McGladrey & Pullen
Certified Public Accountants

State of Illinois
Illinois Student Assistance Commission

Financial Audit
For the Year Ended June 30, 2006

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

State of Illinois
Illinois Student Assistance Commission

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Agency Officials

Executive Director	Larry E. Matejka
Deputy Executive Director	Kathleen T. Rooney
Chief Operating and Administrative Officer (8/16/05 – 6/19/06)	Marcia Thompson
Chief Financial Officer (8/16/05 – Current)	Theresa Morgan
Chief Financial Officer (7/1/05 – 8/15/05)	Marcia Thompson
General Counsel	Karen Salas
Director of Internal Audit (7/1/05 – 7/31/05)	Wendy Funk

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Financial Statement Report

Summary

The audit of the accompanying financial statements of the State of Illinois, Illinois Student Assistance Commission (Commission) was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Commission's basic financial statements.

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission) as of and for the year ended June 30, 2006, which collectively comprise Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the Commission are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2006, and its changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Commission, as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, our report dated November 15, 2006 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, upon issuance, is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The required supplementary information which includes the Budgetary Comparisons Schedule – Major Governmental Fund and Notes to Required Supplementary Information (pages 66 and 67) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining and individual fund financial statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 15, 2006

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
June 30, 2006
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 1,532	$ -	$ 1,532
Cash and cash equivalents	34,727	75,463	110,190
Investments	-	75	75
Receivables			
Intergovernmental	26,329	2,261	28,590
Accrued interest on investments	130	151	281
Other	3	-	3
Due from other ISAC funds	846	1,763	2,609
Due from State of Illinois component units	2	-	2
Total current assets - unrestricted	63,569	79,713	143,282
Restricted			
Cash and cash equivalents	-	329,453	329,453
Investments	-	20,795	20,795
Notes receivable	-	45,097	45,097
Receivables			
Student loans	-	667,918	667,918
Accrued interest on loans	-	62,576	62,576
Accrued interest on investments	-	53	53
Federal special allowance and interest subsidy	-	30,990	30,990
Due from other ISAC funds	-	1,147	1,147
Unamortized bond issuance costs	-	40	40
Total current assets - restricted	-	1,158,069	1,158,069
Non-current			
Unrestricted			
Investments	-	777,302	777,302
Due from other ISAC funds - deferred charges	7,406	-	7,406
Notes receivable	3,802	-	3,802
Capital assets, net of accumulated depreciation	14,386	380	14,766
Total non-current assets - unrestricted	25,594	777,682	803,276
Restricted			
Notes receivable	-	36,897	36,897
Student loans receivable, net	-	3,128,269	3,128,269
Unamortized bond issuance costs	-	1,427	1,427
Total non-current assets - restricted	-	3,166,593	3,166,593
Total assets	$ 89,163	$ 5,182,057	$ 5,271,220

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
June 30, 2006
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 10,836	$ 14,755	$ 25,591
Accrued interest payable	-	8,764	8,764
Tuition payable	-	24,758	24,758
Accreted tuition payable	-	1,863	1,863
Due to U.S. Department of Education	3,191	-	3,191
Due to other ISAC funds	2,957	799	3,756
Due to other State funds	-	337	337
Due to State of Illinois component units	935	4	939
Deferred revenue	44,942	-	44,942
Intergovernmental payable	4,549	-	4,549
Compensated absences	-	382	382
Installment purchase obligation	1,370	-	1,370
Current portion of revenue bonds payable	-	32,400	32,400
Demand revenue bonds payable	-	11,100	11,100
Total current liabilities	68,780	95,162	163,942
Non-current			
Tuition payable	-	633,068	633,068
Accreted tuition payable	-	156,560	156,560
Due to U.S. Department of Education	3,514	-	3,514
Due to other ISAC funds - deferred revenues	-	7,406	7,406
Revenue bonds payable, net	-	4,162,509	4,162,509
Installment purchase obligation	9,805	-	9,805
Compensated absences	-	3,435	3,435
Total non-current liabilities	13,319	4,962,978	4,976,297
Total liabilities	82,099	5,058,140	5,140,239
Net Assets			
Invested in capital assets, net of related debt	3,211	380	3,591
Restricted	-	109,889	109,889
Unrestricted	3,853	13,648	17,501
Total net assets	$ 7,064	$ 123,917	$ 130,981

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

		Program Revenues	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities			
Education			
Scholarships, awards and grants	$ 391,440	$ -	$ 3,604
Loan guarantees	146,053	-	146,053
Interest	631	-	-
Total governmental activities	538,124	-	149,657
Business-type activities			
Education			
Student loans	305,000	181,097	116,217
Prepaid tuition	50,730	2,342	49,748
Total business-type activities	355,730	183,439	165,965
Total Commission	$ 893,854	$ 183,439	$ 315,622

General revenues
Appropriations from State resources
Receipts remitted to State Treasury
Investment income
Miscellaneous
Transfer to the State General Revenue fund
Transfers, net from (to) other ISAC funds

Total general revenues and transfers

Change in net assets

Net assets July 1, 2005

Net assets June 30, 2006

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
$ (387,836)	$ -	$ (387,836)
-	-	-
(631)	-	(631)
(388,467)	-	(388,467)
-	(7,686)	(7,686)
-	1,360	1,360
-	(6,326)	(6,326)
(388,467)	(6,326)	(394,793)
387,789	-	387,789
(272)	-	(272)
-	1,006	1,006
344	-	344
(912)	-	(912)
1,945	(1,945)	-
388,894	(939)	387,955
427	(7,265)	(6,838)
6,637	131,182	137,819
$ 7,064	$ 123,917	$ 130,981

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2006
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 1,532	$ -	$ 1,532
Cash and cash equivalents	-	34,727	34,727
Intergovernmental receivables	-	26,329	26,329
Accrued interest on investments	-	130	130
Other receivables	-	3	3
Due from other ISAC funds	51	795	846
Due from State of Illinois component units	-	2	2
Due from other ISAC funds - deferred charges	-	7,406	7,406
Notes receivable, net of allowances	3,802	-	3,802
Total assets	$ 5,385	$ 69,392	$ 74,777
Liabilities			
Accounts payable and accrued liabilities	$ 597	$ 10,239	$ 10,836
Due to other ISAC funds	-	2,957	2,957
Due to State of Illinois component units	935	-	935
Deferred revenues	-	44,942	44,942
Intergovernmental payable	-	4,549	4,549
Due to U.S. Department of Education	-	6,705	6,705
Total liabilities	1,532	69,392	70,924
Fund Balances			
Reserved for loans and notes receivable	3,802	-	3,802
Unreserved			
General Fund	51	-	51
Total fund balances	3,853	-	3,853
Total liabilities and fund balances	$ 5,385	$ 69,392	$ 74,777

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets
June 30, 2006
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds		$ 3,853
Amounts reported for governmental activities in the Statement of Net Assets are different due to:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 2,700	
Buildings	18,311	
Equipment	1,225	
Accumulated depreciation	(7,850)	
Total capital assets		14,386
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Installment purchase obligations		(11,175)
Net assets of governmental activities		$ 7,064

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 145,358	$ 145,358
Interest and investment income	-	1,696	1,696
Collections on student loans previously reimbursed by the U.S. Department of Education	-	2,242	2,242
Repurchase/Rehabilitation/Consolidation fees and interest	-	361	361
Other	34	310	344
Total revenues	34	149,967	150,001
Expenditures			
Education			
Scholarships, awards and grants	387,197	3,780	390,977
Loan guarantees	-	146,053	146,053
Debt Service			
Principal	-	1,310	1,310
Interest	-	631	631
Total expenditures	387,197	151,774	538,971
Deficiency of revenues over expenditures	(387,163)	(1,807)	(388,970)
Other sources (uses) of financial resources			
Appropriations from State resources	387,687	102	387,789
Receipts remitted to State Treasury	(272)	-	(272)
Transfers-in	222	1,941	2,163
Transfers (out) to State General Revenue Fund	-	(912)	(912)
Transfers (out) to other ISAC funds	-	(218)	(218)
Net other sources (uses) of financial resources	387,637	913	388,550
Net change in fund balance	474	(894)	(420)
Fund balance, July 1, 2005	3,379	894	4,273
Fund balance, June 30, 2006	$ 3,853	$ -	$ 3,853

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$	(420)
Amounts reported for governmental activities in the Statement of Activities are different due to:		
Governmental funds report capital outlays as expenditures while the Statement of Activities reports depreciation expense to allocate those expenditures over the life of the assets.		(463)
Payment of principal on installment purchases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		1,310
Change in net assets of governmental activities	$	427

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Enterprise Funds
June 30, 2006
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Assets			
Current			
Unrestricted			
Cash and cash equivalents	$ 43,872	$ 31,591	$ 75,463
Investments	75	-	75
Receivables			
Intergovernmental	-	2,261	2,261
Accrued interest on investments	-	151	151
Due from other ISAC funds	-	1,763	1,763
Total current assets - unrestricted	43,947	35,766	79,713
Restricted			
Cash and cash equivalents	329,453	-	329,453
Investments	20,795	-	20,795
Notes receivable	45,097	-	45,097
Receivables			
Student loans	667,918	-	667,918
Accrued interest - loans and notes	62,576	-	62,576
Accrued interest - investments	53	-	53
Federal special allowance and interest subsidy	30,990	-	30,990
Due from other ISAC funds	1,147	-	1,147
Unamortized bond issuance costs	40	-	40
Total current assets - restricted	1,158,069	-	1,158,069
Non-current			
Unrestricted			
Investments	-	777,302	777,302
Capital assets, net of accumulated depreciation	65	315	380
Total non-current assets - unrestricted	65	777,617	777,682
Restricted			
Notes receivable	36,897	-	36,897
Student loans receivable, net	3,128,269	-	3,128,269
Unamortized bond issuance costs	1,427	-	1,427
Total non-current assets - restricted	3,166,593	-	3,166,593
Total assets	$ 4,368,674	$ 813,383	$ 5,182,057

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
Enterprise Funds
June 30, 2006
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 13,291	$ 1,464	$ 14,755
Accrued interest payable	8,764	-	8,764
Tuition payable	-	24,758	24,758
Accreted tuition payable	-	1,863	1,863
Due to other ISAC funds	202	597	799
Due to other State funds	5	332	337
Due to State of Illinois Component Units	-	4	4
Compensated absences	82	300	382
Current portion of revenue bonds payable	32,400	-	32,400
Demand revenue bonds payable	11,100	-	11,100
Total current liabilities	65,844	29,318	95,162
Non-current			
Tuition payable	-	633,068	633,068
Accreted tuition payable	-	156,560	156,560
Due to other ISAC funds - deferred revenues	-	7,406	7,406
Revenue bonds payable, net	4,162,509	-	4,162,509
Compensated absences	737	2,698	3,435
Total non-current liabilities	4,163,246	799,732	4,962,978
Total liabilities	4,229,090	829,050	5,058,140
Net Assets			
Invested in capital assets, net of related debt	65	315	380
Restricted	109,889	-	109,889
Unrestricted	29,630	(15,982)	13,648
Total net assets	139,584	(15,667)	123,917
Total liabilities and net assets	$ 4,368,674	$ 813,383	$ 5,182,057

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Operating revenues			
Investment income			
Interest - student loans	$ 144,004	$ -	$ 144,004
Interest - investments	19,019	49,329	68,348
Interest - other	-	419	419
Total investment income	163,023	49,748	212,771
Other operating revenues			
Application and other fees	-	2,342	2,342
Loan processing and issuance fees	-	4,419	4,419
Portfolio maintenance fee	-	8,291	8,291
Collection retention	-	7,519	7,519
Direct consolidation cost	-	5,009	5,009
Default aversion fee	-	2,057	2,057
Repurchase/Rehabilitation/Consolidation retention fees and interest	-	9,744	9,744
Other	-	54	54
Total other operating revenues	-	39,435	39,435
Total operating revenues	163,023	89,183	252,206
Operating expenses			
Interest and other student loan expenses			
Interest expense			
Revenue bonds	176,080	-	176,080
Amortization of loan premiums and fees	19,879	-	19,879
Other student loan fees	11,002	-	11,002
Provision for loan losses	6,845	-	6,845
Total interest and other student loan expenses	213,806	-	213,806

