier Field Project*"). Debt issued by ISFA is an obligation of ISFA and is not backed by the full faith and credit of the State. In 1989, ISFA issued $150 million of revenue bonds to finance construction of a new Comiskey Park stadium, now known as "U.S. Cellular Field," and such bonds were refunded in 1999 from the issuance by ISFA of revenue bonds (the "*1999 ISFA Bonds*").

On October 12, 2001, ISFA issued $399 million of revenue bonds to finance the Soldier Field Project (the "*2001 ISFA Bonds*"). The 1999 ISFA Bonds and the 2001 ISFA Bonds are payable, subject to appropriation, from (i) a $10 million subsidy derived equally from State hotel tax revenues and amounts allocable to the City of Chicago under the State Revenue Sharing Act and (ii) an advance of State hotel tax revenues in the amount of $23.425 million in FY03, increasing by 5.615% each fiscal year thereafter, which advance is required to be repaid annually by receipts derived from a two percent hotel tax imposed by ISFA within the City of Chicago. In the event the ISFA tax is insufficient to repay the advance of State hotel tax revenues, the deficiency will be paid from additional amounts allocable to the City of Chicago under the State Revenue Sharing Act. The State expects that all amounts advanced as described in clause (ii) above will be repaid to the State.

In addition, in October 2003 ISFA issued $42.535 million of additional revenue bonds (the "*2003 ISFA Bonds*") to finance a portion of certain renovations to U.S. Cellular Field. The 2003 ISFA Bonds are payable from the same revenue sources as the 1999 ISFA Bonds and the 2001 ISFA Bonds.

CERTIFICATES OF PARTICIPATION

Public Act 93-0839 provides that the State shall not enter into any third-party vendor or other arrangements relating to the issuance of certificates of participation or other forms of financing relating to the rental or purchase of office or other space, buildings, or land unless otherwise authorized by law. The State has issued two series of certificates of participation for the acquisition of real property, $21.0 million in October 1995 and $17.7 million in May 1996. The proceeds of these certificates were used to finance the construction of correctional facilities. The certificates are payable from lease or installment purchase payments which are subject to annual appropriation and are not a full faith and credit obligation of the State.

OTHER OBLIGATIONS

The State has other long-term obligations in the form of lease-purchase payments. Third party vendors have issued certificates of participation to finance renovations and buildings which are leased to State agencies.

The State has additional contingent liabilities in the form of Moral Obligation Bonds which provide for presentation of an appropriation request to the General Assembly for debt service deficiencies (See "MORAL OBLIGATION BONDS") and a statutory Continuing Appropriation of General Funds for lump-sum payments in excess of available loan loss reserves for certain guaranteed loan programs (See "AGRICULTURAL LOAN GUARANTEE PROGRAMS").

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TABLE 18
REVENUE BOND MATURITY SCHEDULE ESTIMATED AS OF JUNE 30, 2007

Year Ending June 30	Build Illinois	MPEA D.S.T.R.B.	MPEA Expansion Project	Civic Center Program	Sports Facilities Authority	Illinois Certificates of Participation	Total Principal	Total Interest	Total Debt Service
2008	135,612,846	21,170,000	33,190,032	7,610,000	11,341,388	1,750,000	210,674,266	249,982,696	460,656,962
2009	134,571,350	22,515,000	40,601,052	8,100,000	12,906,033	1,850,000	220,543,434	246,773,178	467,316,613
2010	138,875,756	24,015,000	50,936,819	8,595,000	14,465,316	1,945,000	238,832,891	234,997,939	473,830,830
2011	140,254,169	25,595,000	63,289,090	9,085,000	2,786,432	2,055,000	243,064,692	231,727,191	474,791,883
2012	139,563,399	26,735,000	38,426,743	9,555,000	3,787,861	2,170,000	220,238,003	255,306,661	475,544,664
2013	142,912,124	28,145,000	36,491,366	10,095,000	4,742,354	2,305,000	224,690,844	254,456,439	479,147,284
2014	150,439,306	29,600,000	35,991,812	10,705,000	5,649,695	2,440,000	234,825,813	246,919,854	481,745,667
2015	148,446,038	4,850,000	36,234,751	11,415,000	6,517,832	2,590,000	210,053,621	246,494,275	456,547,896
2016	149,500,000	-	45,846,956	12,020,000	7,363,337	2,750,000	217,480,293	230,767,792	448,248,085
2017	134,480,000	-	50,075,228	5,488,409	8,151,095	2,915,000	201,109,733	236,915,032	438,024,764
2018	119,720,000	-	50,037,243	5,668,835	6,355,418	3,140,000	184,921,496	244,584,898	429,506,394
2019	106,730,000	-	57,165,083	5,875,462	6,569,442	-	176,339,987	243,965,398	420,305,385
2020	90,685,000	-	65,259,453	6,103,026	6,977,726	-	169,025,206	244,094,114	413,119,320
2021	75,995,000	-	104,202,400	5,405,000	7,374,846	-	192,977,246	207,455,279	400,432,525
2022	70,285,000	-	81,118,012	-	7,767,537	-	159,170,549	242,969,520	402,140,069
2023	57,960,000	-	140,272,495	-	8,156,172	-	206,388,667	197,936,950	404,325,616
2024	50,700,000	-	80,281,436	-	8,543,953	-	139,525,388	257,772,890	397,298,279
2025	49,505,000	-	85,297,449	-	8,891,669	-	143,694,118	253,221,949	396,916,067
2026	47,580,000	-	149,351,189	-	14,950,731	-	211,881,920	184,211,404	396,093,324
2027	38,765,000	-	180,115,836	-	31,842,372	-	250,723,208	138,094,117	388,817,325
2028	35,160,000	-	162,087,687	-	36,240,797	-	233,488,485	153,812,927	387,301,411
2029	14,125,000	-	169,405,321	-	41,040,210	-	224,570,531	144,334,519	368,905,050
2030	11,000,000	-	10,277,690	-	52,405,825	-	73,683,515	291,267,035	364,950,550
2031	6,000,000	-	9,145,954	-	75,355,000	-	90,500,954	274,131,221	364,632,175
2032	-	-	8,140,997	-	84,295,000	-	92,435,997	271,068,428	363,504,425
2033	-	-	7,243,844	-	-	-	7,243,844	267,750,831	274,994,675
2034	-	-	6,447,732	-	-	-	6,447,732	268,546,943	274,994,675
2035	-	-	5,737,216	-	-	-	5,737,216	269,257,459	274,994,675
2036	-	-	5,107,150	-	-	-	5,107,150	269,887,525	274,994,675
2037	-	-	4,545,622	-	-	-	4,545,622	270,449,053	274,994,675
2038	-	-	4,043,951	-	-	-	4,043,951	270,950,724	274,994,675
2039	-	-	3,600,523	-	-	-	3,600,523	271,394,152	274,994,675
2040	-	-	3,202,467	-	-	-	3,202,467	271,792,208	274,994,675
2041	-	-	66,137,223	-	-	-	66,137,223	208,857,452	274,994,675
2042	-	-	265,360,000	-	-	-	265,360,000	9,638,738	274,998,738
Total	2,188,864,988	182,625,000	2,154,667,821	115,720,732	474,478,042	25,910,000	5,142,266,582	8,161,786,791	13,304,053,373

Note: Columns may not add due to rounding.
Total Interest in 2031 and thereafter is largely comprised of interest on capital appreciation bonds issued by MPEA.

