McGladrey & Pullen
Certified Public Accountants

State of Illinois
Illinois Student Assistance Commission

Financial Statements
For the Year Ended June 30, 2008

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

State of Illinois
Illinois Student Assistance Commission

Table of Contents

Table of Contents

State of Illinois
Illinois Student Assistance Commission

Agency Officials

Executive Director	Andrew Davis
Chief Financial Officer	John Sinsheimer
General Counsel	Kim Barker Lee

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.

Summary of Findings

The auditors identified matters involving the Commission's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Current Findings - *Government Auditing Standards* on pages 76-81 as findings 08-1, 08-2, 08-3, 08-4 and 08-5. The auditors also consider findings 08-1, 08-2 and 08-3 to be material weaknesses.

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on February 4, 2009. Attending were:

Illinois Student Assistance Commission	
Frank Berauer	IDAPP Director, Accounting and Finance
Anne Hunter	Financial Reporting Manager
John Sinsheimer	Chief Financial Officer
Shoba Nandhan	ISAC Director, Budget and Finance
McGladrey & Pullen, LLP	
Linda Abernethy	Partner
Rolake Adedara	Manager
Office of the Auditor General	
Jon Fox	Audit Manager

The responses to the recommendations were provided by Shoba Nandhan in a letter dated February 17, 2009.

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois, and

Mr. Donald J. McNeil
Honorable Chairman of the Governing Board
Illinois Student Assistance Commission

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, 2008, which collectively comprise the 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, 2008, 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, 2008 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.

As discussed more fully in the Illinois Prepaid Tuition Program section of Note 20, Subsequent Events, due to market conditions the Commission experienced a decline in the fair market value of investments subsequent to June 30, 2008. The information presented in the Illinois Prepaid Tuition Program section of Note 20, Subsequent Events, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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*, we have also issued a report dated March 27, 2009 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information which includes the Budgetary Comparisons Schedule – Major Governmental Funds and Notes to Required Supplementary Information (pages 63 and 64) are 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
March 27, 2009

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Year Ended June 30, 2008
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 669	$ -	$ 669
Cash and cash equivalents	763	75,407	76,170
Investments	-	60	60
Receivables			
Intergovernmental	-	33,621	33,621
Accrued interest on investments	-	145	145
Default fee	-	104	104
Other	22	-	22
Securities lending collateral	-	167,529	167,529
Due from other ISAC funds	50	1	51
Total current assets - unrestricted	1,504	276,867	278,371
Restricted			
Cash and cash equivalents	-	58,204	58,204
Notes receivable	-	51,585	51,585
Receivables			
Student loans	-	202,683	202,683
Accrued interest on loans	-	26,564	26,564
Federal special allowance and interest subsidy	-	1,786	1,786
Other	-	1,587	1,587
Due from other ISAC funds	-	1,149	1,149
Unamortized bond issuance costs	-	24	24
Total current assets - restricted	-	343,582	343,582
Non-current			
Unrestricted			
Investments	-	987,590	987,590
Notes receivable	5,047	-	5,047
Other assets	-	3	3
Capital assets, net of accumulated depreciation	13,457	153	13,610
Total non-current assets - unrestricted	18,504	987,746	1,006,250
Restricted			
Notes receivable	-	42,206	42,206
Student loans receivable, net	-	932,355	932,355
Unamortized bond issuance costs	-	841	841
Total non-current assets - restricted	-	975,402	975,402
Total assets	$ 20,008	$ 2,583,597	$ 2,603,605

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
June 30, 2008
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 4	$ 23,390	$ 23,394
Accrued interest payable	-	1,467	1,467
Tuition payable	-	45,625	45,625
Accreted tuition payable	-	4,375	4,375
Due to other ISAC funds	48	1,152	1,200
Due to other State funds	-	471	471
Due to State of Illinois component units	686	37	723
Deferred revenue	278	-	278
Intergovernmental payable	-	6,725	6,725
Due to U.S. Department of Education	326	-	326
Compensated absences	-	326	326
Installment purchase obligation	1,510	-	1,510
Securities lending collateral obligation	-	170,776	170,776
Line of credit	-	390,770	390,770
Total current liabilities	2,852	645,114	647,966
Non-current			
Tuition payable	-	782,475	782,475
Accreted tuition payable	-	269,931	269,931
Revenue bonds payable, net	-	879,441	879,441
Installment purchase obligation	6,855	-	6,855
Compensated absences	-	2,938	2,938
Total non-current liabilities	6,855	1,934,785	1,941,640
Total liabilities	9,707	2,579,899	2,589,606
Net Assets			
Invested in capital assets, net of related debt	5,092	153	5,245
Restricted	-	103,874	103,874
Unrestricted	5,209	(100,329)	(95,120)
Total net assets	$ 10,301	$ 3,698	$ 13,999

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2008
(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	$ 429,558	$ -	$ 5,052
Interest	500	-	-
Total governmental activities	430,058	-	5,052
Business-type activities			
Education			
Student loan purchase program	101,174	70,770	24,972
Prepaid tuition	73,559	2,396	(78,136)
Loan guarantee program	226,553	41,279	185,003
Total business-type activities	401,286	114,445	131,839
Total Commission	$ 831,344	$ 114,445	$ 136,891

General revenues, transfers and special item
General revenues
Appropriations from State resources
Lapsed appropriations
Receipts remitted to State Treasury
Investment income
Miscellaneous
Amount of SAMS transfer in
Transfers
Special item - sale of loan portfolio
Total general revenues, transfers and special item