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds (Continued)
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Other operating expenses			
Salaries and employee benefits	$ 10,629	$ 24,334	$ 34,963
External loan servicing	25,202	-	25,202
Accreted tuition expenses	-	44,367	44,367
Line of credit fees	938	-	938
Occupancy expense	867	-	867
Marketing expenses	2,421	-	2,421
Investment management fees	-	2,621	2,621
Bond issuance and legal fees	88	-	88
Management and professional services	12,589	16,567	29,156
Depreciation	42	131	173
Other	1,125	-	1,125
Total other operating expenses	53,901	88,020	141,921
Total operating expenses	267,707	88,020	355,727
Operating income (loss)	(104,684)	1,163	(103,521)
Non-operating revenues (expenses)			
Federal government special allowance and interest subsidy	97,198	-	97,198
Interest revenue	-	1,006	1,006
Interest on bonds/notes payable	-	(3)	(3)
Total non-operating revenues (expenses)	97,198	1,003	98,201
Income (loss) before transfers	(7,486)	2,166	(5,320)
Transfers out	(566)	(1,379)	(1,945)
Change in net assets	(8,052)	787	(7,265)
Net assets, July 1, 2005	147,636	(16,454)	131,182
Net assets, June 30, 2006	$ 139,584	$ (15,667)	$ 123,917

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows -
Enterprise Funds
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ -	$ 39,599	$ 39,599
Cash paid for refund of contracts and tuition payments	-	(4,697)	(4,697)
Cash payments to suppliers for goods and services	(39,592)	(6,584)	(46,176)
Cash payments to employees for services	(10,765)	(23,996)	(34,761)
Cash receipts from student loans	1,057,285	-	1,057,285
Cash receipts from prepaid tuition contracts	-	117,170	117,170
Cash payments for student loans	(1,360,796)	-	(1,360,796)
Cash payments for management and professional fees	-	(9,276)	(9,276)
Cash payments for tuition and accretion	-	(18,195)	(18,195)
Net cash provided (used) by operating activities	(353,868)	94,021	(259,847)
Cash flows from noncapital financing activities			
Proceeds from sale of revenue bonds and other borrowing	596,987	-	596,987
Principal paid on revenue bonds and other borrowing	(130,350)	-	(130,350)
Interest paid on revenue bonds and other borrowing	(173,256)	-	(173,256)
Operating grants - special allowance and interest subsidy	86,524	-	86,524
Transfers out	(565)	(1,379)	(1,944)
Net cash provided (used) by noncapital financing activities	379,340	(1,379)	377,961
Cash flows from capital and related financing activities			
Principal paid on capital debt	-	(22)	(22)
Interest paid on capital debt	-	(3)	(3)
Acquisition and construction of capital assets	-	(164)	(164)
Net cash used by capital and related financing activities	-	(189)	(189)
Cash flows from investing activities			
Purchase of investment securities	(417,425)	(203,589)	(621,014)
Proceeds from sales and maturities of investment securities	588,027	101,643	689,670
Interest and dividends on investments	18,192	16,320	34,512
Cash paid to investment managers	-	(2,621)	(2,621)
Net cash provided (used) by investing activities	188,794	(88,247)	100,547
Net increase in cash and cash equivalents	214,266	4,206	218,472
Cash and cash equivalents, July 1, 2005	159,059	27,385	186,444
Cash and cash equivalents, June 30, 2006	$ 373,325	$ 31,591	$ 404,916

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows -
Enterprise Funds (Continued)
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	$ (104,684)	$ 1,163	$ (103,521)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	42	131	173
Interest - investments	(19,019)	(49,748)	(68,767)
Interest expense	176,080	-	176,080
Amortization of student loan premiums and fees	19,879	-	19,879
Accreted tuition expense	-	44,367	44,367
Provisions for loan losses	6,845	-	6,845
Investment management fee	-	2,621	2,621
Change in assets and liabilities			
Notes receivable	15,694	-	15,694
Student loans receivable	(435,527)	-	(435,527)
Intergovernmental receivables	-	267	267
Accrued interest - loans and notes	(16,790)	-	(16,790)
Due from other funds	(71)	(104)	(175)
Other assets	(8)	-	(8)
Accounts payable and accrued liabilities	3,637	64	3,701
Due to other funds	191	645	836
Tuition payable	-	94,278	94,278
Compensated absences	(137)	337	200
Total adjustments	(249,184)	92,858	(156,326)
Net cash provided (used) by operating activities	$ (353,868)	$ 94,021	$ (259,847)
Supplemental disclosure of noncash transactions:			
Net appreciation in fair value of investments	$ 2,523	$ 34,383	$ 36,906

See Notes to Financial Statements.

Note 1. Organization

The Illinois Student Assistance Commission (ISAC or Commission) is a part of the executive branch of government of the State of Illinois and operates under the authority of and review by the Illinois General Assembly. ISAC operates under a budget approved by the General Assembly in which resources are appropriated for the use of ISAC. Activities of ISAC are subject to the authority of the Office of the Governor, the State's Chief Executive Officer, and other departments of the executive branch of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to ISAC and all other cash received are under the custody and control of the State Treasurer, with the exception of the Illinois Designated Account Purchase Program (IDAPP).

ISAC was established through the Higher Education Student Assistance Act in 1957. Ten persons are appointed by the Governor to serve as Commission members without compensation for a term of six years, except for one member who serves for a term of two years. Mr. Larry E. Matejka is the current Executive Director of the Commission. His office is at 500 West Monroe in Springfield. The Commission's operations office is at 1755 Lake Cook Road in Deerfield and another office is located at 100 West Randolph in Chicago.

The Commission was created to establish and administer a system of financial assistance through student loans and loan guarantees; scholarships and grant awards; and a prepaid tuition program for residents of the State to enable them to attend qualified public or private institutions of their choice within Illinois. The Commission fulfills this purpose by administering the following programs:

A. Monetary Award Program

This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provides up to $4,968 in fiscal year 2006 for the payment of tuition and mandatory fees. The program is funded by the General Revenue and Educational Assistance Funds appropriations.

B. Illinois Incentive for Access Program

The Illinois Incentive for Access (IIA) Program provides grant assistance to freshmen who have limited financial resources with which to pay for college. The purpose of the program is to provide access and retention for this population while reducing their loan debt. A qualified applicant may receive a one-time $500 grant.

C. Merit Recognition Scholarship Program

This program is designed to encourage and reward outstanding academic achievement of Illinois high school graduates. It is funded by the General Revenue Fund. One-time scholarships of $1,000 are awarded to qualified Illinois high school students who rank in the top 5% of their class or who score in the top 5% of Illinois students on a standardized college entrance exam.

Note 1. Organization (Continued)

D. Robert C. Byrd Honors Scholarship Program

This federally funded program was created to provide scholarships of up to $1,500 per year to academically exceptional high school graduates for undergraduate study at approved U.S. colleges and universities.

E. Ancillary Award Programs

The following Ancillary Award programs, funded by the General Revenue Fund, supplement the scholarship and grant programs listed above:

- Bonus Incentive Grant
- Grant Program for Dependents of Correctional Officers
- Grant Program for Dependents of Police or Fire Officers
- Illinois Future Teacher Corps Scholarship Program
- Illinois National Guard Grant
- Illinois Special Education Teacher Tuition Waiver Program
- Illinois Veteran Grant
- Minority Teachers of Illinois Scholarship Program
- Student to Student Program of Matching Grants
- Teacher/Child Care Loan Forgiveness Program
- I TEACH Program

F. Federal Family Education Loan Program (FFELP)

This program is designed to stimulate the making of educational loans by Illinois commercial lenders to qualifying students by guaranteeing repayment of the loans through payments to lenders for defaulted loans. This program is federally funded through the United States Department of Education.

The Higher Education Act of 1965 (HEA) as amended by the Higher Education Amendments of 1998 (Pub.L. 105-244) required the agency to establish two funds for the Program's Administration, the Federal Student Loan Fund (FSLF) and the Student Loan Operating Fund (SLOF).

The FSLF accounts for federal government program activities operated and maintained by ISAC. Section 422A(d) of the HEA allows the FSLF to be used primarily to pay lender claims and default aversion fees to ISAC's Student Loan Operating Fund. The SLOF is used for ISAC's operating expenses. The SLOF is the State's earned activities and is administered by ISAC.

Note 1. Organization (Continued)

G. Alternative Loan Program

In order to make post-secondary educational opportunities more accessible for qualified students, ISAC offers a program of "Alternative Loans" to supplement existing federal and state student financial assistance programs.

H. Higher Education License Plate Grant Program

Working with the Secretary of State, participating public universities, community colleges and not-for-profit private colleges and universities in Illinois can have specialized collegiate license plates issued for their schools. Of the $75 fee charged for these specialized plates, $25 is used to fund a grant program called the Higher Education License Plate (HELP) Grant Program. Each participating public university and community college administers its own scholarship program using the funds received directly from the license plate fees. Participating private institutions receive a grant from proceeds generated by the license plate fee deposited into the University Grant Fund, a special fund in the State Treasury.

ISAC annually seeks appropriation authority to disburse these collected funds to the participating schools. Eligibility for HELP Grants is based on student need. Grants are used to pay tuition and fees up to a maximum grant of $2,000 per year. Funds must be used to support students who attend the institutions that generate the license plate revenue.

I. College Illinois!

In November 1997, legislation authorizing ISAC to administer an Illinois prepaid tuition program was enacted. The purpose of the program is to provide Illinois families with an affordable tax-advantaged method to pay for college. Illinois prepaid tuition contracts allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at current program prices, which are considerably less than projected future college costs. Benefits of the contracts can also be used at private and out-of-state colleges and universities. Contracts can be purchased in a lump sum payment or in installments. The Illinois Prepaid Tuition Program has been named College Illinois!

J. Illinois Designated Account Purchase Program (IDAPP)

IDAPP is a secondary market offering a variety of services primarily to lenders who originate loans guaranteed by the Commission. It is reported as a Proprietary Fund.

IDAPP facilitates lender participation in the student loan programs by reducing the overall risk and collection expenses those lenders face. One of the major incentives offered by the Commission is that IDAPP takes over servicing the loan after it is purchased from the lender. Sales of loans to the Commission give lenders the capital to make new and renew loans.

Capital to support IDAPP is funded through the sale of revenue notes and bonds. The capital borrowings and IDAPP's operational costs are repaid with student loan repayments (or recovery through the guarantor agencies), collection of interest and fees on student loans, and special allowances and interest received from the U.S. Department of Education.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

A. Financial Reporting Entity

The Commission is an integral unit of the State of Illinois. As such, designation of management and governing authority is determined by the Governor of the State. The State also maintains overall accountability for the Commission's fiscal matters. The Commission operates under a budget approved by the General Assembly in which resources primarily from the State's General Revenue, Educational Assistance and Special Revenue Funds as well as the Federal Student Loan and Student Loan Operating Funds are appropriated for the use of the Commission. The Commission's General Fund represents a portion of the General Revenue Account and Educational Assistance Account of the State. Activities of the Commission are subject to the authority of the Office of the Governor, the State's Chief Executive Officer and other departments of the executive branch of government (such as the State Comptroller's Office and the State Treasurer's Office) as defined by the General Assembly.

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Commission has no component units and is not a component unit of any other entity. However, because the Commission is not legally separate from the State of Illinois, the financial statements of the Commission are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

Note 2. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

All funds appropriated to the Commission and all other cash received are under the custody and control of the State Treasurer, with the exception of IDAPP funds and certain locally held funds, which are under the direct control of the Commission. As an integral unit of the State, the Commission prepares its year-end financial statements utilizing the State's basis of accounting and fund classifications. The accompanying financial statements present the financial position, results of operations and cash flows of all funds which comprise the Commission. The Commission's financial statements are an integral part of the State's overall comprehensive annual financial report.

B. Basis of Presentation

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Commission. Eliminations have been made to minimize the double counting of internal activities of the Commission. These statements distinguish between the *governmental* and *business-type* activities of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Interest expense related to borrowing for student loaning activities (business-type activities) totaling $195,959 (including amortization) is included in student loans expense in the Statement of Activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Commission's funds. Separate statements for each fund category - governmental and proprietary (enterprise) - are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Enterprise fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and certain investment earnings, result from nonexchange transactions or ancillary activities. Due to the nature of IDAPP and Illinois Prepaid Tuition Program activities, income from investments is considered operating activities, and interest expense is considered an operating activity in IDAPP's Statement of Revenues, Expenses and Changes in Net Assets.