MORAL OBLIGATION BONDS

Currently, eight entities in the State may issue Moral Obligation Bonds. A State moral obligation pledge generally provides that in the event the authority issuing Moral Obligation Bonds determines that revenue available to the authority will be insufficient for the payment of principal and interest on such bonds during the next State fiscal period, the authority shall certify to the Governor the amount required to pay such principal and interest and any amounts withdrawn from bond reserve funds to pay principal and interest on Moral Obligation Bonds. The Governor shall then submit the amounts so certified to the General Assembly. The Governor's recommendations for these and all other State appropriations are a matter of executive discretion. Thus, the moral obligation pledge does not constitute a legally enforceable obligation of the Governor to recommend a State appropriation. Moreover, the General Assembly is not statutorily required to make an appropriation for the amount so certified by the authority, nor must the Governor sign any such appropriation bill if passed by the General Assembly.

Debt evidenced by Moral Obligation Bonds is not debt of the State, and is not secured by any State funds.

TABLE 19
MORAL OBLIGATION BOND AUTHORITIES' DEBT[1]
(ESTIMATED AS OF JUNE 30, 2007, $ IN MILLIONS)

Issuing Authority	**Moral Obligation Bonds Outstanding**
Illinois Housing Development Authority	$ 0.3
Southwestern Illinois Development Authority	43.3
Quad Cities Regional Economic Development Authority	0.0
Upper River Valley Development Authority	22.6
Tri-County River Valley Development Authority	0.0
Will-Kankakee Regional Development Authority	0.0
Western Illinois Economic Development Authority	0.0
Illinois Finance Authority[2]	106.9
Total	$173.1

[1] The amounts listed include only those bonds containing a moral obligation pledge.

[2] The Illinois Rural Bond Bank, Illinois Research Park Authority and the Illinois Development Finance Authority were consolidated into the Illinois Finance Authority (the "*IFA*"), which was created on January 1, 2004. Amount reflects outstanding Moral Obligation Bonds issued by the IFA and predecessor authorities.

From time to time, the State has received notices from certain entities which have issued Moral Obligation Bonds that insufficient monies are available for the payment of principal and interest on one or more series of Moral Obligation Bonds or that amounts withdrawn from bond reserve funds to pay principal and interest on Moral Obligation Bonds have not been replenished. The aggregate principal amount of the 15 requested appropriations to date is approximately $11 million. Including the amounts requested in the FY07 budget, all such amounts have been appropriated by the General Assembly.

The State does not have a legal obligation to pay any such amounts and cannot predict whether appropriations for such amounts will be enacted. No assurance can be given that future requests for State appropriation will not be received by the State or that such requests will not be for material amounts. Further, no assurance can be given that an appropriation would be enacted with respect to such future request.

AGRICULTURAL LOAN GUARANTEE PROGRAM

The IFA, as successor to the Illinois Farm Development Authority, is authorized at 20 ILCS 3501/830 et seq., (the "*Loan Program*"), to issue up to $235 million in guarantees for loans by financial institutions ("*Secured Lenders*") to agriculture and agribusiness borrowers. Under the Loan Program, Secured Lenders may receive a lump-sum payment up to a maximum of 85% of a remaining loan balance in the event of a default. The IFA currently maintains two reserve funds, (i) The Illinois Agricultural Loan Fund, and (ii) The Illinois Farmer & Agribusiness Loan Guarantee Fund (collectively, the "*Reserve Funds*"), from which default lump-sum payments may be made. As of December 31, 2006, the available balances in the Reserve Funds held by the IFA were $10.8 million and $8.1 million, respectively.

These Reserve Funds are further backed by a "*continuing appropriation*" of the State's General Funds as a full faith and credit general obligation of the State. As of December 31, 2006, the IFA Loan Program secures: (i) 221 loans in the amount of $52.2 million in Illinois Agricultural Loans and (ii) 91 loans in the amount of $49.5 million Illinois Farmer & Agribusiness Loans. In total, 85 percent of the Loan Program or $86.5 million is guaranteed by the State. To date, there has not been a required transfer from the State's General Funds for default lump-sum payments under the Loan Program.

Loans made pursuant to the Loan Program may be secured for up to five years, are subject to annual renewal by the IFA, and may be discontinued prior to maturity if a Secured Lender fails to properly monitor the Borrower or the loan collateral. Secured Lenders under the Loan Program covenant to timely pursue collateral recovery upon receiving a lump-sum "default" payment, and must bear the first 15% of losses realized after collateral recovery.

In November 2006, the IFA extended a $15 million State guarantee to a $24.5 million loan by Fifth Third Bank to Bio-fuels Company of America (the "*Borrower*"), to construct, own and operate a 45 million gallon per year bio-diesel fuel plant located in Danville, Illinois. The Borrower has entered a guaranteed supply agreement and 20% equity partnership with Bunge North America, to provide soy bean oil, a principal commodity required for production of bio-diesel fuel.

PENSION SYSTEMS

OVERVIEW

The State has five Retirement Systems which provide benefits upon retirement, death or disability to employees and beneficiaries. The five Retirement Systems (collectively, the "*Retirement Systems*") are:

1. Teachers' Retirement System of the State of Illinois ("*TRS*")
2. State Universities Retirement System ("*SURS*")
3. State Employees' Retirement System of Illinois ("*SERS*")
4. Judges Retirement System of Illinois ("*JRS*")
5. General Assembly Retirement System ("*GARS*")

Pursuant to the Illinois Pension Code (40 ILCS 5/1-101 *et seq*.), as amended (the "*Pension Code*"), the State and active employee members of the systems are responsible for funding contributions of the Retirement Systems. The State Constitution guarantees that members' retirement benefits, once granted, cannot be diminished or impaired.

Members of each Retirement System, as a condition of participation, contribute a portion of annual salary. The members' contribution rate ranges from 4 to 12.5 percent depending on the fund to which contributions are deposited and whether or not the member participates in the federal Social Security program. Benefits paid to retired members, generally are based on a fixed benefit plan. Under this type of plan, benefits are generally computed as a percentage of final average salary multiplied by the number of years of service the employee has worked at the time of retirement.