Change in net assets

Net assets July 1, 2007, as restated

Net assets June 30, 2008

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
$ (424,506)	$ -	$ (424,506)
(500)	-	(500)
(425,006)	-	(425,006)
-	(5,432)	(5,432)
-	(149,299)	(149,299)
-	(271)	(271)
-	(155,002)	(155,002)
(425,006)	(155,002)	(580,008)
429,309	-	429,309
(3,268)	-	(3,268)
(1,582)	-	(1,582)
-	2,579	2,579
372	-	372
(224)	-	(224)
1,942	(1,942)	-
-	(10,855)	(10,855)
426,549	(10,218)	416,331
1,543	(165,220)	(163,677)
8,758	168,918	177,676
$ 10,301	$ 3,698	$ 13,999

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2008
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 669	$ -	$ 669
Cash and cash equivalents	23	740	763
Other receivables	17	5	22
Due from other ISAC funds	50	-	50
Notes receivable, net of allowances	5,047	-	5,047
Total assets	$ 5,806	$ 745	$ 6,551
Liabilities			
Accounts payable and accrued liabilities	$ -	$ 4	$ 4
Due to other ISAC funds	-	48	48
Due to State of Illinois component units	686	-	686
Deferred revenues	-	278	278
Due to U.S. Department of Education	-	326	326
Total liabilities	686	656	1,342
Fund Balances			
Reserved for notes receivable	5,047	-	5,047
Unreserved			
General Fund	73	-	73
Special revenue funds	-	89	89
Total fund balances	5,120	89	5,209
Total liabilities and fund balances	$ 5,806	$ 745	$ 6,551

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, 2008
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds		$ 5,209
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	1,143	
Accumulated depreciation	(8,697)	
Total capital assets		13,457
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		(8,365)
Net assets of governmental activities		$ 10,301

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, 2008
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 5,052	$ 5,052
Other	15	357	372
Total revenues	15	5,409	5,424
Expenditures			
Education			
Scholarships, awards and grants	423,878	5,221	429,099
Debt Service			
Principal	-	1,440	1,440
Interest	-	500	500
Total expenditures	423,878	7,161	431,039
Deficiency of revenues over expenditures	(423,863)	(1,752)	(425,615)
Other sources (uses) of financial resources			
Appropriations from State resources	429,205	104	429,309
Lapsed appropriations	(3,268)	-	(3,268)
Receipts remitted to State Treasury	(1,582)	-	(1,582)
Amount of SAMS transfer in	(224)	-	(224)
Transfers in	217	1,940	2,157
Transfers out	-	(215)	(215)
Net other sources (uses) of financial resources	424,348	1,829	426,177
Net change in fund balance	485	77	562
Fund balance, July 1, 2007	4,635	12	4,647
Fund balance, June 30, 2008	$ 5,120	$ 89	$ 5,209

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, 2008
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$	562
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.		(459)
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.		1,440
Change in net assets of governmental activities	$	1,543

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Enterprise Funds
June 30, 2008
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Assets				
Current				
Unrestricted				
Cash and cash equivalents	$ 6,048	$ 5,998	$ 63,361	$ 75,407
Investments	60	-	-	60
Receivables				
Intergovernmental	-	-	33,621	33,621
Accrued interest on investments	-	31	114	145
Default fee	-	-	104	104
Securities lending collateral	-	167,529	-	167,529
Due from other ISAC funds	-	-	1	1
Total current assets - unrestricted	6,108	173,558	97,201	276,867
Restricted				
Cash and cash equivalents	58,204	-	-	58,204
Notes receivable	51,585	-	-	51,585
Receivables				
Student loans	202,683	-	-	202,683
Accrued interest on loans	26,564	-	-	26,564
Federal special allowance and interest subsidy	1,786	-	-	1,786
Other	1,587	-	-	1,587
Due from other ISAC funds	1,149	-	-	1,149
Unamortized bond issuance costs	24	-	-	24
Total current assets - restricted	343,582	-	-	343,582
Noncurrent				
Unrestricted				
Investments	-	987,590	-	987,590
Other assets	3	-	-	3
Capital assets, net of accumulated depreciation	17	-	136	153
Total noncurrent assets - unrestricted	20	987,590	136	987,746
Restricted				
Notes receivable	42,206	-	-	42,206
Student loans receivable, net	932,355	-	-	932,355
Unamortized bond issuance costs	841	-	-	841
Total noncurrent assets - restricted	975,402	-	-	975,402
Total assets	$ 1,325,112	$ 1,161,148	$ 97,337	$ 2,583,597

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
Enterprise Funds
June 30, 2008
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 1,504	$ 860	$ 21,026	$ 23,390
Accrued interest payable	1,467	-	-	1,467
Tuition payable	-	45,625	-	45,625
Accreted tuition payable	-	4,375	-	4,375
Due to other ISAC funds	1	-	1,151	1,152
Due to other State funds	-	4	467	471
Due to State of Illinois component units	-	-	37	37
Intergovernmental payable	-	-	6,725	6,725
Compensated absences	61	8	257	326
Securities lending collateral obligation	-	170,776	-	170,776
Line of credit	390,770	-	-	390,770
Total current liabilities	393,803	221,648	29,663	645,114
Noncurrent				
Tuition payable	-	782,475	-	782,475
Accreted tuition payable	-	269,931	-	269,931
Revenue bonds payable, net	879,441	-	-	879,441
Compensated absences	549	71	2,318	2,938
Total noncurrent liabilities	879,990	1,052,477	2,318	1,934,785
Total liabilities	1,273,793	1,274,125	31,981	2,579,899
Net Assets				
Invested in capital assets, net of related debt	17	-	136	153
Restricted	47,307	-	56,567	103,874
Unrestricted	3,995	(112,977)	8,653	(100,329)
Total net assets	51,319	(112,977)	65,356	3,698
Total liabilities and net assets	$ 1,325,112	$ 1,161,148	$ 97,337	$ 2,583,597