The Commission administers the following major governmental fund of the State:

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services, which are administered by the Commission and accounted for in the General Fund, include a system of financial assistance through scholarship and grant awards for residents of the State.

For fiscal year 2006, the Commission did not receive appropriations through the General Fund - Educational Assistance Account. This account is a shared account and its activity attributed to the operations of the Commission has been combined with the General Revenue Account for report presentation purposes. All monies received by this fund are held in the State Treasury.

The Commission administers the following major enterprise fund of the State:

Illinois Designated Account Purchase Program (IDAPP) – This fund accounts for the activities of the Illinois Designated Account Purchase Program (referred throughout this report as "IDAPP") including issuance of bonds and acquisition of student loans from lenders and the subsequent collection of the loans.

Additionally, the Commission administers the following fund types:

Special Revenue Funds – Special Revenue Funds account for transactions related to resources obtained from specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Funds are also used to account for federal grant programs. These funds are presented as a part of the nonmajor governmental funds.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest relating to certificates of participation for the building located in Deerfield. This fund is presented as a part of the nonmajor governmental funds.

Enterprise Funds – Enterprise Funds are used to account for the Commission's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is based upon a flow of economic resources. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability or other purposes. All business-type funds of the Commission are classified as enterprise funds.

Note 2. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The government-wide and enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, includes grants and similar items and are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest revenue is a significant revenue source, which is susceptible to accrual. All other revenue sources such as fines, penalties, licenses and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Commission’s operations.

D. Shared Fund Presentation

The financial statement presentation for the General Fund and the University Grant Fund, part of the nonmajor governmental funds, represents only the portion of shared funds that can be directly attributed to the operations of the Commission. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois’ Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Commission’s portion of shared funds:

Note 2. Summary of Significant Accounting Polices (Continued)

D. Shared Fund Presentation (Continued)

<u>Unexpended Appropriation</u>

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

<u>Appropriations from State Resources</u>

This "other financing source" account represents the final legally adopted appropriation according to SAMS records. The amounts reported are net of any re-appropriations to subsequent years and the difference between current and prior year liabilities for re-appropriated accounts. Re-appropriations reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting a portion of the appropriation in more than one fiscal year.

<u>Lapsed Appropriations</u>

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14-month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

<u>Receipts Remitted to State Treasury</u>

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

E. Budgetary Process

The State Constitution requires the Governor to prepare and submit to the General Assembly an executive budget for the ensuing fiscal year. The budget covers most funds held by the State, but excludes locally held funds and various treasury-held funds, which are not subject to appropriation pursuant to State law. The General Assembly enacts the budget through the passage of specific line-item appropriations (i.e., personnel services, contractual services, equipment, etc.), the sum of which must not exceed estimated revenues pursuant to the State Constitution. The Governor has the power to approve, reduce or veto each appropriation passed by the General Assembly. Transfers in/out contained in the Executive budget are not a part of the General Assembly's appropriation process.

Note 2. Summary of Significant Accounting Polices (Continued)

E. Budgetary Process (Continued)

The actual amounts are determined either by state law or by discretionary action available to the Governor. The SAMS controls expenditures by line item as established in approved appropriation bills and the level of legal control is reported in a publication titled “A Detailed Report of Expenditures and Revenues.” A separate document is necessary since the State has over 6,500 appropriated line items.

Unexpended appropriations are available for subsequent expenditures to the extent that encumbrances have been incurred at June 30, provided they are presented for payment during the succeeding 60-day lapse period. Certain appropriations referred to as “reappropriations” represent the General Assembly’s approval for continuation of a prior year’s program which requires additional time for completion.

F. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand, cash in banks for locally held funds, and highly liquid investments purchased with maturities of three months or less. Due to the nature of IDAPP’s, and College Illinois! activities, loan and/or investment activities are considered operating activities.

G. Investments

ISAC presents investments on its Statement of Net Assets at fair value. The net appreciation or depreciation in the fair value of investments is included as interest on investments in the financial statements.

H. Student Loans Receivable/Premiums

The interest rate charged on IDAPP’s student loans receivable is considered market rate. Therefore, the carrying amount of student loans receivable is considered a reasonable estimate of their market value.

As a secondary lender, when IDAPP purchases loans from another lender, IDAPP may pay a premium on those loans. Premiums over $50 (in the aggregate) are capitalized and amortized on a straight-line basis over the average remaining useful lives of the student loans. Premiums under $50 (in the aggregate) are expensed.

I. Allowance for Possible Loan Losses

The allowance for possible loan losses is a reserve for estimated credit losses, which may arise from the student loan portfolio. A provision for possible loan losses, which is a charge against earnings, is added to bring the allowance to a level that, in management’s judgment, is adequate to absorb losses in the portfolio. Management performs an ongoing assessment of the loan portfolio in order to determine the appropriate level of the allowance. The factors considered in this evaluation include, but are not necessarily limited to, extreme delinquencies and violations of due diligence requirements as discussed in Note 5.

Note 2. Summary of Significant Accounting Polices (Continued)

I. Allowance for Possible Loan Losses (Continued)

Management believes that the allowance for possible loan losses is adequate. While management uses available information to recognize losses on loans, future additions may be necessary based on future review of compliance with due diligence and contractual servicing requirements by IDAPP, and its outside loan servicers.

J. Interfund Transactions

The Commission has the following types of interfund transactions between Commission funds and funds of other State agencies:

Loans - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e., due from other funds) in lender funds and interfund payables (i.e., due to other funds) in borrower funds.

Services provided and used - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

K. Capital Assets

Capital assets, which include property and equipment, are reported at cost. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	$100	N/A
Buildings	100	10-60
Building Improvements	25	10-45
Equipment	5	3-25

Note 2. Summary of Significant Accounting Polices (Continued)

L. Restricted Assets

Restricted assets represent those assets which are required to be held by the trustee as mandated by the bond and note indentures or resolutions or are pledged as security in support of bond and note indentures or resolutions.

M. Encumbrances

The Commission employs encumbrance accounting for all Governmental Fund types. All outstanding contracts, purchase orders and other commitments for goods and services (if any) that have been received/rendered at June 30, but delivered and invoiced during the State's lapse period, are reported as reservations of fund balances, not as expenditures or liabilities. Encumbrances are recorded as expenditures on the budgetary basis for such funds.

N. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund financial statements consists of unpaid, accumulated vacation and sick leave balances for Commission employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., Social Security and Medicare tax).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

O. Bond Premiums, Discounts, and Issuance Costs

In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Current year amortization expense is included in student loan expense in the Statement of Activities.

P. Revenue Bonds and Demand Revenue Bonds Payable

Revenue bonds and demand revenue bonds payable are stated at face value net of bond premiums and discounts.

Q. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 46,709 contracts held by the fund as of June 30, 2006.

Note 2. Summary of Significant Accounting Polices (Continued)

R. Fund Balances

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes.

S. Net Assets

In the government-wide and proprietary fund financial statements, net assets is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Based on bond indentures, all IDAPP assets, except for assets relating to operations, are restricted for the benefit of debt holders until the bonds are retired.

Unrestricted (Deficit) – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Commission first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

T. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

U. Funding and Actuarial Assumptions

Program funding for the Illinois Prepaid Tuition Program is derived entirely from payments received from contract purchasers and the investment income earned by the Fund. The Commission has obtained actuarial assistance in order to establish, maintain and certify assets sufficient to meet the Fund's obligations. The assets of the fund are to be preserved, invested and expended solely pursuant to and for the purposes of the Fund and may not be loaned or otherwise transferred or used by the State of Illinois for any other purpose.

Note 2. Summary of Significant Accounting Policies (Continued)

U. Funding and Actuarial Assumptions (Continued)

In the event the Commission, with the concurrence of the State of Illinois, determines the Program to be financially infeasible, the Commission may discontinue, prospectively, the operation of the Program. Any beneficiary who has been accepted by and is enrolled, or will within five years enroll at an eligible institution, shall be entitled to exercise the complete benefits of his/her contract. All other contract holders shall receive an appropriate refund of all contributions and accrued interest up to the time the program is discontinued.

Note 3. Deposits and Investments

A. Authorized Deposits and Investments

The Commission is permitted by Illinois Statutes to engage in a wide variety of investment activities. These include bonds, notes, certificates of indebtedness, treasury bills or other securities guaranteed by the United States Government; interest-bearing savings accounts, certificates of deposit, interest-bearing time deposits or any other investments that constitute direct obligations of any bank; short-term obligations of certain qualified United States Corporations; short-term discount obligations of the Federal National Mortgage Association; shares or other securities legally issued by certain state or federal savings and loans associations; insured dividend-bearing share accounts and certain other accounts of chartered credit unions; certain mutual funds, the Illinois funds investment pool, and repurchase agreements that meet certain instrument and transactions requirements.

With regard to the Prepaid Tuition Program, in addition to the funds with the State Treasurer, the Commission by statute (Illinois Prepaid Tuition Act, 110 ILCS 979) is required to appoint an investment advisory panel to offer advice and counseling regarding the investments of the prepaid tuition program. The panel is required to annually review and advise the Commission on provisions of the strategic investment plan, which will specify the investment policies to be utilized by the Commission in the administration of the Prepaid Tuition Program. The Commission may direct that assets of those Funds be placed in savings accounts or may use the same to purchase fixed or variable life insurance or annuity contracts, securities, evidence of indebtedness, or other investment products pursuant to the comprehensive investment plan and in such proportions as may be designated or approved under that plan.

The Illinois Designated Account Purchase Program (IDAPP) administers the investment of funds from the various student loan revenue bond issues of the Illinois Student Assistance Commission, in accordance with the Commission's enabling Act. Bond documents such as Trust Indentures or Liquidity Agreements place strict limitations on the type of investments that can be made by IDAPP. These limitations are set by the rating agencies and by the institutions providing third party guarantees, such as bond insurance or bank letters of credit. The limitations vary slightly from issue to issue, but in general they restrict investments to direct obligations of the federal government and government agencies, investment agreements, repurchase agreements, bank certificates of deposit, money market funds and highly rated commercial paper and municipal bonds. The Public Funds Investment Act (30 ILCS 235/2) also restricts the investment of funds under the control of IDAPP.

Note 3. Deposits and Investments (Continued)

A. Authorized Deposits and Investments (Continued)

These restrictions apply to any funds, which are not restricted by the terms of a bond document. Investments made by IDAPP are also subject to oversight by the Trustee for each bond issue.

IDAPP's power to invest its Funds is derived from Section 2 of the Public Funds Investment Act (30 ILCS 235/2), which allows IDAPP to invest its Funds in the following types of securities:

- Direct Federal Obligations
- Federal Guaranteed Obligations
- Participation Interest in Federal Obligations
- Federal Affiliated Institutions
- Certificates of Deposit
- Money Market Funds
- Repurchase Agreements
- Investment Agreements
- Commercial paper
- State or municipal bonds
- Bankers acceptances

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. The Commission has no policy that would further limit the requirements under State law. As of June 30, 2006, the Commission's locally held deposits were not exposed to custodial credit risk.

Deposits in the custody of the State Treasurer, or in transit, totaled $65,836 at June 30, 2006. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Commission does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments

All investments held by the Commission as of June 30, 2006 pertain to the Illinois Designated Account Purchase Program (IDAPP), a major enterprise fund, and the Illinois Prepaid Tuition Program fund, a nonmajor enterprise fund.