Each Retirement System retains actuarial advisors to report on its aggregate membership, fair market value of assets, the actuarially determined aggregate liability for benefits, and its Unfunded Accrued Actuarial Liability (or "*UAAL*"). The most recently available actuarial reports as of fiscal year end June 30, 2006 are summarized for all Retirement Systems:

- Total membership of 677,738 consisting of 305,989 active members, 188,973 inactive members entitled to benefits and 182,776 retired members and beneficiaries.
- Approximately $62.3 billion of assets at fair market value, approximately $103.1 billion in actuarially determined accrued liability, and a UAAL of approximately $40.7 billion, or a funded ratio of 60.5%, which increased slightly from a funded ratio of 60.3% as of June 30, 2005.

The following chart sets forth the number of participants, assets, liabilities and UAAL for each individual Retirement System as of June 30, 2006:

TABLE 20
RETIREMENT SYSTEMS' PENSION FUND STATISTICS

	Participants (As of June 30, 2006)				$ in millions (As of June 30, 2006)		
Retirement System	**Active Members**	**Inactive / Entitled to Benefits**	**Retirees and Beneficiaries**	**Total**	**Assets[1]**	**Liabilities[2]**	**UAAL**
TRS	155,946	94,594	85,153	335,693	$36,584.9	$58,996.9	$22,412.0
SURS	80,869	72,606	41,638	195,113	14,175.1	21,689.0	7,513.9
SERS	68,075	21,660	54,678	144,413	10,899.9	20,874.5	9,974.6
JRS	917	30	912	1,859	599.2	1,291.4	692.2
GARS	182	83	395	660	82.3	221.7	139.4
Total	**305,989**	**188,973**	**182,776**	**677,738**	**$62,341.4**	**$103,073.5**	**$40,732.1**

[1] Net assets are reported at fair market value per Governmental Accounting Standards Board Statement 25.

[2] Actuarially determined accrued cost of projected benefits.

STATE LAW REQUIREMENTS FOR RETIREMENT SYSTEMS FUNDING

State law regulates the State's funding of the Retirement Systems. Public Act 88-593, effective July 1, 1995, created a 50-year funding schedule for the Retirement Systems which requires the State to contribute each year, starting with FY11, the level percentage of payroll sufficient to cause the assets of the Retirement Systems to equal 90 percent of the total accrued liabilities by the end of FY45. In FY97 - 10, contributions as a percentage of payroll are increased each year such that by 20FY10, the contribution rate is at the same level as required for FY11 - 45. The legislation also provided for continuing appropriations to the Retirement Systems beginning in FY96. This provision requires the State to provide contributions to the Retirement Systems without being subject to the annual appropriation process. Except as provided for FY06 and 07 in connection to certain pension benefit reform measures pursuant to Public Act 94-4 (described below), in the event that the General Assembly fails to appropriate the amounts certified by the Retirement Systems, Public Act 88-593 provides for payments to be transferred by the Comptroller and the Treasurer to the Retirement Systems, in amounts sufficient to meet their requirements.

ISSUANCE OF GO PENSION FUNDING BONDS AND ALLOCATION OF PROCEEDS

On June 12, 2003, the State issued $10 billion of GO Pension Funding Bonds. The net proceeds of the GO Pension Funding Bonds were used to (i) reimburse the State's General Revenue Fund for a portion of the contributions made to the Retirement Systems for the last quarter of the State's FY03, or a total of $300 million, (ii) reimburse the State's General Revenue Fund for the State's contributions to the Retirement Systems for the State's FY04, up to a total of $1.86 billion, and (iii) fund a portion of the UAAL for the net balance of the proceeds after capitalized interest and issuance costs, or $7.3 billion. The net proceeds of the GO Pension Funding Bonds were not sufficient to fully fund the UAAL.

FUTURE STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS

Following the receipt of proceeds of the GO Pension Funding Bonds, pursuant to the Pension Code, the State's contributions to the Retirement Systems from the General Revenue Fund for FY05 and thereafter, except as provided expressly in connection with the Pension Act for FY06 and 07, will be decreased by the debt service payments for such fiscal year on the then outstanding GO Pension Funding Bonds to reflect the proceeds already received. Contributions for each fiscal year with respect to each Retirement System will not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under the provisions of the

Pension Code if such Retirement System had not received its allocation of net proceeds of GO Pension Funding Bonds (other than Reimbursement Amounts) as described in the proceeding paragraph, minus (ii) that portion of the State's total debt service payments for that fiscal year on the GO Pension Funding Bonds that is the same as such Retirement System's portion of the total net proceeds transferred to the Retirement Systems as a whole (other than the Reimbursement Amount).

The State may from time to time modify by legislation the computation methodology for purposes of calculating net UAAL.

PUBLIC ACT 94-4

Public Act 94-4, effective June 1, 2005 (the "*Pension Act*"), made certain changes to plan benefit provisions which are expected to reduce future funding requirements. Certain provisions of the Pension Act are summarized below:

- New benefit increases are prohibited unless there is a specifically identified adequate additional funding source upon adoption of the benefit, and that all such benefit increases will expire five years after their effective date, unless extended by an act of the General Assembly.
- The Money Purchase Option (the "*MPO*") is discontinued for TRS and SURS for participants employed after July 1, 2005. The MPO provides that a member is entitled to an annuity computed under the defined benefit formula or the MPO, whichever is greater. Employee contributions are matched at 140% and converted to an actuarially equivalent annuity. Under the Pension Act, the Comptroller assumes the role of setting each one-year money purchase rate for grandfathered participants (those employed prior to July 1, 2005). Taking into account historical and projected future SURS assets performance, and giving affect to certain constitutional provisions, the Comptroller set the FY07 MPO rate to 8.0%, a downward revision from 8.5% for 2006.
- Local employers must fund the additional cost of pension benefits attributable to pay increases during the final four years of employment that exceed 6%.
- The Early Retirement Option (the "*ERO*") for TRS, which replaces the ERO that expired June 30, 2005, increases the required member and school district contributions and increases the service requirement for unreduced benefits from 34 to 35 years. TRS members who have notified their employer by June 1, 2005 of their intent to retire by July 1, 2007 remain eligible to retire under the prior ERO.
- Local employers are required to pay the normal cost related to sick leave granted in excess of the normal allotment.
- Payments into the Retirement Systems for FY06 and 07 are set to $1,431.7 million and $1,868.9 million respectively, which include debt service of approximately $496 million each year required for the GO Pension Funding Bonds issued in FY03. Contributions for normal and unfunded pension costs will resume under the 50-year funding schedule pursuant to Public Act 88-593 beginning in FY08, adjusted for debt service on the GO Pension Funding Bonds as described further herein.

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FUNDING FOR RETIREMENT SYSTEMS

One measure of the fiscal condition of retirement systems, the degree of funding or the funding ratio, is the ratio of net assets to total liabilities. Table 21 summarizes the degree of funding for the Retirement Systems from FY02 - FY06.