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, 2008
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Operating revenues				
Investment income				
Interest - student loans	$ 70,770	$ -	$ -	$ 70,770
Interest - investments	4,143	-	-	4,143
Income - investment securities	-	(78,490)	-	(78,490)
Interest - other	-	354	-	354
Total investment income	74,913	(78,136)	-	(3,223)
Other operating revenues				
Application and other fees	-	2,396	-	2,396
Loan processing and issuance fees	-	-	4,862	4,862
Portfolio maintenance fee	-	-	5,771	5,771
Direct consolidation cost	-	-	4,649	4,649
Licenses and fees	-	-	804	804
Collections on student loans previously reimbursed by the U.S. Department of Education	-	-	24,826	24,826
Other	-	-	367	367
Total other operating revenues	-	2,396	41,279	43,675
Total operating revenues	74,913	(75,740)	41,279	40,452
Operating expenses				
Interest and other student loan expenses				
Interest expense				
Revenue bonds	70,675	-	-	70,675
Amortization of loan premiums and fees	3,402	-	-	3,402
Other student loan fees	3,717	-	-	3,717
Total interest and other student loan expenses	77,794	-	-	77,794

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds (Continued)
Year Ended June 30, 2008
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Other operating expenses				
Salaries and employee benefits	$ 9,691	$ 842	$ 22,927	$ 33,460
Loan guarantee	-	-	192,772	192,772
External loan servicing	5,992	-	-	5,992
Accreted tuition expenses	-	65,873	-	65,873
Line of credit fees	23	-	-	23
Occupancy expense	261	-	-	261
Marketing expenses	1,073	-	-	1,073
Investment management fees	-	2,972	-	2,972
Management and professional services	5,119	3,872	10,744	19,735
Depreciation	27	-	110	137
Other	1,194	-	-	1,194
Total other operating expenses	23,380	73,559	226,553	323,492
Total operating expenses	101,174	73,559	226,553	401,286
Operating loss	(26,261)	(149,299)	(185,274)	(360,834)
Non-operating revenues				
Federal government special allowance and interest subsidy	20,829	-	-	20,829
Federal government	-	-	185,003	185,003
Interest revenue	-	-	2,579	2,579
Total non-operating revenues	20,829	-	187,582	208,411
Income (loss) before special item and transfers	(5,432)	(149,299)	2,308	(152,423)
Special item - sale of loan portfolio	(10,855)	-	-	(10,855)
Transfers in	681	-	2,500	3,181
Transfers out	(2,500)	-	(2,623)	(5,123)
Change in net assets	(18,106)	(149,299)	2,185	(165,220)
Net assets, July 1, 2007, as restated	69,425	36,322	63,171	168,918
Net assets, June 30, 2008	$ 51,319	$ (112,977)	$ 65,356	$ 3,698

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds
Year Ended June 30, 2008
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Cash flows from operating activities				
Cash received from fees and other charges	$ -	$ 2,396	$ 106,468	$ 108,864
Cash paid for refund of contracts and tuition payments	-	(6,915)	-	(6,915)
Cash payments to suppliers for goods and services	(19,383)	(4,049)	(304)	(23,736)
Cash payments to employees for services	(9,801)	(855)	(23,166)	(33,822)
Cash payments for loan guarantees	-	-	(189,090)	(189,090)
Cash receipts from student loans	201,410	-	-	201,410
Cash receipts from prepaid tuition contracts	-	125,671	-	125,671
Cash payments for other operating activities	-	-	(64,375)	(64,375)
Cash payments for student loans	(463,787)	-	-	(463,787)
Cash payments for management and professional fees	-	-	(34,079)	(34,079)
Cash payments for tuition and accretion	-	(38,423)	-	(38,423)
Proceeds from sale of student loan portfolio	2,644,815	-	-	2,644,815
Expenses from sale of student loan portfolio	(232)	-	-	(232)
Net cash provided (used) by operating activities	2,353,022	77,825	(204,546)	2,226,301
Cash flows from noncapital financing activities				
Principal payments related to early extinguishment of debt (revenue bonds)	(2,607,650)	-	-	(2,607,650)
Principal payments related to early extinguishment of debt (credit line)	(473,398)	-	-	(473,398)
Expenses related to early extinguishment of debt	(7,190)	-	-	(7,190)
Proceeds from revolving credit line	688,998	-	-	688,998
Principal paid on revenue bonds and other borrowing	(150)	-	-	(150)
Principal paid on revolving credit line	(20,000)	-	-	(20,000)
Interest paid on revenue bonds and other borrowing	(79,299)	-	-	(79,299)
Special allowance and interest subsidiary	39,475	-	-	39,475
Transfers in	682	-	68,101	68,783
Transfers out	(29,500)	-	(41,227)	(70,727)
Federal government grants	-	-	179,884	179,884
Net cash provided (used) by noncapital financing activities	(2,488,032)	-	206,758	(2,281,274)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	-	-	(24)	(24)
Cash flows from investing activities				
Purchase of investment securities	-	(476,451)	-	(476,451)
Proceeds from sales and maturities of investment securities	38,287	374,050	-	412,337
Securities lending cash collateral received	-	170,776	-	170,776
Securities lending cash collateral invested	-	(170,776)	-	(170,776)
Interest and dividends on investments	4,559	26,278	2,705	33,542
Cash paid to investment managers	-	(2,972)	-	(2,972)
Net cash provided (used) by investing activities	42,846	(79,095)	2,705	(33,544)
Net increase (decrease) in cash and cash equivalents	(92,164)	(1,270)	4,893	(88,541)
Cash and cash equivalents, July 1, 2007	156,416	7,268	58,468	222,152
Cash and cash equivalents, June 30, 2008	$ 64,252	$ 5,998	$ 63,361	$ 133,611