Illinois Designated Account Purchase Program (IDAPP)

Interest Rate Risk

IDAPP's investments are correlated to future cash needs for operations and are generally short-term in nature. A minimal amount of GNMA securities held have longer maturities, ranging from 8 to 10 years. These GNMA securities equal approximately .3% of the investments held. IDAPP's investment policy generally limits investment maturities to within two years from the date of purchase. Investments matched to a specific cash flow may exceed this limitation. The portfolio's maturity characteristics at June 30, 2006 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury Bills	$ 12,838	0.17
Fannie Mae Demand Note (FNMDD)	3,520	0.42
GNMA Securities	75	8.63
Other U.S. Agency Obligations (FHLB, FHLMC)	4,437	0.17
	$ 20,870	
Portfolio weighted average maturity		0.24

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Credit Risk

IDAPP's investment policy limits the following types of investments to the top two ratings issued by nationally recognized credit rating organizations: commercial paper, state or municipal bonds, and bankers acceptances. The investment policy places no further limitations on investment credit quality. As of June 30, 2006, IDAPP's investments were subject to credit risk as follows:

		Rating	
Investment Type	Fair Value	Standard & Poors	Moody's
Fannie Mae Demand Note (FNMDD)	$ 3,520	AAA	Aaa
Other U.S. Agency Obligations (FHLB, FHLMC)	4,437	AAA	Aaa
	$ 7,957		

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the Commission will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

The Illinois Designated Account Purchase Program investments include $20,795 of uninsured, uncollateralized and unregistered investments for which the securities are held by IDAPP's agent but not in IDAPP's name.

The investment policy authorizes the Commission to utilize a third party custodian (Trustee) to safe-keep the assets of the fund and to provide reports on a monthly basis to all necessary parties. The custodian is responsible for sweeping all interest and dividend payments and any other un-invested cash into a short-term government money market fund for re-deployment.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

As of June 30, 2006, the following investments (other than U.S. government securities, and securities explicitly guaranteed by the U.S. government) exceed 5% of IDAPP's total investment portfolio.

Investment Type	Fair Value	Percentage of Portfolio
Federal Home Loan Bank (FHLB)	$ 2,345	11%
Federal Home Loan Mortgage Co. (FHLMC)	2,092	10%
Fannie Mae Demand Note (FNMDD)	3,520	17%

IDAPP's investment policy requires IDAPP to diversify its investments by security type and institution. With the exception of the obligations set forth in the investment policy (direct federal obligations, federal guaranteed obligations, federal affiliated institutions) or investments fully collateralized by these obligations, no more than 5% of IDAPP's total investment portfolio will be invested in the obligations of a single issuer.

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. IDAPP is not exposed to foreign currency risk.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2006 are presented below at fair value by investment type and by investment manager.

Investment Managers
Asset Allocation
June 30, 2006

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Core	J P Morgan	$ 99,777	12.66%
Fixed Income-Intermediate	Richmond Capital Management	123,524	15.67%
Fixed Income-Core	SSgA Passive Bonds	38,731	4.91%
Total Fixed Income Portfolio		262,032	33.25%
Large-Cap Core Equity	SSgA S&P 500 Index	117,403	14.90%
Large-Cap Value Equity	LSV Asset Management	65,818	8.35%
Large-Cap Value Equity	SSgA	67,670	8.59%
Large-Cap Growth Equity	William Blair & Company	33,876	4.30%
Large-Cap Growth Equity	Holland Capital	32,977	4.18%
Large-Cap Growth Equity	New Amsterdam Partners	34,495	4.38%
Small-Cap Core Equity	Nicholas Applegate	43,973	5.58%
Small-Cap Core Equity	Denver Investment Advisors	34,985	4.44%
Small-Cap Value Equity	Nicholas Applegate	21,325	2.71%
Small-Cap Value Equity	Kenwood Capital	20,535	2.61%
Total Domestic Equity Mutual Funds		473,057	60.03%
International Equity	LSV Asset Management	42,213	5.36%
Total International Equity Mutual Funds		42,213	5.36%
Total Investments		777,302	98.64%
Cash and Equivalents	N/A	10,746	1.36%
Total Cash Equivalents		10,746	1.36%
TOTAL PORTFOLIO		$ 788,048	100%

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Illinois Prepaid Tuition Program's policy for managing interest rate risk is to ensure that the investment managers comply with its investment policy guidelines.

As per the investment policy, the operational guidelines for the Fixed Income Securities Managers require that the average duration of the manager's portfolio not vary more than +/- 30% of the duration of the Lehman Brothers (LB) Intermediate Government/Credit Index and the LB Aggregate Index respectively (see schedule of investments on previous page).

The duration of the portfolios, by Manager, for the fixed income securities, compared to the benchmark index(s) is as follows:

Fixed Income Portfolio Manager	Portfolio Average Duration	LB Aggregate Index	LB Intermediate Government/ Credit Index
JP Morgan	4.3 years	4.8 years	N/A
Richmond Capital Management	3.6 years	N/A	3.6 years
SSgA	4.8 years	4.8 years	N/A

As of June 30, 2006, all portfolios are within the guidelines permitted by the investment policy.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Interest Rate Risk (Continued)

Portfolio Weighted Average Maturity

Investment Type	Fair Value	Weighted Average Maturity (in Years)
U.S. treasury notes	$ 16,402	3.8
U.S. treasury bonds	7,267	11.9
U.S. treasury strips	9,212	9.1
U.S. agency obligations	27,627	4.3
Federal agencies bonds and notes	45,140	5.5
U.S. agency asset-backed securities	6,709	4.3
Corporate debt securities	91,037	4.5
Money market mutual funds	8,156	0.1
Corporate asset-backed securities	3,793	1.5
Foreign debt securities	328	6.3
Corporate mortgage-backed securities	7,630	3.8
Passive bond index fund	38,731	5.8
Total Fair Value	$ 262,032	
Portfolio Weighted Average Maturity		4.1

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission is authorized to hire competent registered professional investment managers to manage the assets of the Illinois Prepaid Tuition Program.

The operational guidelines as set forth in the Illinois Prepaid Tuition Program investment policy for fixed income investments dictate that no securities with a credit rating below BBB- by Standard & Poor's or Ba3 by Moody's may be purchased. In the case of a split rating, the higher rating shall apply. Securities, which are downgraded below the policy minimum, may only be held at the manager's discretion for up to 6 months.

The following table indicates credit ratings as of June 30, 2006, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

			Credit Rating		
Investment Type		Total Fair Value	Moody's	Standard & Poor's	Fitch
U.S. agency obligations	$	27,627	Aaa	AAA	AAA
Federal agencies bonds and notes		45,140	Aaa	AAA	AAA
U.S. agency asset-backed securities		6,709	Aaa	AAA	AAA
Money market mutual funds		8,156	Aaa	AAA	AAA
Corporate asset backed securities		3,793	Aaa	AAA	AAA
Foreign debt securities		328	Baa	BBB	BBB
Passive bond index fund		38,731	Aa2	AA	AA

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

The following table indicates credit ratings as of June 30, 2006, for debt security investments that received multiple ratings.

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 3,637
	Corporate debt securities	Aa	19,749
	Corporate debt securities	A	62,590
	Corporate debt securities	Baa	4,635
	Corporate debt securities	NR	426
			91,037
Standard and Poor's:	Corporate debt securities	AAA	3,637
	Corporate debt securities	AA	11,385
	Corporate debt securities	A	68,111
	Corporate debt securities	BBB	7,904
			91,037
Fitch:	Corporate debt securities	AAA	1,192
	Corporate debt securities	AA	19,271
	Corporate debt securities	A	60,126
	Corporate debt securities	BBB	3,779
	Corporate debt securities	NR	6,669
			91,037
Moody's:	Corporate mortgage-backed securities	AAA	6,355
	Corporate mortgage-backed securities	NR	1,275
			7,630
Standard and Poor's:	Corporate mortgage-backed securities	AAA	6,222
	Corporate mortgage-backed securities	NR	1,408
			7,630
Fitch:	Corporate mortgage-backed securities	AAA	3,506
	Corporate mortgage-backed securities	NR	4,124
			7,630

* NR - not rated

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Illinois Prepaid Tuition Program will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Program does not have an investment policy for custodial credit risk for investments.

As of June 30, 2006, all investments were held by the Illinois Prepaid Tuition Program's agent in the Illinois Prepaid Tuition Program's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The operational guidelines as set forth in the Illinois Prepaid Tuition Program's investment policy for fixed income investments dictate that no single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation, except for any U.S. Treasury or U.S. agency security, which may comprise no more than 15% of the portfolio's overall allocation after accounting for price appreciation. In the case of investments in domestic equities the policy states that no single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation. Additionally, in the case of the small-cap investment managers at no point in time should the portfolio hold a security such that the investment management firm's aggregate position in that company exceeds 20% of the fair value of the outstanding stock of the Company.

There were no individual securities (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) which exceeded 5% or more of the total investment portfolio as of June 30, 2006.

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment.

The Illinois Prepaid Tuition Program's investment policy authorizes a maximum of 10% of the portfolio for investments in international equities. As of June 30, 2006, 5% is invested in international equities, however, none of these investments are denominated in foreign currencies.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

D. Derivatives – Interest Rate Swaps

IDAPP as of June 30, 2006 has one active interest rate swap contract. Details are shown in the following table.

	Associated Bond Issue Series 2001B*
Notional amounts	$ 175,000
Effective date	7/01/2005
Fixed rate paid	3.925%
Variable rate received**	5.110%
Fair values	$ 184
Swap termination date	07/03/2006
Counterparty credit rating	Aa2/AA+/AAA

* Reset Auction Mode Securities, Student Loan Revenue Bonds.

** Payments are made based on a variable rate of one month LIBOR and IDAPP pays the Counterparty based on a fixed rate as noted in the table above. Both are paid on a monthly basis.

Objective of the interest rate swap

IDAPP maintains an interest rate risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. This strategy enabled IDAPP to synthetically convert the variable rate paid on certain of its taxable Reset Auction Mode Securities to a one-year fixed rate thereby providing IDAPP with a cost-effective means of matching its one-year fixed rate Parent Loans to Undergraduate Students (PLUS) assets with corresponding bond interest liabilities. The interest rate exchange agreements entered into in connection with such strategy enable IDAPP to lock in the spread between the PLUS loans and the related borrowing costs until the PLUS loans' next annual reset date.

IDAPP entered into an interest rate exchange agreement on June 29, 2005 (the "2005 swap") to reduce its exposure to adverse movements in interest rates related to $175,000 of PLUS loans that are in effect fixed loans for a one-year period ending July 3, 2006. IDAPP did not elect to account for the 2005 swap as a hedge and the amounts to be paid or received under the 2005 swap are recognized as additions to or reductions in interest expense in the period they are incurred or received. Payments are made based on a variable rate of one month LIBOR (London Interbank Offered Rate) and IDAPP pays the counterparty based on a fixed rate of 3.925%. Both are paid on a monthly basis. During the fiscal year ended June 30, 2006 IDAPP recorded an offset to interest expense of $612 related to the 2005 swap.

No additional swap has been entered into subsequent to the 2005 swap.

Note 3. Deposits and Investments (Continued)

D. Derivatives – Interest Rate Swaps (Continued)

Terms

The terms, fair values, and credit ratings of the swaps as of June 30, 2006 are as shown in the previous table.

Fair value

The fair value of the interest rate swap in effect in fiscal year 2006 was positive. Fair value was calculated using the zero coupon method. Because the coupons on IDAPP's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes.

Credit risk

As of June 30, 2006, IDAPP was exposed to credit risk because of the positive fair value of the 2005 swap. IDAPP would only be exposed to credit risk in the amount of the swap's positive fair value. Fair value is a factor only upon termination.

Basis risk

Basis risk on swaps occurs when the variable payment received is based on an index other than the index on the underlying bonds. Should the relationship between the indices converge, the expected cost savings may not be realized. IDAPP believes its swap agreements have been structured to minimize this risk.

Termination risk

IDAPP or the counterparty may terminate any of the swap agreements if the other party fails to perform under the terms of the agreements. If the swap agreements were terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, IDAPP would be liable to the counterparty for an amount equal to the swap's fair value. The 2005 swap has a $3,750 termination payment provision.

Rollover risk

IDAPP is not exposed to rollover risk on its swap agreements.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

D. Derivatives – Interest Rate Swaps (Continued)

Swap payments and associated debt

As of June 30, 2006, debt service requirements of IDAPP's outstanding variable-rate debt tied to swaps and net swap payments, assuming current interest rates remain the same for their term are as follows:

Fiscal Year	Variable Rate Bonds		Interest Rate	
Ending	Principal	Interest	Swaps, Net	Total
2007	$ 9,800	$ 1,035	$ (184)	$ 10,651

Note 4. Notes Receivable

IDAPP may make loans to institutions of higher education for the purpose of funding loans by such institutions to students or parents of students attending such institutions to finance the students' attendance at such institutions of higher education. In such case, the student loans made with the proceeds shall be pledged by the borrowing institution to IDAPP to secure such institution's obligation to IDAPP. The institutions are contractually committed to selling such loans to IDAPP after the loans reach a certain aging status. The total amount of IDAPP's receivable outstanding with such educational lenders approximated $82,000 as of June 30, 2006.