TABLE 21
PENSION SYSTEMS DEGREE OF FUNDING
FISCAL YEARS ENDING JUNE 30TH 2002-2006
($ IN MILLIONS)

Fiscal Year	Total Assets[1]	Liabilities[2]	Ratio (%)
2002	40,252.6	75,198.2	53.5%
2003	40,721.2	83,825.2	48.6%
2004	54,739.0	89,832.4	60.9%
2005	58,577.9	97,178.1	60.3%
2006	62,341.4	103,073.5	60.5%

[1] Net assets are reported at fair market value per Governmental Accounting Standards Board Statement 25.

[2] Actuarially determined accrued cost of projected benefits.

In FY04, in addition to its then current obligations to the Retirement Systems for FY04 in the amount of $1.86 billion, the State appropriated approximately $7.3 billion to the Retirement Systems from the proceeds of the GO Pension Funding Bonds previously discussed.

Table 21 reflects the fair market value of the total assets of the Retirement Systems and the actuarially determined accrued cost of projected benefits of the Retirement Systems as of the fiscal years of the State contained therein. The UAAL has increased from time to time as a result of State legislation increasing benefits to participants in the Retirement Systems without funding (now prohibited under the Pension Act), and increased or decreased based on performance of investments held within each such Retirement System. Notwithstanding the foregoing, no assurance can be given that the Retirement Systems' actuarial assumptions underlying the calculations of total liabilities of the Retirement Systems or underlying the calculations of the total assets of the Retirement Systems due to a reduced reinvestment rate on the Retirement Systems' investment portfolio could not be modified in a material manner from time to time in the future. Such modification could result in a significant increase (or decrease) in the UAAL of the Retirement Systems and, therefore, a significant increase (or decrease) in the obligations of the State. In addition, the UAAL may be affected by certain other factors, including, without limitation, inflation, changes in the Pension Code, and changes in benefits provided or in the contribution rates of the State.

FINANCIAL DATA FOR RETIREMENT SYSTEMS

The tables that follow provide information on the assets, liabilities, income and expenses for each Retirement System for FY02 - 06. The data were obtained from the audited financial statements of the Retirement Systems.

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TABLE 22
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2006
($ in Thousands)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities[1]
Begin, Net Assets[2]	10,494,147.9	34,085,218.5	13,350,277.6	83,273.2	564,999.4	58,577,916.6	350,180.7
Income							
Member contributions	214,108.8	799,034.3	180,018.0	1,491.8	13,833.1	1,208,486.0	29,366.2
State contributions	210,499.7	534,305.2	252,921.8	4,175.4	29,337.9	1,031,240.0	39,470.3
Investment income	1,113,231.7	3,993,289.8	1,532,095.6	7,873.0	61,329.7	6,707,819.8	34,714.7
Other							
Expenditures							
Benefits	1,110,585.9	2,877,230.5	1,085,383.7	14,065.8	68,997.1	5,156,263.0	1,181.6
Refunds	13,410.0	57,967.0	42,620.2	187.9	821.6	115,006.7	8,802.4
Administration	8,139.2	15,303.3	11,982.2	304.7	447.3	36,176.7	
Other			179.6			179.6	
Equity Transfer							
Ending Net Asset Balance	10,899,853.0	36,584,889.4	14,175,147.2	82,254.8	599,234.1	62,341,378.5	350,180.6
Actuarial Liabilities[3]	20,874,541.9	58,996,913.0	21,688,900.0	221,713.3	1,291,394.8	103,073,463.0	N/A
Unfunded Accrued Liability	9,974,688.9	22,412,023.6	7,513,752.8	139,458.5	692,160.7	40,732,084.5	N/A
Asset/Liability Ratio	52.2%	62.0%	65.4%	37.1%	46.4%	60.5%	N/A

[1] The SURS Self Managed Plan (SMP) is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 2006, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

Table 23
State Retirement Systems
Fiscal Year 2005
($ in Thousands)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities[1]
Begin, Net Assets[2]	9,990,186.9	31,544,729.3	12,586,304.7	83,208.0	534,579.8	54,739,008.7	275,074.9
Income							
Member contributions	209,334.2	761,790.0	251,939.6	1,451.3	13,268.5	1,237,783.6	33,645.8
State contributions	427,464.6	906,749.4	285,423.3	4,675.0	32,043.0	1,656,355.3	27,411.7
Investment income	953,579.2	3,330,039.2	1,279,618.1	7,642.5	50,849.0	5,621,728.0	22,346.7
Other		168,813.0				168,813.0	
Expenditures						-	
Benefits	1,063,970.4	2,553,102.9	1,004,452.2	13,363.3	64,539.6	4,699,428.4	917.5
Refunds	14,105.3	59,395.8	35,775.9	23.2	740.5	110,040.7	7,380.9
Administration	8,311.3	14,403.7	12,087.1	317.1	460.8	35,580.0	
Other			692.8			692.8	
Equity Transfer							
Ending Net Asset Balance	10,494,147.9	34,085,218.5	13,350,277.6	83,273.2	564,999.4	58,577,916.6	350,180.7
Actuarial Liabilities[3]	19,304,646.6	56,075,029.0	20,349,000.0	212,905.7	1,236,512.1	97,178,093.4	N/A
Unfunded Accrued Liability	8,810,498.7	21,989,810.5	6,998,722.4	129,632.5	671,512.7	38,600,176.8	N/A
Asset/Liability Ratio	54.4%	60.8%	65.6%	39.1%	45.7%	60.3%	N/A

[1] The SURS Self Managed Plan (SMP) is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 2005, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

TABLE 24
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2004
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities[1]
Begin, Net Assets[2]	7,502,111.4	23,124,823.1	9,714,547.3	49,676.3	330,053.6	40,721,211.7	190,487.4
Income							
Member contributions	199,826.5	768,661.3	243,824.0	1,596.7	13,720.9	1,227,629.4	31,320.2
State contributions	1,864,673.4	5,361,851.8	1,757,546.9	32,951.8	178,593.1	9,195,617.0	25,769.1
Investment income	1,421,912.5	4,485,729.3	1,832,399.9	11,851.7	74,012.8	7,825,906.2	32,904.6
Other		127,573.4				127,573.4	
Expenditures							
Benefits	978,201.0	2,262,329.4	915,222.5	12,466.0	60,912.9	4,229,131.8	724.8
Refunds	12,442.6	48,019.6	34,453.4	97.8	439.6	95,453.0	4,681.6
Administration	7,693.3	13,560.5	11,516.5	304.7	448.1	33,523.1	
Other			821.1			821.1	
Equity Transfer							
Ending Net Asset Balance	9,990,186.9	31,544,729.3	12,586,304.7	83,208.0	534,579.8	54,739,008.7	275,074.9
Actuarial Liabilities[3]	18,442,664.8	50,947,451.0	19,078,583.0	207,592.7	1,156,093.0	89,832,384.5	N/A
Unfunded Accrued Liability	8,452,477.9	19,402,721.7	6,492,278.3	124,384.7	621,513.2	35,093,375.8	N/A
Asset/Liability Ratio	54.2%	61.9%	66.0%	40.1%	46.2%	60.9%	N/A

[1] The SURS SMPis not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.