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds (Continued)
Year Ended June 30, 2008
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Reconciliation of operating loss to net cash provided (used) by operating activities				
Operating loss	$ (26,261)	$ (149,299)	$ (185,274)	$ (360,834)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation	27	-	110	137
Interest - investments	(4,143)	81,108	-	76,965
Interest expense	70,675	-	-	70,675
Amortization of student loan premiums and fees	3,402	-	-	3,402
Accreted tuition expense	-	65,873	-	65,873
Change in assets and liabilities				
Notes receivable	(10,782)	-	-	(10,782)
Student loans receivable	2,280,880	-	-	2,280,880
Accounts receivable	-	-	(103)	(103)
Intergovernmental receivables	-	-	756	756
Accrued interest - loans and notes	54,628	-	-	54,628
Due from other funds	(360)	-	54	(306)
Other receivables	(1,489)	-	-	(1,489)
Other noncurrent assets	13	-	-	13
Accounts payable and accrued liabilities	(13,439)	(122)	(11,455)	(25,016)
Intergovernmental payables	-	-	(2,087)	(2,087)
Due to other funds	(19)	(54)	308	235
Due to State of Illinois Component Units	-	-	(6,616)	(6,616)
Tuition payable	-	80,332	-	80,332
Compensated absences	(110)	(13)	(239)	(362)
Total adjustments	2,379,283	227,124	(19,272)	2,587,135
Net cash provided (used) by operating activities	$ 2,353,022	$ 77,825	$ (204,546)	$ 2,226,301
Supplemental disclosure of noncash transactions:				
Net appreciation (depreciation) in fair value of investments	$ 51	$ (104,391)	$ -	$ (104,340)

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. 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. Andrew Davis is the current Executive Director of the Commission. His office is at 1755 Lake Cook Road in Deerfield. The Commission's operations office is also at 1755 Lake Cook Road in Deerfield, with additional offices located at 500 West Monroe in Springfield and 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 (MAP)

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 2008 for the payment of tuition and mandatory fees. The program is primarily funded by the General Revenue Fund appropriation.

B. Illinois Veteran Grant

The Illinois Veteran Grant (IVG) Program pays eligible tuition and mandatory fees at all Illinois public universities or public community colleges for veterans. Qualified applicants may use this grant at the undergraduate or graduate level for the equivalent of four academic years of full-time enrollment.

This grant is an entitlement program and is awarded to eligible applicants regardless of the funding level. If funds appropriated for the Illinois Student Assistance Commission (ISAC) are insufficient to reimburse public postsecondary institutions for all recipients, the obligation to pay is transferred to the institution.

C. Illinois Incentive for Access Program

The Illinois Incentive for Access (IIA) Program provides grant assistance to freshmen that 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.

Note 1. Organization (Continued)

D. Illinois National Guard Grant

The Illinois National Guard (ING) Grant pays tuition and eligible fees at all Illinois public universities or public community colleges to members of the Illinois National Guard. This grant can be used for either undergraduate or graduate enrollment for the equivalent of four academic years of full-time enrollment.

The ING Grant is an entitlement program and is awarded to eligible recipients regardless of the funding level. If funds appropriated for the Illinois Student Assistance Commission (ISAC) are insufficient to reimburse public postsecondary institutions for all recipients, the obligation to pay is transferred to the institution.

E. Illinois Future Teacher Corps Scholarships

The Illinois Future Teacher Corps (IFTC) Program encourages academically talented Illinois students, especially minority students, to pursue teaching careers, especially in teacher shortage disciplines or at hard-to-staff schools. A recipient may receive up to 4 semesters/6 quarters of scholarship assistance under this program. The total number of scholarships awarded in a given fiscal year is contingent upon available funding.

F. Illinois Scholars Program

The Illinois Scholars Program encourages recruitment and training of bright and talented high school graduates who represent a rich ethnic diversity for successful teaching careers in high need schools throughout Illinois by providing scholarships to students pursuing teaching degrees. The scholarships are disbursed through the Golden Apple Scholars of Illinois program administered by the Golden Apple Foundation.

Scholars receive financial assistance for four years to attend one of the 53 public and private universities across the state in exchange for successful completion of undergraduate college and a commitment to teach for five years in an Illinois school of need.

G. Minority Teachers Scholarship Program

The Minority Teachers of Illinois (MTI) Scholarship Program encourages academically talented minority students to pursue careers as teachers at nonprofit Illinois preschool, elementary and secondary schools. The program also aims to provide minority children with access to a greater number of positive minority role models.

Scholars receive financial assistance of up to $5,000 to attend a course of study which, upon completion, qualifies the student to be certified as a preschool, elementary or secondary school teacher by the Illinois State Board of Education, including alternative teacher certification; and in exchange the recipient pledges to teach full time (one year for each year in which scholarship assistance was received) in a nonprofit Illinois public, private, or parochial preschool, elementary or secondary school with at least 30% minority enrollment.

Note 1. Organization (Continued)

H. Nurse Educator Scholarship Program

The Nurse Educator Scholarship Program is designed to attract capable and promising students to the nursing educator profession. Increasing the number of instructors will allow more students to be educated in the field of nursing. This scholarship also provides an opportunity for individuals interested in making a career change to the nurse educator profession.

Scholarships are awarded to eligible applicants enrolled or accepted for enrollment on at least a half-time basis in an approved program of professional or practical nursing education at the graduate level at an Illinois institution of higher learning. In exchange the recipient pledges to work as an educator in an approved program of professional nursing education in Illinois or an approved program of practical nursing education in Illinois, as certified by an authorized individual at the approved Illinois institution, for a period of not less than five years.

I. 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 Special Education Teacher Tuition Waiver Program
- Student to Student Program of Matching Grants
- Teacher/Child Care Loan Forgiveness Program
- I TEACH Program
- Merit Recognition Scholarships

J. 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.

K. 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).

Note 1. Organization (Continued)

K. Federal Family Education Loan Program (FFELP) (Continued)

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.