Note 5. Student Loans Receivable

IDAPP's student loans receivable balance is comprised of two types of student loans: loans that are originated or purchased as part of the Federal Family Education Loan Program (FFELP) and loans that are originated as part of IDAPP's Alternative Loan Program. All FFELP loans originated or purchased by IDAPP are guaranteed at 98% by certain Guarantors in accordance with the Higher Education Act (100% for loans disbursed before October 1, 1993) and are reinsured by the United States Department of Education (ED). Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by ED. Alternative Loans are credit based and a provision for loan loss is set aside for the full amount of the loan when a loan becomes 120 days delinquent. The total amount of Alternative Loans outstanding approximated $442,450 at June 30, 2006.

ED has issued detailed loan servicing requirements which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. Management has identified loan servicing deficiencies which may result in loans which will not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $9,883 as of June 30, 2006 which includes the amount collected from borrowers as an insurance fee for the Alternative Loans.

In addition, the net student loans receivable at June 30, 2006 of $3,796,187 includes $10,877 that IDAPP has classified as defaulted loans. These loans have been submitted to, but have not been reimbursed by, the guarantee agencies as of June 30, 2006.

Note 5. Student Loans Receivable (Continued)

For servicing contracts established with outside vendors, contractual provisions require the contractors to indemnify IDAPP for losses due to their negligence in loan servicing. Such recoveries will be recognized as income when received.

Included in the amount of student loans originated and purchased during fiscal year 2006 are premiums and other acquisition fees paid on the origination and purchase of certain student loans. These premiums and other acquisition fees are being amortized over the average life of the related loans. Premiums and other acquisition fees totaling less than $50 paid to a particular party during a fiscal year are expensed. Other acquisition fees typically represent lender fees and insurance fees and are also being amortized over the average life of the related loans.

Failure to perform due diligence on certain student loans and the subsequent loss of guaranteed status on these loans may be interpreted as an event of default under various provisions of the bond resolutions. LaSalle National Bank of Chicago acts as Bond Trustee for Taxable Variable Rate Demand Student Loan Revenue Bonds Series D. JP Morgan acts as Bond Trustee on all other outstanding financings. The Bond Trustees have not currently notified IDAPP of any events of default. Should the Bond Trustees declare an event of default as defined in the bond resolutions, the Bond Trustees or holders representing not less than 25% in aggregate principal amount outstanding bonds are entitled to declare the principal of all bonds outstanding to be due and payable immediately.

Federal Student Loan Fund

ISAC's Federal Student Loan Programs maintain a fund that is on deposit with the State Treasurer known as the Illinois Student Assistance Commission Federal Student Loan Fund. This fund is used to pay defaulted loan claims. Receipts of this fund include reinsurance receipts from ED.

The cash balance in this fund as of June 30, 2006 as reported by ISAC was $34,320. The accrual basis deferred revenue, which includes $26,329 of claims in process, was $44,903. If the federal reinsurance percentage applied to guarantors was temporarily reduced from 95% to either 85% or 75% (for loans disbursed after October 1, 1998) due to excessive default claims and if the State's pledge of full faith and credit were found to be ineffective, then the full collectibility of the non-federal reinsurance amount (i.e. 5% to 25%) of the IDAPP's net student loans receivable of $3,796,187 at June 30, 2006 is subject to the adequacy of the annual appropriation from the Illinois Student Assistance Commission Federal Student Loan Fund and the reserve funds of the other Guarantors to pay defaulted loan claims. However, based on past loan default experience, management believes that material losses will not be incurred.

Note 6. Federal Special Allowance and Interest Subsidy

The Federal government pays IDAPP an interest subsidy on certain student loans during the time that the student is enrolled in an eligible educational institution or qualifies for deferment status. The federal interest receivable at June 30, 2006 was $8,500 and related revenue was $33,000 for the year ended June 30, 2006.

IDAPP is also eligible to receive special allowance payments from the federal government that are paid to adjust for the low yield on student loans in comparison to other investment sources. The special allowance payments receivable at June 30, 2006 were $22,500 and related revenue was $64,200 for the year ended June 30, 2006.

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity

A. Balances Due To / From Other Funds

The following balances at June 30, 2006 represent amounts due from other ISAC and State of Illinois funds.

Fund	Due from Primary Government Funds ISAC	Due from Primary Government Funds Other State	Due from Component Units	Description/Purpose
General Revenue	$ 47	$ -	$ -	Due from Accounts Receivable Fund for share of collections.
	4	-	-	Due from Student Loan Operating Fund for share of defaulted student collections.
	51	-	-	
Illinois Designated Account Purchase Program	1,147	-	-	Due from Federal Student Loan Fund for default claims receivable.
	1,147	-	-	
Nonmajor Governmental - Federal Student Loan	7,406	-	-	Due from Student Loan Operating Fund representing a portion of the default aversion fee that will need to be returned due to students defaulting.
	593	-	-	Due from Student Loan Operating Fund for cost of collection due to collection agencies.
	202	-	-	Due from IDAPP for lender refunds for default claims paid.
Federal Congressional Teacher Scholarship	-	-	2	Due from State universities for overpayments of scholarship/grant programs.
	8,201	-	2	
Nonmajor Proprietary - Student Loan Operating	1,763	-	-	Due from Federal Student Loan Fund for share of student defaulted loan collections and default aversion fee.
	$ 11,162	$ -	$ 2	

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity (Continued)

A. Balances Due To / From Other Funds (continued)

The following balances at June 30, 2006 represent amounts due to other ISAC and State of Illinois funds.

Fund	Due to Primary Government Funds: ISAC	Due to Primary Government Funds: Other State	Due to Component Units	Description/Purpose
General Revenue	$ -	$ -	$ 935	Due to State universities for scholarship and MAP grants.
	-	-	935	
Illinois Designated Account Purchase Program	202	-	-	Due to Federal Student Loan Fund for lender refunds for default claims paid.
	-	5	-	Due to Auditor General for cost of audit.
	202	5	-	
Nonmajor Governmental - Federal Student Loan	1,763	-	-	Due to Student Loan Operating Fund for share of student defaulted loan collections.
	1,147	-	-	Due to IDAPP for default claims payable.
ISAC Accounts Receivable	47	-	-	Due to the General Revenue Fund for its share of collections.
	2,957	-	-	
Nonmajor Proprietary - Student Loan Operating	-	271	-	Due to Central Management Services for EDP, garage, communications and Auditor General for audit of federal programs.
	4	-	-	Due to General Revenue Fund for its share of defaulted student collections.
	7,406	-	-	Due to Federal Student Loan for default aversion fee due to students returning to a "default" status.
	593	-	-	Due to Federal Student Loan for cost of collection due to collection agencies.
Illinois Prepaid Tuition Program	-	51	-	Due to Auditor General for cost of audit.
	-	10	-	Due to Central Management Services for Statistical Services Revolving Fund.
	-	-	4	Due to State universities for tuition and fees for benefits under *College Illinois!* .
	8,003	332	4	
	$ 11,162	$ 337	$ 939	

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity (Continued)

B. Transfers To/From Other Funds

Interfund transfers in for the year ended June 30, 2006 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General Revenue	$ 222	Transfer from Student Loan Operating Fund and ISAC Accounts Receivable Fund for share of receivable collections.
Nonmajor Governmental-ISAC COP Debt Service	1,941	Transfer from the Student Loan Operating Fund, IDAPP and the General Fund for lease payments.
	$ 2,163	

Interfund transfers out for the year ended June 30, 2006 were as follows:

Fund	Transfers Out To Other ISAC Funds	Description/Purpose
IDAPP	$ 566	Transfer to ISAC COP Debt Service Fund for lease payments
Illinois Prepaid Tuition Program	25	Transfer to ISAC COP Debt Service Fund for lease payments
Nonmajor Governmental - ISAC Accounts Receivable	218	Transfer to General Revenue Account for share of receivable collections.
Nonmajor Proprietary - Student Loan Operating	1,350	Transfer to ISAC COP Debt Service Fund for lease payments
	4	Transfer to General Revenue Account for share of receivable collections.
	$ 2,163	

(All dollar amounts are expressed in thousands)

Note 8. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	1,252	-	(27)	1,225
Total capital assets being depreciated	19,563	-	(27)	19,536
Less accumulated depreciation:				
Buildings	(6,181)	(457)	-	(6,638)
Equipment	(1,233)	(6)	27	(1,212)
Total accumulated depreciation	(7,414)	(463)	27	(7,850)
Total capital assets being depreciated, net	12,149	(463)	-	11,686
Governmental activities capital assets, net	$ 14,849	$ (463)	$ -	$ 14,386
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 500	$ -	$ -	$ 500
Less accumulated depreciation:				
Equipment	(393)	(42)	-	(435)
Total capital assets being depreciated, net	107	(42)	-	65
Nonmajor Enterprise Funds:				
Capital assets being depreciated:				
Equipment and automobiles	708	164	(8)	864
Less accumulated depreciation:				
Equipment and automobiles	(426)	(131)	8	(549)
Total capital assets being depreciated, net	282	33	-	315
Business-type activities capital assets, net	$ 389	$ (9)	$ -	$ 380

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2006 amounted to $463. Of that amount, 100% was charged to the Scholarships, awards and grants function.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable

Revenue bonds and notes, and demand revenue bonds payable are as follows:

Revenue Bonds and Notes*		Demand Revenue Bonds*		
Resolution Issues	Amount Outstanding	Resolution Issues	Amount Outstanding	Total
A(1)	$ 705,982	B(1)	$ 49,849	
A(2)	936,513	B(2)	15,100	
A(3)	877,940	B(3)	45,821	
A(4)	1,426,960	B(4)	48,373	
		B(5)	99,471	
	$ 3,947,395		$ 258,614	$ 4,206,009

* Reported net of unamortized discounts.

A. Revenue Bonds and Notes Payable

1. On October 2, 1992, ISAC adopted a general resolution and adopted supplemental resolutions on October 2, 1992, January 21, 1994, February 28, 1995, November 17, 1995, January 17, 1997, March 13, 1998, January 22, 1999, January 24, 2000, November 13, 2000, and July 27, 2001 authorizing the issuance of Student Loan Revenue Bonds Series AA, BB, CC (1992 Resolution Bonds), Series DD, EE, FF (1994 Resolution Bonds), Series GG (1995 Resolution Bonds), Series HH, II (1995 Second Resolution Bonds), Series JJ, KK, LL (1997 Supplemental Resolution Bonds), Series MM, NN, OO (1998 Supplemental Resolution Bonds), Series PP, QQ, RR (1999 Supplemental Resolution Bonds), Series SS, TT, UU (2000 Supplemental Resolution Bonds), Series VV, WW, XX (2000 Supplemental Resolution), and Series YY (2001 Supplemental Resolution), respectively. The Series AA and BB Bonds are retired. The Series CC Bonds bear interest at 6.875%. The Series DD, EE and FF Bonds are retired. The Series LL Bonds bear interest at 5.75%. The Series QQ bonds are retired and RR Bonds bear interest at 4.25%. The Series TT bonds are retired and UU Bonds bear interest at 5.6%. The Series WW bonds are retired and XX Bonds bear interest at 5.10%. All other bonds are at a variable rate of interest. Certain bonds are subject to early redemption at the option of ISAC in inverse order of their maturity at various percentages of par value. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues.

Note 9. Long-Term Obligations Payable (Continued)

A. Revenue Bonds and Notes Payable (Continued)

2. On December 4, 1995, ISAC adopted a general resolution and adopted supplemental resolutions on December 4, 1995, November 4, 1996, July 20, 1998, September 8, 2000, November 13, 2000, September 17, 2001 and November 8, 2002 authorizing the issuance of Education Loan Revenue Notes, Notes 1 and 2, Note 3, Note 4, Notes 5 and 6, Note 7, Note 8, Notes 9 and 10, and Notes 11 and 12, respectively. All notes are at a variable rate of interest. Any subsequent notes issued under this resolution are issued on parity and the assets acquired and revenues generated under these note issues serve as collateral for all of these issues.