[2] Reflects valuation of assets on a market basis as of June 30, 2004, per GASB Statement 25.

[3] Actuarially determined accrued benefit costs.

Note: Numbers may not add due to rounding.

TABLE 25
STATE RETIREMENT SYSTEMS
FISCAL YEAR 2003
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities[1]
Begin, Net Asset Balance[2]	7,673,892.7	22,366,284.8	9,814,676.6	54,050.6	343,659.3	40,252,564.0	134,753.7
Income	696,296.3	2,814,134.9	780,905.0	7,154.8	44,119.0	4,342,610.0	60,404.3
Member contributions	285,209.3	732,020.5	245,243.1	1,954.2	12,905.0	1,277,332.1	30,658.0
State contributions	396,067.2	929,709.8	249,329.8	5,163.0	31,373.0	1,611,642.8	20,316.2
Investment income	15,019.8	1,060,852.1	250,398.3	(233.1)	(226.1)	1,325,811.0	4,993.2
Other	0.0	91,552.5	35,933.8	270.7	67.1	127,824.1	4,436.9
Expenditures	868,077.6	2,055,596.4	882,076.0	11,529.1	57,724.7	3,875,003.8	3,628.9
Benefits	831,486.6	1,998,622.3	836,661.7	11,131.5	56,714.5	3,734,616.6	670.5
Refunds	28,369.8	43,114.7	32,218.8	106.7	582.5	104,392.5	2,958.4
Administration	8,221.2	13,859.4	11,913.0	290.9	427.7	34,712.2	0.0
Other	0.0	0.0	1,282.5	0.0	0.0	1,282.5	0.0
Equity Transfer			1,041.7				(1,041.7)
Ending Net Asset Balance	7,502,111.4	23,124,823.3	9,714,547.3	49,676.3	330,053.6	40,721,211.9	190,487.4
Actuarial Liabilities[3]	17,593,980.0	46,933,432.0	18,025,032.0	196,510.1	1,076,232.0	83,825,186.1	N/A
Unfunded Accrued Liability	10,091,868.6	23,808,608.7	8,310,484.7	146,833.8	746,178.4	43,103,974.2	N/A
Asset/Liability Ratio	42.6%	49.3%	53.9%	25.3%	30.7%	48.6%	N/A

[1] The SURS SMPis not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 2003, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

Table 26
State Retirement Systems
Fiscal Year 2002
($ in Thousands)

	SERS	TRS	SURS	GARS	JRS	Total	Self Managed Plan State Universities[1]
Begin, Net Asset Balanced[2]	8,276,661.4	23,315,646.1	10,753,296.9	61,997.8	381,733.6	42,789,335.8	101,943.4
Income	36,920.6	864,522.7	(143,600.4)	2,359.0	15,525.4	775,727.3	33,685.8
Member contributions	196,915.4	681,151.8	251,573.7	1,552.3	12,487.3	1,143,680.5	25,904.0
State contributions	386,116.6	814,793.8	221,537.7	4,678.0	27,532.0	1,454,604.1	18,886.3
Investment income	(546,111.4)	(723,987.0)	(651,298.4)	(3,914.8)	(24,493.9)	(1,949,805.5)	(15,185.7)
Other	0.0	92,618.1	34,586.6	43.5	0.0	127,248.2	4,081.2
Expenditures	639,689.3	1,813,884.0	793,470.0	10,306.2	53,599.7	3,310,949.2	2,425.4
Benefits	617,918.5	1,759,748.7	743,267.1	9,953.2	52,822.3	3,183,709.8	2.8
Refunds	14,147.2	38,755.6	37,040.4	68.2	353.2	90,364.6	2,422.6
Administration	7,623.6	13,487.4	11,868.0	284.8	424.2	33,688.0	0.0
Other	0.0	1,892.3	1,294.5	0.0	0.0	3,186.8	0.0
Equity Transfer			(1,549.9)				1,549.9
Ending Net Asset Balance	7,673,892.7	22,366,284.8	9,814,676.6	54,050.6	343,659.3	40,252,564.0	134,753.7
Actuarial Liabilities[3]	14,291,044.6	43,047,674.0	16,654,041.0	184,582.5	1,020,846.8	75,198,188.9	N/A
Unfunded Accrued Liability	6,617,151.9	20,681,389.2	6,839,364.4	130,531.9	677,187.5	34,945,624.9	N/A
Asset/Liability Ratio	53.7%	52.0%	58.9%	29.3%	33.7%	53.5%	N/A

[1] The SURS SMPis not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 2002, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

STATE REPORTING AND DISCLOSURE REGARDING BENEFIT PLANS

The State will implement Governmental Accounting Standards Board Statements No. 43 ("*GASB 43*") and No. 45 ("*GASB 45*") when they first become applicable in fiscal years 2007 and 2008 respectively. The State will implement these new statements for: (1) postretirement benefit plans that the state acts as an employer, such as SEGIP, and (2) postretirement benefit plans that the state sponsors on behalf of local government entities, such as TRIP, CIP and LGHP.

These new standards establish new financial reporting and disclosure requirements for the State for such plans. These new standards require expanded notes to the State's financial statements and the inclusion of the accrual of any unfunded actuarially determined annual contribution requirement. It is expected that such an accrual will only apply to SEGIP and not the plans sponsored by the state on behalf of local governments. The amounts and financial impacts called for by these new standards have not yet been determined.

ADDITIONAL INFORMATION

The information contained in this Official Statement is subject to change without notice and no implication may or shall be derived there from or from the sale of the Bonds that there has been no change in the affairs of the State or the information contained herein since the dates as of which such information is given. Any statements in this Official Statement involving matters of opinion or estimate, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not be construed as a contract or agreement between the State and the purchasers of any of the Bonds.

FINANCIAL ADVISORS

D. A. Davidson and Company, Chicago, Illinois, and Mesirow Financial, Chicago, Illinois, have been retained by the State to serve as Financial Advisors with respect to the Bonds (the "*Financial Advisors*"). The Financial Advisors have assisted the State in matters relating to the planning, structuring and issuance of the Bonds and various other debt related matters.

MISCELLANEOUS

Additional information regarding the Bonds and this Official Statement is available by contacting the Governor's Office of Management and Budget, 108 State Capitol, Springfield, Illinois 62706; telephone: (217) 782-4520.

The State has authorized the distribution of this Official Statement.