L. 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.

M. *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!*

N. 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 1. Organization (Continued)

O. 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.

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, the Governor of the State determines designation of management and governing authority. 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 and Special Revenue Funds as well as the Federal Student Loan and Student Loan Operating Funds are appropriated for the use of the Commission. 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.

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 that comprise the Commission. The Commission's financial statements are an integral part of the State's overall comprehensive annual financial report.

Note 2. Summary of Significant Accounting Policies (Continued)

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 $74,077 (including amortization) is included in student loan purchase program 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:

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 2008, the Commission did not receive appropriations through the General Fund - Educational Assistance Account. This account is a shared account and its activity (if any) attributed to the operations of the Commission is combined with the General Revenue Account for report presentation purposes. Any monies received by this fund are held in the State Treasury.

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The Commission administers the following major enterprise funds 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.

Illinois Prepaid Tuition Program (*College Illinois!*) – This fund accounts for the activities of the Illinois Prepaid Tuition Program (referred throughout this report as "*College Illinois*!") including the sale of Illinois prepaid tuition contracts, investment of funds and payment of benefits of the contracts to participants.

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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

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:

<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.

Note 2. Summary of Significant Accounting Policies (Continued)

D. Shared Fund Presentation (Continued)

Receipts Remitted to State Treasury

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

Amount of SAMS Transfer In

This other financing use account represents cash transfers made by the Office of the Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Commission did not make a deposit into the State Treasury.

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.

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 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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.

(All dollar amounts are expressed in thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

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	$100,000	N/A
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Equipment	5,000	3-25

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. 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 53,127 contracts held by the fund as of June 30, 2008.

Q. 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.

R. 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.

S. 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.

Note 2. Summary of Significant Accounting Policies (Continued)

T. 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 Program. The Commission has obtained actuarial assistance in order to establish, maintain and certify assets are sufficient to meet the Program's obligations. The assets of the Program are to be preserved, invested and expended solely pursuant to and for the purposes of the Program and may not be loaned or otherwise transferred or used by the State of Illinois for any other purpose. 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 the Prepaid Tuition Program 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. 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.

Note 3. Deposits and Investments (Continued)

A. Authorized Deposits and Investments (Continued)

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, 2008, $4,990 out of the $11,281 of IDAPP's deposit balance was exposed to custodial credit risk because it was uninsured and uncollateralized. This account was closed in December 2008. All other locally held accounts of the Commission were covered by FDIC insurance or eligible collateral.

Deposits in the custody of the State Treasurer, or in transit, totaled $68,105 at June 30, 2008. 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.

C. Investments

All investments held by the Commission as of June 30, 2008 pertain to the Illinois Designated Account Purchase Program (IDAPP), and the Illinois Prepaid Tuition Program (*College Illinois!*) fund, both of which are major enterprise funds.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

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 .11% 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, 2008 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
GNMA Securities	$ 60	6.630
Commercial Paper	5,612	0.027
U.S. Government Money Market Funds	48,454	0.120
Total	$ 54,126	
Portfolio weighted average maturity		0.117

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, 2008, IDAPP's investments were subject to credit risk as follows:

		Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's
Commercial Paper	$ 5,612	A-1+	P-1
U.S. Government Money Market Funds	48,454	AAAm-G	AAA

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, 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 total $54,126 and include $5,672 in securities which are uninsured and unregistered, $5,613 in securities which are held by IDAPP's agent but not in IDAPP's name, and $60 in securities which are held by the counterparty.

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.

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. 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.

As of June 30, 2008, 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	Fair Value	Percentage of Portfolio
Commercial Paper	$ 5,612	10%

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, 2008 are presented below at fair value by investment type and by investment manager.

Investment Managers
Asset Allocation
June 30, 2008

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Intermediate	Galliard Capital	$ 80,793	8.13%
Fixed Income-Core	C.S. Mckee	76,403	7.69%
Fixed Income-Core	Piedmont	30,960	3.12%
Fixed Income-Core	Pugh Capital	30,938	3.11%
Fixed Income-Intermediate	Income Research	81,122	8.16%
Fixed Income-Core	SSgA Passive Bonds	54,472	5.48%
Total Fixed Income Portfolio		354,688	35.70%
Large-Cap Core Equity	SSgA S&P 500 Index	146,888	14.78%
Large-Cap Value Equity	LSV Asset Management	36,190	3.64%
Large-Cap Growth Equity	Rhumb Line Advisors	126,134	12.69%
Large-Cap Value Equity	Earnest Partners	39,331	3.96%
Large-Cap Value Equity	Great Lakes	39,392	3.96%
Small-Cap Core Equity	Nicholas Applegate	48,659	4.90%
Small-Cap Core Equity	Denver Investment Advisors	45,504	4.58%
Small-Cap Value Equity	Rhumb Line Advisors	52,697	5.30%
Total Domestic Equity		534,795	53.82%
International Equity	LSV Asset Management	97,342	9.80%
Total International Equity		97,342	9.80%
Money Market Mutual Funds	U.S. Bank	765	0.08%
Total Investments		987,590	99.40%
Cash and Equivalents	N/A	5,998	0.60%
Total Cash Equivalents		5,998	0.60%
TOTAL PORTFOLIO		$ 993,588	100%

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Securities Lending Collateral

As of June 30, 2008, the Illinois Prepaid Tuition Program had the following cash collateral investments in its securities lending program:

Investment	Fair Value
Mount Vernon Prime money market mutual fund	$ 120,383
Eligible Discounted Securities Liquidating Trust	17,214
Ineligible Securities Liquidating Trust	17,365
Deeper Discounted Securities Liquidating Trust	5,400
Illiquid Securities Liquidating Trust	7,167
	$ 167,529