3. On November 9, 2001, ISAC adopted a general resolution and adopted supplemental resolutions on November 9, 2001, April 11, 2003, and January 24, 2005 authorizing the issuance of Student Loan Revenue Bonds, Series 2001A and 2001B, Series 2003A and 2003B, and Series 2005B, respectively. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues.

4. On July 29, 2002, ISAC adopted a general resolution and adopted supplemental resolutions on July 29, 2002, September 19, 2003, April 2, 2004, and June 24, 2005 authorizing the issuance of Student Loan Revenue Bonds, Series I and II, Series III, IV and V, Series VI and VII, and Series VIII and IX, respectively. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues.

The 1992 Resolution Bonds, the 1994 Resolution Bonds, the 1997 Resolution Bonds - Series KK, and LL, the 1998 Resolution Bonds - Series OO, the 1999 Resolution Bonds - Series QQ and RR, the 2000 Resolution Series Bonds Series - TT, UU, WW and XX and the General Resolution Bonds - Series 6, Series 1996A, Series 1997A, Series 1998A, Series 1999A, Series 2001A, Series 2003A and Series 2003 III are tax-exempt. Bonds not specifically referred to in this paragraph are taxable. The variable interest rate for tax exempt debt is reset every 35 days based on the 90-day Treasury Bill rate. The variable interest rate for taxable debt is reset every 28 days based on the one-month LIBOR rate. The variable interest rate for tax-exempt debt at June 30, 2006 was 3.94%. The variable interest rate for taxable debt at June 30, 2006 was 5.40%.

B. Demand Revenue Bonds Payable

1. On June 14, 1993, ISAC adopted a resolution authorizing the issuance of Taxable Variable Rate Demand Student Loan Revenue Bonds Series D. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues. The $50,000 of Taxable Variable Rate Demand Student Loan Revenue bonds, Series D, have a final maturity of September 1, 2023.

2. On January 19, 1996, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1996A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1996B. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues. The $6,900 of Variable Rate Demand Student Loan Revenue Bonds, Series 1996A had a final maturity of March 1, 2006 and the $15,100 of Series 1996B have a March 1, 2016 maturity.

Note 9. Long-Term Obligations Payable (Continued)

B. Demand Revenue Bonds Payable (Continued)

3. On February 1, 1997, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1997A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1997B. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues. The $46,000 of Variable Rate Demand Student Loan Revenue Bonds, Series 1997A and 1997B have a final maturity date of September 1, 2031.

4. On February 1, 1998, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1998A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1998B. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues. The $48,600 of Variable Rate Demand Student Loan Revenue Bonds, Series 1998A and 1998B have a final maturity date of September 1, 2032.

5. On November 15, 1999, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1999A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1999B. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues. The $100,000 of Variable Rate Demand Student Loan Revenue Bonds, Series 1999A and 1999B have a final maturity date of September 1, 2034.

The Variable Rate Demand Student Loan Revenue Bonds Series D, 1996B, 1997A, 1997B, 1998A, 1998B, 1999A and 1999B totaling approximately $259,700 are currently in a Weekly Rate Mode with the interest rate changing weekly as determined by the Remarketing Agent and are secured by letters of credit or bond insurance (see Note 9.C). These bonds may be converted to a Fixed Interest Rate Mode at the option of the Bond Trustee. The bonds may be redeemed prior to the conversion date (as defined) at the principal amount plus accrued interest to the date of redemption. The variable interest rate for tax-exempt debt is reset weekly based on market conditions. The variable interest rate for taxable debt is reset weekly based on market conditions. As of June 30, 2006, interest rates were 4.03% for tax-exempt debt and 5.36% for taxable debt.

The bonds may be redeemed after the conversion date at various premiums, dependent upon the remaining length of maturity of the bonds, as outlined in the bond agreements.

Note 9. Long-Term Obligation Payable (Continued)

C. Demand Revenue Bonds Payable – Other Terms and Agreements

IDAPP had $258,614 in demand bonds payable (net of unamortized discount) as of June 30, 2006. The demand bonds are described in Note 9 items B1-B5. These demand bonds do not constitute a debt, liability or obligation of the State of Illinois or a pledge of the full faith and credit of the State of Illinois. Neither IDAPP nor ISAC have taxing power. These demand bonds are limited obligations of IDAPP, payable from the revenues to be derived from student loans purchased or originated, and from other assets within the trust estate. The bonds were issued for the purpose of providing IDAPP with monies to originate or acquire eligible loans.

The bonds are required to be purchased upon demand of its holder on any business day upon not less than seven days' prior written notice. Once such a notice is given by a bondholder, the bondholder will be required to tender the bond. The bonds are subject to mandatory tender in an amount equal to their principal amount plus accrued interest.

IDAPP has reported principal amounts scheduled to mature during fiscal year 2006 totaling $11,100 as current liabilities. Remaining amounts are reported as non-current because IDAPP entered into take-out agreements to convert bonds "put" but not resold into other forms of long-term obligations. The details of these arrangements are described below, by issue.

Series D Bonds

Under an irrevocable, transferable direct pay letter of credit issued by Bank of America, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit will expire on February 28, 2009.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 8.25% as of June 30, 2006. The take-out agreement expires February 28, 2009.

IDAPP is required to pay Bank of America a quarterly commitment fee for the letter of credit. Quarterly commitment fees currently in effect range from .450% to .550% of the available amount of the letters of credit. IDAPP has not paid a take-out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2006, IDAPP had not drawn any funds under its existing letter of credit agreements.

Series 1996A and 1996B Bonds

Under a standby bond purchase agreement issued by Bank of America, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The standby bond purchase agreement will expire on February 28, 2009.

Note 9. Long-Term Obligations Payable (Continued)

C. Demand Revenue Bonds Payable – Other Terms and Agreements (Continued)

Series 1996A and 1996B Bonds (Continued)

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 6.08% as of June 30, 2006. The take-out agreement expires on February 28, 2009.

IDAPP is required to pay Bank of America a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take-out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2006, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Series 1997A and 1997B Bonds

Under an irrevocable, transferable direct pay letter of credit issued by JP Morgan Chase, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit will expire on February 25, 2008.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with JP Morgan Chase to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 8.25% as of June 30, 2006. The take-out agreement expires on February 25, 2008.

IDAPP is required to pay JP Morgan Chase a quarterly commitment fee for the letter of credit. Quarterly commitment fees currently in effect range from .450% to .550% of the available amounts of the letter of credit. IDAPP has not paid a take-out agreement fee to JP Morgan Chase. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2006, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Series 1998A and 1998B Bonds

Under a standby bond purchase agreement issued by Bank of America, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The standby bond purchase agreement will expire on April 1, 2010.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 6.08% as of June 30, 2006. The take-out agreement expires on April 1, 2010.

IDAPP is required to pay Bank of America a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take-out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2006, IDAPP had not drawn any funds under its existing liquidity facility agreements.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

C. Demand Revenue Bonds Payable – Other Terms and Agreements (Continued)

Series 1999A and 1999B Bonds

Under a standby bond purchase agreement issued by JP Morgan Chase, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The standby bond purchase agreement will expire on December 9, 2008.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with JP Morgan Chase to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 8.25% as of June 30, 2006. The take-out agreement expires December 9, 2008.

IDAPP is required to pay JP Morgan Chase a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take-out agreement fee to JP Morgan Chase. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2006, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Debt Service Requirements – Take Out Agreements

The debt service requirements that would be necessary if the take-out agreements are exercised are as follows:

	Series D		Series 1996A and 1996B		Series 1997A and 1997B	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 18,182	$ 3,615	$ 5,491	$ 805	$ -	$ 3,845
2008	18,182	2,099	5,491	467	46,000	2,517
2009	13,636	540	4,118	120	-	-
Total	$ 50,000	$ 6,254	$ 15,100	$ 1,392	$ 46,000	$ 6,362

	Series 1998A and 1998B		Series 1999A and 1999B	
Year	Principal	Interest	Principal	Interest
2007	$ -	$ 2,996	$ -	$ 8,363
2008	-	2,996	-	8,386
2009	-	2,996	-	8,363
2010	-	2,996	20,000	7,429
2011	9,720	2,826	20,000	5,755
2012-2016	38,880	5,696	60,000	7,240
Total	$ 48,600	$ 20,506	$ 100,000	$ 45,536

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

D. Changes in Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2006 were as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
Governmental activities:					
Other long-term obligations:					
Installment purchase obligations	$ 12,485	$ -	$ (1,310)	$ 11,175	$ 1,370
Total governmental activities	$ 12,485	$ -	$ (1,310)	$ 11,175	$ 1,370
Business-type activities:					
Illinois Designated Account Purchase Program Fund:					
Revenue bonds payable	$ 3,752,865	$ 600,000	$ (130,350)	$ 4,222,515	$ 43,500
Unamortized discounts	(15,020)	(2,078)	592	(16,506)	-
Other long-term obligations:					
Compensated absences	955	521	(657)	819	82
Total Illinois Designated Account Purchase Program	3,738,800	598,443	(130,415)	4,206,828	43,582
Nonmajor Enterprise Funds:					
Other long-term obligations:					
Compensated absences	2,660	2,020	(1,682)	2,998	300
Capital leases payable	22	-	(22)	-	-
Tuition payable	562,274	117,170	(21,618)	657,826	24,758
Accreted tuition payable	115,330	44,367	(1,274)	158,423	1,863
Total nonmajor enterprise funds	680,286	163,557	(24,596)	819,247	26,921
Total business-type activities	$ 4,419,086	$ 762,000	$ (155,011)	$ 5,026,075	$ 70,503

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

E. Future Maturities of Revenue Bonds and Notes Payable

IDAPP issues bonds and notes to provide funds for student loan originations and purchases. IDAPP pledges the income derived from its asset to pay debt service. Annual debt service requirements to maturity for revenue bonds and notes are as follows:

Year Ending June 30	Principal	Interest	Total
2007	$ 43,500	$ 224,777	$ 268,277
2008	-	223,851	223,851
2009	6,485	223,655	230,140
2010	-	223,547	223,547
2011	82,650	222,219	304,869
2012-2016	82,430	1,086,231	1,168,661
2017-2021	-	1,075,038	1,075,038
2022-2026	175,000	1,061,685	1,236,685
2027-2031	270,750	996,296	1,267,046
2032-2036	1,090,750	851,063	1,941,813
2037-2041	1,071,400	516,647	1,588,047
2042-2045	1,399,550	190,759	1,590,309
	4,222,515	$ 6,895,768	$ 11,118,283
Less:			
Current portion of revenue bonds	32,400		
Demand revenue bonds	11,100		
Long-term principal outstanding	4,179,015		
Less:			
Unamortized bond discounts	16,506		
Net long-term principal outstanding	$ 4,162,509		

Approximately 99% of IDAPP's debt outstanding is comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the current interest rate of 4.03% on tax-exempt variable rate demand note debt, 3.94% on tax-exempt auction rate debt, 5.36% on taxable variable rate demand note debt and 5.40% on taxable auction rate debt. Actual interest paid in future years could be materially different.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

F. Bond Covenant Non-compliance

Certain bond indentures require IDAPP to deliver to bond trustees audited financial statements within 120 days (150 days for two bond series) after its fiscal year ended June 30, 2006. Although IDAPP is not in compliance with either the 120-day or 150-day filing requirements, there has been no notice of nonperformance of this provision by the bond trustees and, therefore, no event of default. IDAPP would have 30 days after receiving notice to remedy the condition.

G. Bond Issuances

During fiscal year 2006, IDAPP issued Student Loan Revenue Bond, 2005 Series VIII and IX in the amount of $600,000, to fund student loan operations. The bonds mature in FY2045. The bonds carry a variable interest rate over the life of the bonds and the rate adjusts (resets) every 35 days based upon the 91-day T-Bill Rate.