STATE OF ILLINOIS

By: /s/ Ginger Ostro

Director Governor's Office of Management and Budget

APPENDIX A

CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS

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APPENDIX A

CERTAIN INFORMATION REGARDING THE STATE OF ILLINOIS

Economic Data

Illinois is a state of diversified economic strength. Personal income and workforce composition in Illinois are similar to that of the United States as a whole. Measured by per capita personal income, Illinois ranks fourth among the ten most populous states and thirteenth among all states. Illinois ranks second among all states in total cash receipts from crops, second in feed and grain exports, second in soybean and product exports, fourth in exports of all commodities and ranks among the top states in several measures of manufacturing activity. Chicago serves as the transportation center of the Midwest and the headquarters of many of the nation's major corporations and financial institutions. Table A-1 compares the workforce composition of Illinois to that of the United States as a whole. Table A-2 shows the distribution of Illinois non-agricultural employment by industry sector.

Table A-1

PAYROLL JOBS BY INDUSTRY[1] – APRIL 2007
(Thousands)

Industry Employment Sector	Illinois	% of Total	U.S.	% of Total
Natural Resources and Mining	10	0.2%	712	0.5%
Construction	280	4.7%	7,683	5.6%
Information and Financial Activities	526	8.8%	11,522	8.4%
Manufacturing	681	11.4%	14,104	10.3%
Trade, Transportation and Utilities	1,202	20.1%	26,406	19.2%
Professional and Business Services	864	14.4%	17,840	13.0%
Education and Health Services	775	12.9%	18,167	13.2%
Leisure and Hospitality	534	8.9%	13,433	9.8%
Other Services	260	4.3%	5,509	4.0%
Government	857	14.3%	22,182	16.1%
Total	5,989	100.0%	137,558	100.1%

Source: U.S. Department of Labor, Bureau of Labor Statistics, April 2007.

[1] Beginning in March 2003, the basis for industry classification changed from the 1987 Standard Industrial Classification System to the 2002 North American Industry Classification System.

Table A-2

NON-AGRICULTURAL PAYROLL JOBS BY INDUSTRY
ILLINOIS - 2003 THROUGH JANUARY 2007
(Thousands)

Industry Employment Sector	2003	2004	2005	2006	2007
Total Non-Agricultural Employment	5,819	5,827	5,931	5,970	5,975
Natural Resources and Mining	9	9	10	10	10
Construction	270	265	275	279	280
Manufacturing	720	699	688	679	679
Non-Durable Goods	287	276	270	266	260
Durable Goods	433	423	418	413	419
Trade, Transportation and Utilities	1,184	1,201	1,223	1,217	1,202
Wholesale Trade	306	300	304	309	310
Retail Trade	622	641	658	644	630
Transportation and Utilities	256	260	261	264	262
Information and Financial Activities	525	519	524	532	526
Professional and Business Services	784	799	837	858	864
Education and Health Services	723	731	758	759	775
Leisure and Hospitality	497	509	512	532	534
Other Services	250	257	260	261	260
Government	857	838	844	843	845

Source: U.S. Department of Labor, Bureau of Labor Statistics, April 2007.

Agriculture

Illinois ranks prominently among states for agricultural activity and exports. Tables A-3 and A-4 summarize key agricultural production statistics including rank among all states for the years 2001 to 2005.

Table A-3

ILLINOIS CASH RECEIPTS FROM CROPS AND LIVESTOCK
($ in Millions)

	2001	2002	2003	2004	2005	2005 Rank
Crops	$5,472	$6,160	$6,716	$6,993	$6,859	2
Livestock	1,835	1,549	1,798	1,938	1,988	24
Total	$7,307	$7,709	$8,514	$8,931	$8,847	6

Source: U.S. Department of Agriculture-Economic Research Service December 2005.

Table A-4

AGRICULTURAL EXPORTS
Federal Fiscal Year 2005
($ in Millions)

Agricultural Exports	U.S. Total	Illinois Share	% of U.S.	Rank
All Commodities	$62,369	$3,282	5.3%	4
Feed Grain and Products	6,944	971	13.9%	2
Soybeans and Products	8,843	1,272	14.4%	2

Source: U.S. Department of Agriculture-Economic Research Service December 2005.

Contracts For Future Construction

Contracts for future construction in Illinois averaged $17.3 billion annually during the period 1995 through 2005 and totaled $24.3 billion in 2005. During the period 1995 through 2005, building permits issued for residential construction averaged 54,900 annually, with an average annual valuation of $7 billion. Table A-5 presents annual data on contracts for future construction and residential building activity.

Table A-5

CONTRACTS FOR FUTURE CONSTRUCTION AND RESIDENTIAL BUILDING
(Valuations in $ Millions)

	Future Contracts for Residential, Non-residential and Non-building Construction[1]	Residential Building Activity (Privately-Owned Housing Units)[2]	
Year	Valuation	Permits	Valuation
1996	12,667	49,592	5,199
1997	12,703	46,323	5,087
1998	15,000	47,984	5,618
1999	16,450	53,974	6,538
2000	16,945	51,944	6,528
2001	19,393	54,839	7,141
2002	20,653	60,971	8,546
2003	19,033	61,296	9,106
2004	21,823	62,268	9,551
2005	24,300	66,942	10,960
2006	24,306	58,866	9,4702

[1] Dodge Division, McGraw Hill Information System Co.
[2] U.S Census Bureau, Housing Units Authorized by Building Permits: Annual, various issues.

Financial Institutions

Illinois serves as the financial center of the Midwest. The State ranks fourth among all states in total assets for commercial banks. As of December 31, 2006, there were 603 commercial and savings banks in Illinois with total assets of $329 billion. Additionally, there were 55 OTS-regulated and FDIC-insured thrift institutions in Illinois with total assets of $35.6 billion.

The 5 largest banks listing Illinois headquarters are LaSalle National Bank, The Northern Trust Company, Harris Bank, National City Bank of the Midwest and Corus Bank. LaSalle National Bank (a subsidiary of ABN AMRO) with $71 billion in assets maintains its headquarters in Chicago. The Northern Trust Company, a domestically owned banking corporation with $47 billion in assets also maintains its corporate headquarters in Chicago. Harris Bank (owned by Bank of Montreal) with $41 billion in assets also maintains its corporate headquarters in Chicago. National City Bank of the Midwest has $26 billion in assets. Corus Bank has $9 billion in assets. Together, these banks have more than $193 billion in assets.

Source: Federal Deposit Insurance Corporation and Office of Thrift Supervision, January 2007.

Personal Income

Per capita income in Illinois is greater than the average in both the United States and the Great Lakes Region. Table A-6 presents personal income data, and Table A-7 presents per capita income comparisons.