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 Intermediate Government/Credit Index and the Lehman Brothers Aggregate Index, respectively (see schedule of investments on previous page). Subsequent to year end, the Lehman Brothers indexes referred to above were changed to the Barclays Capital Intermediate Government/Credit Index and the Barclays Aggregate Index, respectively. As of June 30, 2008, all portfolios are within the guidelines permitted by the investment policy. 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
Galliard Capital	3.7 years	N/A	3.8 years
Income Research Management	3.7 years	N/A	3.8 years
SSgA	4.7 years	4.7 years	N/A
McKee Investment	4.4 years	4.7 years	N/A
Piedmont Investment	4.4 years	4.7 years	N/A
Pugh Capital	4.9 years	4.7 years	N/A

(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	$ 8,423	6.3
U.S. treasury bonds	19,097	7.4
Federal agencies bonds and notes	39,797	15.9
U.S. agency asset-backed securities	755	32.4
Municipal Debt	12,223	11.0
Corporate debt securities	97,964	6.8
Corporate asset-backed securities	9,354	11.8
Other debt securities	1,013	13.7
Passive bond index funds	54,472	7.4
Corporate mortgage-backed securities	12,087	29.7
Mortgage backed securities:		
Pass through (fixed rate, adjustable rate)	67,197	17.8
Collateralized mortgage obligations	7,011	19.9
Delegated underwriting and servicing bonds and surety bonds	24,061	7.6
Money market mutual funds	1,900	0.1
Total Fair Value	$ 355,354	
Portfolio weighted average maturity		11.4

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Securities Lending Collateral

The weighted average maturity of the cash collateral invested in liquidating trusts consisting of debt securities is as follows:

Investment		Fair Value	Weighted Average Maturity (Days)
Eligible Discounted Securities Liquidating Trust	$	17,214	100.4
Ineligible Securities Liquidating Trust		17,365	616.2
Deeper Discounted Securities Liquidating Trust		5,400	415.3

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, 2008, 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 Ratings (Excludes Multiple-Rated Securities)
June 30, 2008

			Credit Rating		
		Total Fair Value	Moody's	Standard & Poor's	Fitch
Federal agencies bonds and notes	$	39,797	Aaa	AAA	AAA
U.S. agency asset-backed securities		755	Aaa	AAA	NR
Other debt securities		1,013	Aaa	AAA	AAA
Mortgage-backed securities		98,269	Aaa	AAA	AAA
Passive bond index funds		54,472	NR	NR	NR

NR= Not rated

(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 tables indicate credit ratings as of June 30, 2008, for debt security investments that received multiple ratings.

Credit Ratings (Corporate Debt Securities)
June 30, 2008

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 5,284
	Corporate debt securities	Aa	28,678
	Corporate debt securities	A	37,624
	Corporate debt securities	Baa	25,474
	Corporate debt securities	Ba	96
	Corporate debt securities	NR	808
			97,964
Standard and Poors:	Corporate debt securities	AAA	5,053
	Corporate debt securities	AA	24,488
	Corporate debt securities	A	43,759
	Corporate debt securities	BBB	23,012
	Corporate debt securities	BB	323
	Corporate debt securities	NR	1,329
			97,964
Fitch:	Corporate debt securities	AAA	1,138
	Corporate debt securities	AA	22,532
	Corporate debt securities	A	43,583
	Corporate debt securities	BBB	15,896
	Corporate debt securities	NR	14,815
			97,964

* NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Corporate Asset-Backed and Mortgage-Backed Securities)
June 30, 2008

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate asset-backed securities	Aaa	$ 8,982
	Corporate asset-backed securities	NR	372
			9,354
Standard and Poors:	Corporate asset-backed securities	AAA	8,941
	Corporate asset-backed securities	A	260
	Corporate asset-backed securities	NR	153
			9,354
Fitch:	Corporate asset-backed securities	AAA	2,283
	Corporate asset-backed securities	A	525
	Corporate asset-backed securities	NR	6,546
			9,354
Moody's:	Corporate mortgage-backed securities	Aaa	8,939
	Corporate mortgage-backed securities	NR	3,148
			12,087
Standard and Poors:	Corporate mortgage-backed securities	AAA	10,710
	Corporate mortgage-backed securities	NR	1,377
			12,087
Fitch:	Corporate mortgage-backed securities	AAA	3,189
	Corporate mortgage-backed securities	NR	8,898
			12,087

* NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Municipal Debt)
June 30, 2008

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Municipal Debt	AAA	$ 8,746
	Municipal Debt	AA	1,359
	Municipal Debt	A	1,272
	Municipal Debt	NR	846
			12,223
Standard and Poors:	Municipal Debt	AAA	6,010
	Municipal Debt	AA	1,260
	Municipal Debt	A	586
	Municipal Debt	NR	4,367
			12,223
Fitch:	Municipal Debt	AAA	2,218
	Municipal Debt	AA	1,106
	Municipal Debt	A	319
	Municipal Debt	NR	8,580
			12,223

* NR - not rated

Securities Lending Collateral

The liquidating trusts consisting of debt securities were 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, 2008, investments of cash collateral under the securities lending program ($167.5 million) were held by the counterparty in the Program's name. These investments are subject to custodial credit risk.

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 investments in any single issuer (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) that exceeded 5% or more of the total investment portfolio as of June 30, 2008.

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, 2008, 10% is invested in international equities; however, none of these investments are denominated in foreign currencies.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Securities Lending

State statutes and the Illinois Prepaid Tuition Program's investment policy allow the Illinois Prepaid Tuition Program to use investments to enter into securities lending transactions – loans of securities to broker-dealers for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Effective August 1, 2007, ISAC participates in a securities lending program with U.S. Bank, who acts as the securities lending agent. All securities are eligible for the securities lending program. Securities are loaned to brokers, and collateral received in return consists solely of cash equal to 102% of the value of the loaned securities.