H. Tuition Payable

Tuition payable activity for the year ended June 30, 2006 is as follows:

Balance as of July 1, 2005	$ 562,274
Add:	
Contributions	117,170
Less:	
Return of contributions	(4,697)
Tuition payments	(16,921)
Balance as of June 30, 2006	$ 657,826
Reported as:	
Current	$ 24,758
Noncurrent	633,068
	$ 657,826

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

I. Accreted Tuition Payable

Accreted tuition payable is management's estimate of the present value of the tuition payment to be made in excess of principal payment received and is expected to be earned from investments of tuition contracts. The accretion expense for the fiscal year 2006 is estimated as a percentage of net tuition contracts paid to date. The rate is 7.75% and is based on the average increase in tuition for Illinois colleges.

Average tuition payable balance over the year	$ 578,262
Estimate of 7.75% increase of tuition payable	$ 44,815
Present value	$ 44,367

Beginning balance accreted tuition payable as of July 1, 2005	$ 115,330
Accretion expense	44,367
Accretion payments	(1,274)
Ending balance accreted tuition payable as of June 30, 2006	$ 158,423
Reported as:	
Current	$ 1,863
Noncurrent	156,560
	$ 158,423

The accretion expense is calculated on a monthly basis on the balance in the tuition payable account. Accretion expense is reflected as an expense in the Statement of Revenues and Expenses Changes in Net Assets and as an increase to liabilities on the Statement of Net Assets.

J. Installment Purchase Obligations

The Commission leases a facility under the terms of a capital lease purchase agreement executed by the State of Illinois, Department of Central Management Services. The State, acting through its Department of Central Management Services for the benefit of the Commission, entered into the Certificate of Participation agreement. The agreement calls for semi-annual payments of principal and interest. Pursuant to the authorizing laws, the agreement is subject to termination and cancellation in any fiscal year for which the Illinois General Assembly fails to make appropriations for payments under the agreement. The agreement expires in June 2013.

The agreement, which was amended and restated as of March 1, 1992, calls for semi-annual payments of principal and interest, ranging from 4.50% to 5.25%, through June 30, 2013. ISAC's Certificate of Participation Series 1992 was refunded (refinanced) through Series 1999.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

J. Installment Purchase Obligations (Continued)

Future commitments under the installment purchase contract as of June 30, 2006, are as follows:

Year Ending June 30	Principal	Interest	Total
2007	$ 1,370	$ 569	$ 1,939
2008	1,440	500	1,940
2009	1,510	430	1,940
2010	1,585	354	1,939
2011	1,670	273	1,943
2012-2013	3,600	285	3,885
	$ 11,175	$ 2,411	$ 13,586

Note 10. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Commission's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2006.

The Commission's risk management activities for the building and EDP equipment are financed through appropriations to the Commission and are reported as part of the operating expenditures in the GRF, SLOF, and IDAPP funds. The Commission has made no material claim against the insurance coverage in the last three years.

Note 11. Pension Plan

Substantially all of the Commission's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2006 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Commission pays employer contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2006, the employer contribution rate was 7.8%. For fiscal year 2006, the required and actual contribution was $1,949.

Note 12. Post-Employment Benefits

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State-sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to $5 per annuitant age 60 and older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2006. Post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental, and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis.

Note 13. Fund Deficits

College Illinois!, the State's section 529 prepaid tuition program, has taken action to reduce and ultimately eliminate its $147 million current actuarially determined deficit over time. The Illinois Student Assistance Commission (ISAC), administrator of the *College Illinois!* program, has added a premium to contract prices during each of the past five enrollment periods (2001-02 through 2005-06) to partially amortize the current actuarial deficit, and the Commission could perpetuate these or similar actions in subsequent years until any deficit is fully amortized.

In terms of the program's actuarially determined deficit, actual investment performance is only one influencing factor. Expected future investment performance is another factor, as is the level of actual tuition and fee increases at Illinois public universities, new contracts for each future enrollment period, as well as future expectations for tuition and fees increases at those institutions. A large proportion of the program's actuarial deficit is related to increasing the Illinois public universities' tuition growth expectation to between 9% and 10% for fiscal years 2003 through 2008 and 7.75% long-term rather than 7.5%. Beginning with fiscal year 2007, the assumption regarding future contract sales was lowered from between 5,000 and 6,000 to 5,000 per year. A factor contributing to a decrease in the actuarial deficit is that the program's long-range investment returns assumption was recently raised by 25 basis points from 7.75% to 8%.

(All dollar amounts are expressed in thousands)

Note 13. Fund Deficits (Continued)

Each year when setting plan prices, the Commission reviews the assumptions that influence the actuarial deficit. Since 2002, recognizing that the State's budget has provided minimal increases for the state's institutions of higher education and tuition and fee increases have as a result been higher than anticipated, the assumption concerning tuition increases has been adjusted higher on a temporary basis. Also in 2002, the Commission reduced the program's long-term investment return assumption temporarily in recognition that the economy was recovering more slowly than expected due to external shocks that have adversely affected financial markets during the past several years. With current economic trends, it was decided in FY2007 to return to the original long-term investment performance assumption of 8 percent.

Implementation of the Truth-in-Tuition law (in 2004) has impacted and will continue to impact future tuition increases for classes of new students entering the State's public universities. Another significant fact that only became evident after the law was implemented, was that while tuition rates charged to students who remain enrolled for continuous academic years must remain level, the universities continue to increase fees annually for all students, not just new enrollees. Beginning with fiscal year 2006, fee increase assumptions separate from tuition increase assumptions were developed. They were 8 percent for one year and 6 percent long term. Those assumptions were recently reconsidered and based on the current state budget situation and the recent history of fee increases at the public universities, the fee increase assumptions were raised to 10 percent for the next year and 8 percent long term. Considering the potential impact of fee increases, as well as a refinement made in the calculation of weighted average tuition and fees for students impacted by Truth-in -Tuition, the actuarial deficit has been impacted significantly.

ISAC is required by State statute to prepare a report describing the financial condition of the program. Included in this report shall be an actuarial evaluation on the financial viability of the program. An Actuary's Report on Soundness was prepared on *College Illinois!* Prepaid Tuition Program. According to the actuarial evaluation report, there is a deficit of ($146,929) in the program.

	Actuarial Evaluation
Net assets, before tuition/accretion payable	$ 787,114
Actuarial present value of future payments expected to be made by contract purchasers	186,468
Subtotal	973,582
Actuarial present value of future payments expected to be made by the program	1,120,511
Actuarial deficit as of June 30, 2006	$ (146,929)

Note 13. Fund Deficits (Continued)

Actuarial projections indicate that the program's cash flow (contributions received less tuition benefits and expenses) is expected to remain positive through FY2009 even without reflecting the expected proceeds from contracts sold after June 30, 2006. Moreover, on this basis, total program assets are projected to cover benefit payments through FY2020.

Note 14. Operating Leases

The Commission rents certain facilities and office equipment under leases which generally provide for cancellation without penalty in the event funds for payment are not appropriated by the General Assembly.

Expenses for all operating leases amounted to $142 in 2006.

There are no future minimum rental commitments for noncancellable operating leases to be satisfied by future Commission appropriations.

Note 15. Commitments and Contingencies

The Internal Revenue Code requires that an issuer of tax-exempt bonds rebate to the United States any excess investment earnings made with the gross proceeds of an issue over the amount which would have been earned had such proceeds been invested at a rate equal to the yield on the issue. Accordingly, IDAPP has accrued $1,765 as of June 30, 2006 for amounts potentially due to the government and has treated this as a reduction to investment income.

IDAPP has entered into a number of contracts with lenders which provide for the purchase of student loans by IDAPP. The total amount of the purchase commitment is not specified in the individual contracts.

Letters-of-credit and liquidity facilities in the amount of $264,226 have been established with financial institutions in support of the Student Loan Revenue Bonds, Series D, Series 1996A and 1996B, Series 1997A and 1997B, Series 1998A and 1998B, and Series 1999A and 1999B, for liquidity and credit enhancement purposes. IDAPP has drawn $0 on the letters-of-credit as of June 30, 2006.

The Commission receives grants from the federal government which are subject to review and audit by federal grantor agencies. At June 30, 2006, the Commission was aware of one audit finding under review by the Department of Education regarding the claims review process as outlined in the Common Manual. As a result of a review conducted by the Department of Education, Office of the Inspector General, certain costs incurred under the Federal Student Loan Program have been questioned. The Commission appealed the finding identified by the Department of Education, Office of the Inspector General. On November 23, 2005, the Commission received notification from the Department of Education that the appeal had been denied. The Commission has appealed this decision to the Department of Education’s Federal Student Aid Chief Operating Officer in a letter dated January 4, 2006. The Commission believes that it is a remote possibility that certain costs could be determined ineligible based on this review and result in a monetary effect on the financial condition of the Commission. The monetary impact of this could range from $0 to $1.5 million.

The guaranty agency industry strongly continues to believe that the current industry practice for the processing and submission of reinsurance claims – the Common Claims Initiative (CCI) process as outlined in the Common Manual - clearly fulfill the regulations in question. Furthermore, the CCI process was approved by the Department in a letter dated December 19, 2005 from Matteo Fontana, General Manager, Financial Partner Services, FSA to the National Council of Higher Education Loan Programs (NCHELP).

Note 15. Commitments and Contingencies (Continued)

The letter clearly endorses the CCI format for guaranty agencies to determine whether the lender has complied with all of the origination, servicing, and due diligence requirements for claim approval. Management believes that any major changes in regulations based on discussions between NCHELP and the Department of Education will be applied prospectively.

The Commission is a defendant in a lawsuit. It is the opinion of the Commission's legal counsel that the potential outcome of the lawsuit cannot be determined at this time and that the potential loss ranges up to $15 million. Commission management believes the lawsuit is without merit and intends to vigorously defend the Commission against the lawsuit. Commission management does not believe the lawsuit will have a material effect on financial results.

Note 16. New Governmental Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements:

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The Commission is required to implement this Statement for the year ending June 30, 2008.

Statement No. 47, *Accounting for Termination Benefits,* establishes accounting standards for voluntary and involuntary termination benefits, including termination benefits provided through a defined benefit other post employment benefit plan (OPEB). For those termination benefits provided through a defined benefit OPEB plan, this Statement must be implemented concurrently with Statement No. 45.

Statement No. 48*, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to ascertain whether the proceeds received in exchange for an interest in their expected cash flows from collecting specific receivables or specific future revenues should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. This Statement also requires disclosures pertaining to future revenues that have been pledged or sold and is intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. The Commission is required to implement this Statement for the year ending June 30, 2008.

Management has not yet completed its assessment of these Statements, however, they are not expected have a material effect on the overall financial statement presentation.

Note 17. Short-Term Revolving Credit Line

On June 22, 2006 ISAC/IDAPP executed a $500,000 short-term revolving credit agreement with Bank of America, N.A. The revolving credit line will be used to purchase eligible student loans (guaranteed or insured or is an eligible loan under the Higher Education Act), and expires on June 21, 2007. US Bank is the Trustee for this credit line.

The terms of the credit line are as follows:

Loans on the credit line are drawn at the applicable rate per annum equal to either (a) with respect to Base rate loans, 0%; (b) with respect to LIBOR Loans, .30%. For the unused portion of the credit line, the commitment fee is .05%.

Loans may be at Base Rate Loans or LIBOR loans and are used (i) solely for the purchase or origination by or on behalf of the Borrower of the principal of, and accrued interest on Eligible loans and (ii) for advances by the borrower under a school as lender loan agreement.

Base Rate means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds rate plus ½ of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by the Bank of America as its “prime rate.”

LIBOR means, for any day, a fluctuating rate of interest equal to the one (1) month London Interbank Offered Rate as published in the “Money Rates” section of the Wall Street Journal.

As of June 30, 2006 no funds had been drawn on the credit line.