Table A-6

PERSONAL INCOME
($ in Billions)

	1990	2001	2002	2003	2004	2005	2006
Illinois	$238	$410.3	$416.0	$437.1	$411.3	$472.0	$498.2
United States	4,886	8,703.0	8,900.0	9,380.5	9,705.5	10,464.7	$11,043.5

Table A-7

PER CAPITA PERSONAL INCOME
($ in Billions)

	1990	2002	2003	2004	2005	2006	Rank
Illinois	$20,824	$33,053	$33,205	$34,721	$36,264	38,215	13
United States	19,477	30,906	31,459	33,050	34,471	36,276	--
Ten Most Populous States:							
New Jersey	$17,421	$29,039	$40,002	$41,626	$43,831	$46,344	1
New York	21,638	32,289	32,296	38,264	39,967	42,392	2
California	24,572	33,461	33,403	35,219	36,936	38,956	3
Illinois	**20,824**	**33,053**	**33,205**	**34,721**	**36,264**	**38,215**	**4**
Pennsylvania	18,922	29,816	31,706	33,312	34,937	36,680	5
Florida	19,867	31,116	29,972	31,469	34,001	35,798	6
Texas	23,523	35,085	29,076	30,732	32,460	34,257	7
Michigan	18,743	29,195	31,196	32,079	32,804	33,847	8
Ohio	19,564	29,758	29,953	31,161	31,860	33,338	9
Georgia	17,603	28,821	29,259	29,782	30,914	31,891	10
Great Lakes States:							
Illinois	**$20,824**	**$33,053**	**$33,205**	**$34,721**	**$36,264**	**$38,215**	**1**
Wisconsin	18,072	30,050	30,723	32,166	33,278	34,701	2
Michigan	18,743	29,195	31,196	32,079	32,804	33,847	3
Ohio	19,564	29,247	29,953	31,161	31,860	33,338	4
Indiana	17,491	28,032	28,797	30,204	31,173	32,526	5
Average	18,599	28,825	29,982	31,848	33,076	34,525	

Employment

According to the Illinois Department of Employment Security, the State's aggregate unemployment rate as of April 2007 is 4.6%.

Table A-8

NUMBER OF UNEMPLOYED

	2002	2003	2004	2005	2006	2007
United States	8,338,000	8,774,000	8,149,000	7,591,000	7,001,000	6,900,000
Illinois	417,693	427,573	398,047	370,810	297,631	326,426*
Bloomington-Normal MSA	3,245	3,414	3,842	3,688	3,093	3,358*
Champaign-Urbana MSA	4,926	5,098	5,283	5,022	4,530	3,756*
Chicago PMSA	317,101	317,912	294,099	278,513	217,021	233,427*
Quad Cities Region	10,377	10,858	10,392	9,454	8,487	9,180*
Decatur MSA	4,279	4,089	3,637	3,312	2,917	3,083*
Kankakee MSA	3,465	3,760	3,889	3,466	3,095	3,711*
Peoria-Pekin MSA	10,516	11,163	10,232	9,197	7,939	9,024*
Rockford MSA	12,171	13,262	12,249	10,924	9,191	10,550*
Springfield MSA	5,292	5,864	5,797	5,231	4,832	5,220*
St. Louis MSA, IL portion	19,389	21,021	21,135	19,731	18,221	21,559**

*as of April 2007
**as of March 2007

Table A-9

UNEMPLOYMENT RATE (%)

	2002	2003	2004	2005	2006	2007
United States	5.8	6.0	5.5	5.1	4.5	4.5
Illinois	6.5	6.7	6.2	5.7	4.2	4.6*
Bloomington-Normal MSA	3.7	4.0	4.5	4.2	3.4	3.8*
Champaign-Urbana MSA	4.3	4.4	4.5	4.2	3.7	4.1*
Chicago PMSA	6.7	6.8	6.2	5.9	4.5	4.8*
Quad Cities Region	5.8	6.2	5.4	4.7	4.3	5.3*
Decatur MSA	8.1	7.9	6.9	6.2	5.3	5.7*
Kankakee MSA	6.7	7.3	7.5	6.5	5.6	6.7*
Peoria-Pekin MSA	5.7	6.1	5.5	4.8	4.0	4.5*
Rockford MSA	7.4	8.1	7.4	6.5	5.3	6.1*
Springfield MSA	4.7	5.4	5.3	4.6	4.2	4.6*
St. Louis MSA, IL portion	5.9	6.2	5.4	4.7	4.3	5.3**

*as of April 2007
**as of March 2007

Source: U.S. Department of Labor, Bureau of Labor Statistics, April 2007

Population

Illinois is the nation's fifth most populous state. The State's population is approximately 12.63 million according to the U.S Bureau of the Census for calendar year 2005.

Table A-10

POPULATION
ILLINOIS AND SELECTED METROPOLITAN STATISTICAL AREAS

	1980	1990	2000
Illinois	11,427,409	11,430,602	12,419,293
Chicago CMSA (IL Part)	7,348,874	7,507,113	8,272,768
St. Louis MSA (IL Part)	588,464	588,995	599,845
Rockford MSA	325,852	329,626	371,236
Peoria MSA	365,864	339,172	347,387
Springfield MSA	187,770	189,550	201,437
Champaign-Urbana MSA	168,392	173,025	179,669

Source: U.S. Bureau of the Census. (Population data for 1980 and 1990 reflect Metropolitan Statistical Area definitions as of June 30, 1993.)

Organization

The State is formally organized according to executive, legislative and judicial functions. The Governor is the chief executive of the State and is generally responsible for the administration of the government, exclusive of the offices of other constitutionally-elected officials. The other elected officials of the executive branch include the Lieutenant Governor, the Attorney General, the Secretary of State, the Comptroller and the Treasurer.

The Illinois Constitution provides that all elected officials of the Executive Branch of the State Government hold office for four-year terms. Pursuant to the Illinois Constitution, these officials were elected at a general election in November 2002 and took office January 13, 2003.

The legislative power of the State is vested in the General Assembly, which is composed of the Senate and the House of Representatives. Both the Senate and the House meet in annual sessions to enact, amend or repeal laws and to adopt appropriation bills.

The judicial branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts.

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APPENDIX B

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

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June 26, 2007

State of Illinois
State Capitol
Springfield, Illinois

Re: State of Illinois
General Obligation Refunding Bonds
$108,000,000 Series A of June 2007

Dear Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $108,000,000 principal amount of General Obligation Bonds, Series A of June 2007 (the "Bonds") of the State of Illinois. The Bonds are authorized and issued pursuant to the provisions of Section 9(b) of Article IX of the Illinois Constitution of 1970, and the General Obligation Bond Act, 30 Illinois Compiled Statutes 330.