Substantially all securities loans can be terminated on demand either by the Commission or by the borrower, although generally the term of these loans range from 1 day to 75 days. Securities lending cash collateral is invested and managed according to yield and duration needs of participants in the US Bank securities lending program. In lending securities, cash collateral is invested in the lending agent's (US Bank) securities lending investment pools (5 separate pools), which at year-end have varying weighted average maturities. The majority of the Commissions securities lending collateral is invested in a short-term investment pool consisting of securities limited to a weighted average maturity of 90 days. The investment pool is designed to meet liquidity and duration needs of all the participants invested in the pool. The relationship between the maturities of the investment pool and the Commission's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Commission cannot determine.

As of June 30, 2008, the market value of securities on loan was $163,245, and the value of cash collateral invested was $167,529. Liabilities to the borrowers totaled $170,776. The approximate $3.2 million decline in the fair value of the invested cash collateral has been recorded as a loss and is reported as a component of income (loss) from investment securities in the statement of revenues, expenses and changes in net assets. At year-end, the Illinois Prepaid Tuition Program has no credit risk exposure to borrowers because the amounts the Illinois Prepaid Tuition Program owes the borrowers exceeds the amounts the borrowers owe the Illinois Prepaid Tuition Program. In the event of borrower default, U.S. Bank provides ISAC with counterparty default indemnification.

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 $93,791 as of June 30, 2008.

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 prior to October 1, 1998 are guaranteed at 100% by Guarantors in accordance with the Higher Education Act. For loans disbursed between October 1, 1998 and prior to July 1, 2006 the loans are guaranteed at 98%. Loans disbursed after July 1, 2006 are guaranteed at 97%. All guaranteed loans 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 $344,000 at June 30, 2008.

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 that may result in loans that will not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $6,968 as of June 30, 2008 that includes the amount collected from borrowers as an insurance fee for the Alternative Loans.

In addition, the net student loans receivable at June 30, 2008 of $1,135,038 includes $4,040 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, 2008.

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 2008 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. The Bank of New York acts as Bond Trustee on all outstanding bond series. The Bond Trustee has not currently notified IDAPP of any events of default. Should the Bond Trustee declare an event of default as defined in the bond resolutions, the Bond Trustee 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.

(All dollar amounts are expressed in thousands)

Note 5. Student Loans Receivable (Continued)

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, 2008 as reported by ISAC was $50,034. Restricted net assets, which includes $31,910 of claims in process, was $56,567. 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 $1,135,038 at June 30, 2008 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, 2008 was approximately $2,577 and related revenue was approximately $13,000 for the year ended June 30, 2008.

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. Total special allowance revenue was approximately $7,800 for the year ended June 30, 2008.

Note 7. Interfund Balances and Activity

A. Balances Due To / From Other Funds

The following balances at June 30, 2008 represent amounts due from other ISAC and State of Illinois funds.

	Due from Primary Government Funds		Due from Component	
Fund	ISAC	Other State	Units	Description/Purpose
General Revenue	$ 48	$ -	$ -	Due from Accounts Receivable Fund for share of collections.
	2	-	-	Due from Student Loan Operating Fund for share of defaulted collections.
	50	-	-	
Illinois Designated Account Purchase Program	1,149	-	-	Due from Federal Student Loan Fund for default claims receivable.
Nonmajor Proprietary - Federal Student Loan	1	-	-	Due from IDAPP for lender refunds for default claims paid.
	$ 1,200	$ -	$ -	

(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, 2008 represent amounts due to other ISAC and State of Illinois funds.

	Due to Primary Government Funds		Due to Component	
Fund	ISAC	Other State	Units	Description/Purpose
General Revenue	$ -	$ -	$ 686	Due to State universities for scholarship and MAP grants.
Illinois Designated Account Purchase Program	1	-	-	Due to Federal Student Loan Fund for lender refunds for default claims paid.
Nonmajor Governmental - ISAC Accounts Receivable	48	-	-	Due to the General Revenue Fund for its share of collections.
Nonmajor Proprietary - Federal Student Loan	1,149	-	-	Due to IDAPP for default claims payable.
Student Loan Operating	-	467	-	Due to Central Management Services for EDP, communications, garage and Auditor General for audit of federal programs.
	2			Due to General Revenue Fund for share of defaulted collections.
	-	-	37	Due to State universities for overpayments of grants.
Illinois Prepaid Tuition Program	-	4	-	Due to Central Management Services for communications charges.
	1,151	471	37	
	$ 1,200	$ 471	$ 723	

(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, 2008 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General Revenue	$ 217	Transfer from Student Loan Operating Fund and ISAC Accounts Receivable Fund for share of receivable collections.
IDAPP	681	Transfer from the Student Loan Operating Fund for refund of unclaimed MAP grant payments.
Nonmajor Governmental-ISAC COP Debt Service	1,940	Transfer from the Student Loan Operating Fund for lease payments.
Nonmajor Proprietary-Student Loan Operating	2,500	Transfer from IDAPP for shared expenses.
	$ 5,338	

Interfund transfers out for the year ended June 30, 2008 were as follows:

Fund	Transfers Out To Other ISAC Funds	Description/Purpose
IDAPP	$ 2,500	Transfer to the Student Loan Operating Fund for default payments.
Nonmajor Governmental - ISAC Accounts Receivable	215	Transfer to General Revenue Account for share of receivable collections.
Nonmajor Proprietary - Student Loan Operating	1,940	Transfer to ISAC COP Debt Service Fund for lease payments.
	681	Transfer to IDAPP for MAP Plus and MAP grant refunds.
	2	Transfer to General Revenue Account for share of receivable collections.
	$ 5,338	

(All dollar amounts are expressed in thousands)

Note 8. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	1,157	-	(14)	1,143
Total capital assets being depreciated	19,468	-	(14)	19,454
Less accumulated depreciation:				
Buildings	(7,096)	(459)	-	(7,555)
Equipment	(1,156)	-	14	(1,142)
Total accumulated depreciation	(8,252)	(459)	14	(8,697)
Total capital assets being depreciated, net	11,216	(459)	-	10,757
Govermental activities capital assets, net	$ 13,916	$ (459)	$ -	$ 13,457
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 514	$ -	$ -	$ 514
Less accumulated depreciation:				
Equipment	(470)	(27)	-	(497)
Total capital assets being depreciated, net	44	(27)	-	17
Nonmajor Enterprise Funds:				
Capital assets being depreciated:				
Equipment and automobiles	887	24	(28)	883
Less accumulated depreciation:				
Equipment and automobiles	(665)	(110)	28	(747)
Total capital assets being depreciated, net	222	(86)	-	136
Business-type activities capital assets, net	$ 266	$ (113)	$ -	$ 153

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2008 amounted to $459. Of that amount, 100% was charged to the Scholarships, awards and grants function.