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Budgetary Comparisons Schedule - Major Governmental Funds - General Fund
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Budgeted Amounts		Actual	Budget to GAAP	Actual Amounts
	Original	Final	Amount	Differences	GAAP Basis
Revenues (inflows)					
Appropriations from State resources and other revenues					
General Revenue Account	$ 390,300	$ 390,300	$ 387,453	$ -	$ 387,453
Education Assistance Account	-	-	(4)	-	(4)
Combined totals	390,300	390,300	387,449	-	387,449
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General Revenue Account	390,300	390,300	387,201	-	387,201
Education Assistance Account	-	-	(4)	-	(4)
Combined Totals	390,300	390,300	387,197	-	387,197
Excess of revenues over expenditures	-	-	252	-	252
Other sources of financial resources					
Transfers in/General Revenue Account	-	-	222	-	222
Net change in fund balance	-	-	474	-	474
Fund balance, July 1, 2005	-	-	3,379	-	3,379
Fund balance, June 30, 2006	$ -	$ -	$ 3,853	$ -	$ 3,853

See Notes to Required Supplementary Information

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Notes to Required Supplementary Information
(All dollar amounts are expressed in thousands)

Explanation of differences between budgetary basis and GAAP basis of accounting:

The accompanying Budgetary Comparison Schedule - Major Governmental Funds - General Fund, presents comparisons of the legally adopted budgets with actual data on a budgetary basis.

Actual revenue amounts on the budgetary basis	$ 387,449
Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary purposes, but are reported in the year the supplies are received for financial reporting purposes	-
Total revenues on the GAAP basis	$ 387,449

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Combining Schedule of Accounts
General Fund
June 30, 2006
(All dollar amounts are expressed in thousands)

	General Revenue Account	Education Assistance Account	Total
Assets			
Unexpended appropriations	$ 1,532	$ -	$ 1,532
Due from other ISAC funds	51	-	51
Notes receivable, net of allowances of $34,218	3,802	-	3,802
Total assets	$ 5,385	$ -	$ 5,385
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	$ 597	$ -	$ 597
Due to State of Illinois component units	935	-	935
Total liabilities	1,532	-	1,532
Fund Balances			
Reserved for			
Loans and notes receivable	3,802	-	3,802
Unreserved	51	-	51
Total fund balances	3,853	-	3,853
Total liabilities and fund balances	$ 5,385	$ -	$ 5,385

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Illinois Student Assistance Commission

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	General Revenue Account	Education Assistance Account	Total
Revenues			
Other	$ 34	$ -	$ 34
Expenditures			
Current			
Education			
Scholarship, awards and grants	387,201	(4)	387,197
Excess (deficiency) of revenues over expenditures	(387,167)	4	(387,163)
Other sources (uses) of financial resources			
Appropriations from State resources	387,691	(4)	387,687
Receipts remitted to State Treasury	(272)		(272)
Transfers-in	222		222
Net other sources (uses) of financial resources	387,641	(4)	387,637
Net change in fund balance	474	-	474
Fund balance, July 1, 2005	3,379	-	3,379
Fund balance, June 30, 2006	$ 3,853	$ -	$ 3,853

State of Illinois
Illinois Student Assistance Commission

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Loan	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable
Assets				
Cash and cash equivalents	$ 34,320	$ 6	$ 320	$ 48
Receivables				
Intergovernmental	26,329	-	-	-
Accrued interest on investments	130	-	-	-
Other	-	-	1	2
Due from other ISAC funds	795	-	-	-
Due from State of Illinois component units	-	-	2	-
Due from other ISAC funds - deferred charges	7,406	-	-	-
Total assets	$ 68,980	$ 6	$ 323	$ 50
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ 10,236	$ -	$ -	$ 3
Due to other ISAC funds	2,910	-	-	47
Deferred revenue	44,903	6	-	-
Intergovernmental payable	4,549	-	-	-
Due to U.S. Department of Education				
Reserve recall and advance	6,382	-	-	-
Other	-	-	323	-
Total liabilities	68,980	6	323	50
Fund balances				
Unreserved	-	-	-	-
Total liabilities and fund balances	$ 68,980	$ 6	$ 323	$ 50

Special Revenue Funds						
Monetary Award Program Reserve	University Grant	Contract and Grant	Optometric Education	Total	Debt Service Fund I S A C COP	Total Nonmajor Governmental Funds
$ -	$ -	$ 33	$ -	$ 34,727	$ -	$ 34,727
-	-	-	-	26,329	-	26,329
-	-	-	-	130	-	130
-	-	-	-	3	-	3
-	-	-	-	795	-	795
-	-	-	-	2	-	2
-	-	-	-	7,406	-	7,406
$ -	$ -	$ 33	$ -	$ 69,392	$ -	$ 69,392
$ -	$ -	$ -	$ -	$ 10,239	$ -	$ 10,239
-	-	-	-	2,957	-	2,957
-	-	33	-	44,942	-	44,942
-	-	-	-	4,549	-	4,549
-	-	-	-	6,382	-	6,382
-	-	-	-	323	-	323
-	-	33	-	69,392	-	69,392
-	-	-	-	-	-	-
$ -	$ -	$ 33	$ -	$ 69,392	$ -	$ 69,392

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Loan	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable
Revenues				
Federal government	$ 141,754	$ 2,071	$ 1,533	$ -
Interest and other investment income	1,696	-	-	-
Collections on student loans previously reimbursed by the U.S. Department of Education	2,242	-	-	-
Repurchase/Rehabilitation/Consolidation fees and interest	361	-	-	-
Other	-	-	-	293
Total revenues	146,053	2,071	1,533	293
Expenditures				
Education				
Scholarships, awards and grants	-	2,071	1,533	63
Loan guarantee	146,053	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	146,053	2,071	1,533	63
Excess (deficiency) of revenues over expenditures	-	-	-	230
Other sources (uses) of financial resources				
Appropriations from State resources	-	-	-	-
Transfers - in	-	-	-	-
Transfers (out) to State General Revenue Fund	-	-	-	(26)
Transfers (out) to other ISAC funds	-	-	-	(218)
Net other sources (uses) of financial resources	-	-	-	(244)
Net change in fund balance	-	-	-	(14)
Fund balance, July 1, 2005	-	-	-	14
Fund balance, June 30, 2006	$ -	$ -	$ -	$ -

Special Revenue Funds: Monetary Award Program Reserve	Special Revenue Funds: University Grant	Special Revenue Funds: Contract and Grant	Special Revenue Funds: Optometric Education	Special Revenue Funds: Total	Debt Service Fund: I S A C COP	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ 145,358	$ -	$ 145,358
-	-	-	-	1,696	-	1,696
-	-	-	-	2,242	-	2,242
-	-	-	-	361	-	361
-	-	17	-	310	-	310
-	-	17	-	149,967	-	149,967
-	52	11	50	3,780	-	3,780
-	-	-	-	146,053	-	146,053
-	-	-	-	-	1,310	1,310
-	-	-	-	-	631	631
-	52	11	50	149,833	1,941	151,774
-	(52)	6	(50)	134	(1,941)	(1,807)
-	52	-	50	102	-	102
-	-	-	-	-	1,941	1,941
(880)	-	(6)	-	(912)	-	(912)
-	-	-	-	(218)	-	(218)
(880)	52	(6)	50	(1,028)	1,941	913
(880)	-	-	-	(894)	-	(894)
880	-	-	-	894	-	894
$ -	$ -	$ -	$ -	$ -	$ -	$ -

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2006
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Assets			
Current			
Cash and cash equivalents	$ 20,845	$ 10,746	$ 31,591
Receivables			
Intergovernmental	2,261	-	2,261
Accrued interest on investments	87	64	151
Due from other ISAC funds	1,763	-	1,763
Total current assets	24,956	10,810	35,766
Non-current			
Investments	-	777,302	777,302
Capital assets, net of accumulated depreciation	315	-	315
Total non-current assets	315	777,302	777,617
Total assets	25,271	788,112	813,383
Liabilities			
Current			
Accounts payable and accrued liabilities	617	847	1,464
Tuition payable	-	24,758	24,758
Accreted tuition payable	-	1,863	1,863
Due to other ISAC funds	597	-	597
Due to other State funds	271	61	332
Due to State of Illinois component units	-	4	4
Compensated absences	291	9	300
Total current liabilities	1,776	27,542	29,318
Non-current			
Tuition payable	-	633,068	633,068
Accreted tuition payable	-	156,560	156,560
Due to other ISAC funds	7,406	-	7,406
Compensated absences	2,621	77	2,698
Total non-current liabilities	10,027	789,705	799,732
Total liabilities	11,803	817,247	829,050
Net Assets			
Invested in capital assets, net of related debt	315	-	315
Unrestricted (deficit)	13,153	(29,135)	(15,982)
Total net assets	$ 13,468	$ (29,135)	$ (15,667)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Operating revenues			
Investment income			
Income - investment securities	$ -	$ 49,329	$ 49,329
Interest - other	-	419	419
Total investment income	-	49,748	49,748
Other operating revenues			
Application and other fees	-	2,342	2,342
Loan processing and issuance fees	4,419	-	4,419
Portfolio maintenance fee	8,291	-	8,291
Collection retention	7,519	-	7,519
Direct consolidation cost	5,009	-	5,009
Default aversion fee	2,057	-	2,057
Repurchase/rehabilitation/consolidation retention fees and interest	9,744	-	9,744
Other	54	-	54
Total other operating revenues	37,093	2,342	39,435
Total operating revenues	37,093	52,090	89,183
Operating expenses			
Salaries and employee benefits	23,594	740	24,334
Accreted tuition expenses	-	44,367	44,367
Investment management fees	-	2,621	2,621
Management and professional services	13,565	3,002	16,567
Depreciation	131	-	131
Total operating expenses	37,290	50,730	88,020
Operating income (loss)	(197)	1,360	1,163
Non-operating revenues (expenses)			
Interest revenue	1,006	-	1,006
Interest on bonds/notes payable	(3)	-	(3)
Total non-operating revenues (expenses)	1,003	-	1,003

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds - Continued
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Income before transfers	$ 806	$ 1,360	$ 2,166
Transfers - out	(1,354)	(25)	(1,379)
Change in net assets	(548)	1,335	787
Net assets, July 1, 2005	14,016	(30,470)	(16,454)
Net assets, June 30, 2006	$ 13,468	$ (29,135)	$ (15,667)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ 37,257	$ 2,342	$ 39,599
Cash paid for refund of contracts	-	(4,697)	(4,697)
Cash payments to suppliers for goods and services	(3,775)	(2,809)	(6,584)
Cash payments to employees for services	(23,263)	(733)	(23,996)
Cash receipts from prepaid tuition contracts	-	117,170	117,170
Cash payments for management and professional fees	(9,276)	-	(9,276)
Cash payments for tuition and accretion	-	(18,195)	(18,195)
Net cash provided by operating activities	943	93,078	94,021
Cash flows from noncapital financing activities			
Transfers out	(1,354)	(25)	(1,379)
Cash flows from capital and related financing activities			
Principal paid on capital debt	(22)	-	(22)
Interest paid on capital debt	(3)	-	(3)
Acquisition and construction of capital assets	(164)	-	(164)
Net cash used by capital and related financing activities	(189)	-	(189)
Cash flows from investing activities			
Purchase of investment securities	-	(203,589)	(203,589)
Proceeds from sale and maturities of investment securities	-	101,643	101,643
Interest and dividends on investments	988	15,332	16,320
Cash paid to investment managers	-	(2,621)	(2,621)
Net cash provided (used) by investing activities	988	(89,235)	(88,247)
Net increase in cash and cash equivalents	388	3,818	4,206
Cash and cash equivalents, July 1, 2005	20,457	6,928	27,385
Cash and cash equivalents, June 30, 2006	$ 20,845	$ 10,746	$ 31,591

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows (Continued)
Nonmajor Enterprise Funds
Year Ended June 30, 2006
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Reconciliation of net operating income to net cash provided by operating activities			
Operating income	$ (197)	$ 1,360	$ 1,163
Adjustments to reconcile net operating income to net cash provided by operating activities			
Depreciation	131	-	131
Interest - investments	-	(49,748)	(49,748)
Accreted tuition expense	-	44,367	44,367
Investment management fees	-	2,621	2,621
Change in assets and liabilities			
Intergovernmental receivables	267	-	267
Due from other funds	(104)	-	(104)
Accounts payable and accrued liabilities	(102)	166	64
Due to other funds	618	27	645
Tuition payable	-	94,278	94,278
Compensated absences	330	7	337
Total adjustments	1,140	91,718	92,858
Net cash provided by operating activities	$ 943	$ 93,078	$ 94,021
Supplemental disclosure of noncash transactions:			
Net appreciation in fair value of investments	$ -	$ 34,383	$ 34,383