The Bonds are issuable in the form of fully registered bonds in the denominations of $5,000 or any integral multiple thereof. Bonds delivered on original issuance are dated June 26, 2007. The Bonds mature on June 1 of each of the years, in the amounts and bear interest as follows:

Year of Maturity	Principal Amount	Rate of Interest	Year of Maturity	Principal Amount	Rate of Interest
2008	$6,000,000	4.25%	2017	$6,000,000	5.00%
2009	$6,000,000	4.25%	2018	$6,000,000	5.00%
2010	$6,000,000	4.50%	2019	$6,000,000	5.00%
2011	$6,000,000	5.00%	2020	$6,000,000	5.00%
2012	$6,000,000	5.00%	2021	$6,000,000	5.00%
2013	$6,000,000	5.50%	2022	$6,000,000	5.00%
2014	$6,000,000	5.00%	2023	$6,000,000	5.00%
2015	$6,000,000	5.00%	2024	$6,000,000	5.00%
2016	$6,000,000	5.00%	2025	$6,000,000	5.00%

The Bonds maturing on or after June 1, 2018, are subject to redemption prior to maturity at the option of the State, in such principal amounts and from such maturities as the State shall determine, and by lot within a single maturity, on December 1, 2017 and on any date thereafter, at a redemption price of par, plus accrued interest to the date fixed for redemption.

In our opinion, the Bonds are valid and legally binding direct and general obligations of the State of Illinois and the full faith and credit of the State are pledged for the punctual payment of the Bonds and the interest thereon. However, the enforceability of rights or remedies with respect to the Bonds may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and remedies heretofore or hereafter enacted.

We are of the opinion that under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the requirements of the Internal Revenue Code of 1986 (the "Code"), we are of the opinion that interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. We are further of the opinion that the Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds. The State has covenanted to comply with these requirements.

Interest on the Bonds is not exempt from Illinois income taxes.

We express no opinion herein as to the accuracy, adequacy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

In rendering this opinion, we have relied upon certifications of the State with respect to certain material facts solely within the State's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX C

GLOBAL BOOK-ENTRY SYSTEM

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APPENDIX C

GLOBAL BOOK-ENTRY SYSTEM

The information under this caption concerning DTC and DTC's book-entry system is based solely on information provided by DTC. Accordingly, no representation is made by the State, the Bond Registrar or the Underwriters as to the completeness or accuracy of such information, or as to the absence of changes in such information subsequent to the date hereof.

The Depository Trust Company, New York, New York ("*DTC"*), DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for the Bonds in the aggregate principal amount of such Bonds, and will be deposited with DTC.

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal, interest and redemption prices on the Bonds (and the Purchase Price for Bonds) will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Registrar or State, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Bond Registrar, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). Once the State has requested that holders withdraw securities from DTC, DTC will notify its Participants of such request and such Participants may utilize DTC's withdrawal process to withdraw their Bonds from DTC. In the event a Participant utilizes DTC's withdrawal process, Bond certificates will be printed and delivered.

For so long as the Bonds are registered in the name of DTC or its nominee, Cede & Co., the State and the Bond Registrar will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Bonds for all purposes, including payments, notices and voting.

Payments made by the Bond Registrar to DTC or its nominee will satisfy the State's obligations to make payments on the Bonds to the extent of the payments so made.

Neither the State, the Underwriters, nor the Bond Registrar will have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant with respect to any beneficial ownership interest in any Bond, (ii) the delivery to any DTC Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any notice with respect to any Bond including, without limitation, any notice of redemption, tender, purchase or any event which would or could give rise to a tender or purchase right or option with respect to any Bond, (iii) the payment of any DTC Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the Purchase Price of, any Bond or (iv) any consent given by DTC as registered owner.

Prior to any discontinuation of the book-entry only system described above, the Bond Registrar and the State may treat DTC as, and deem DTC to be, the absolute owner of the Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Bonds, (ii) giving notices of redemption and other matters with respect to the Bonds, (iii) registering transfers with respect to the Bonds and (iv) the selection of Bonds for redemption.

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APPENDIX D

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

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APPENDIX D

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING

The following is a summary of certain provisions of the Undertaking of the State and does not purport to be complete. The statements made in this Appendix D are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the GOMB.

ANNUAL FINANCIAL INFORMATION DISCLOSURE

The State covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) to each NRMSIR then recognized by the SEC for purposes of the Rule and to the repository, if any, designated by the State as the state depository (the *"SID"*) and recognized as such by the SEC for purposes of the Rule. The State is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking and described below.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to each NRMSIR and to the SID, if any, or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement must be submitted by the State to the Municipal Securities Rulemaking Board (the *"MSRB"*).

"*Annual Financial Information*" means financial information and operating data of the type contained herein (i) in Tables 1 through 3 and 6 under the heading "STATE FINANCIAL INFORMATION," (ii) in Tables 7, 8, 11, 12 and 18 under the heading "INDEBTEDNESS," and (iii) in Tables 21 through 26 under the heading "PENSION SYSTEMS." Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, by 270 days after the last day of the State's fiscal year, which is currently June 30 of each year.

"*Audited Financial Statements*" means the General Purpose Financial Statements of the State prepared in accordance with generally accepted accounting principles applicable to governmental units. Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, within 30 days after availability to the GOMB. Audited Financial Statements are also available from the Comptroller as described in this Official Statement under the heading "STATE FINANCIAL INFORMATION -- GAAP FINANCIAL REPORT."

MATERIAL EVENTS DISCLOSURE

The State covenants that it will disseminate to each NRMSIR then recognized by the SEC for purposes of the Rule or to the MSRB and to the repository, if any, designated by the State as the SID in a timely manner the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. The "*Events*," certain of which may not be applicable to the Bonds, are:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the security;
- modifications to the rights of security holders;
- bond calls;
- defeasances;

- release, substitution or sale of property securing repayment of the securities; and
- rating changes.

CONSEQUENCES OF FAILURE OF THE STATE TO PROVIDE INFORMATION

The State will give timely notice to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when they are due under the Undertaking.

If the State fails to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the State to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the Bond Sale Order, and the sole remedy under the Undertaking in the event of any failure of the State to comply with the Undertaking shall be an action to compel performance.

AMENDMENT; WAIVER

Notwithstanding any other provision of the Undertaking, the State by a duly enacted order authorizing such amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State, or type of business conducted;

(b) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by a party unaffiliated with the State (such as Co-Bond Counsel).

TERMINATION OF UNDERTAKING

The Undertaking shall be terminated if the State no longer has any legal liability for any obligation on or relating to repayment of the Bonds under the Bond Sale Order. The State shall give timely notice to each NRMSIR or to the MSRB and to the SID, if any, if there is such a termination.

ADDITIONAL INFORMATION

Nothing in the Undertaking will be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking. If the State chooses to include any information from any document or notice of occurrence of a material Event in addition to that which is specifically required by the Undertaking, the State will have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of a material Event.

DISSEMINATION AGENT

The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: $ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
350 Park Avenue, New York, N.Y. 10022-6022

Form 500NY (5/90)

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