Note 9. Long-Term Obligations Payable

A. Revenue Bonds Payable and Pledged Revenues

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, 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 general resolution bonds are auction rate certificates and are taxable. The variable interest rate for the debt is reset every 28 days, based on the one-month LIBOR rate. Starting in August 2007, the bond markets experienced severe disruption. As a result, an auction held on February 13, 2008 for $70 million of bonds issued under the 2002 Resolution failed to attract enough bidders. All subsequent auctions also failed and continue to do so. A “failed auction” results in the bonds being priced at the “maximum rate” which, as defined in the 2002 Resolution, can be no more than the lesser of the rolling twelve month 90 day U.S. Treasury rate plus 1.2% (for “AAA” rated bonds) or 1.5% (for “A” rated bonds) and One Month LIBOR plus 1.5%. The maximum rate at June 30, 2008 was 2.44%. Auctions of bonds continue during this period of failed auctions; with the difference between the maximum rate and that rate set by the market (should a rate be determined and should it be higher than the maximum rate), classified as “Carryover Interest.” Carryover interest is payable under certain conditions as defined in the 2002 Resolution and its supporting documents. After analysis of these documents by legal counsel, management has concluded that it is improbable that these conditions will be met. As a result, management believes that the carryover interest will not become due and payable.

IDAPP has pledged future student loan revenues, net of specified operating expenses, to repay the outstanding $884.4 million (principal) in student loan revenue bonds as described above. Proceeds from the bonds provided financing for the student loans. The bonds are payable solely from principal and interest revenues under the related student loans and are payable through the final maturity of the bonds in 2045. Annual principal and interest payments on the bonds are expected to require approximately 83 percent of these student loan revenues. The total principal and interest remaining to be paid on the bonds is $1.7 billion. Principal and interest paid for the current year was $190.2 million and total related student loan principal and interest received were $158.4 million and $29.9 million respectively.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

B. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2008 were as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
Governmental activities:					
Other long-term obligations:					
Installment purchase obligations	$ 9,805	$ -	$ (1,440)	$ 8,365	$ 1,510
Business-type activities:					
Illinois Designated Account Purchase Program :					
Revenue bonds payable	$ 3,492,200	$ -	$ (2,607,800)	$ 884,400	$ -
Unamortized discounts	(12,626)	-	7,667	(4,959)	-
Other long-term obligations:					
Compensated absences	721	419	(530)	610	61
Total Illinois Designated Account Purchase Program	3,480,295	419	(2,600,663)	880,051	61
Illinois Prepaid Tuition Program :					
Compensated absences	92	55	(68)	79	8
Tuition payable	745,078	125,671	(42,649)	828,100	45,625
Accreted tuition payable	211,123	65,873	(2,690)	274,306	4,375
Total Illinois Prepaid Tuition Program	956,293	191,599	(45,407)	1,102,485	50,008
Nonmajor Enterprise Fund:					
Compensated Absences	2,814	1,534	(1,773)	2,575	257
Total business-type activities	$ 4,439,402	$ 193,552	$ (2,647,843)	$ 1,985,111	$ 50,326

C. Bond Covenant Non-compliance

Certain bond indentures require IDAPP to deliver to bond trustees auditied financial statements within 150 days after its fiscal year ended June 30, 2008. Although IDAPP is not in compliance with the 150-day filing requirement, 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.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

D. 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
2009	$ -	$ 21,579	$ 21,579
2010	-	21,579	21,579
2011	-	21,579	21,579
2012	-	21,579	21,579
2013	-	21,579	21,579
2014-2018	-	107,897	107,897
2019-2023	-	107,897	107,897
2024-2028	-	107,897	107,897
2029-2033	-	107,897	107,897
2034-2038	-	107,897	107,897
2039-2043	209,400	103,757	313,157
2044-2045	675,000	25,620	700,620
	884,400	$ 776,757	$ 1,661,157
Less:			
Unamortized bond discounts	(4,959)		
Net long-term principal outstanding	$ 879,441		

All 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 2.44% 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)

E. Tuition Payable

Tuition payable activity for the year ended June 30, 2008 is as follows:

Balance as of July 1, 2007	$	745,078
Add:		
Contributions		125,671
Less:		
Return of contributions		(6,915)
Tuition payments		(35,734)
Balance as of June 30, 2008	$	828,100
Reported as:		
Current	$	45,625
Noncurrent		782,475
	$	828,100

F. 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 2008 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.75% and is based on the average increase in tuition for Illinois colleges.

Average tuition payable balance over the year	$	760,432
Estimate of 8.75% increase of tuition payable	$	66,538
Present value	$	65,872
Beginning balance accreted tuition payable as of July 1, 2007	$	211,123
Accretion expense		65,873
Accretion payments		(2,690)
Ending balance accreted tuition payable as of June 30, 2008	$	274,306
Reported as:		
Current	$	4,375
Noncurrent		269,931
	$	274,306

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

F. Accreted Tuition Payable (Continued)

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, Expenses and Changes in Net Assets and as an increase to liabilities on the Statement of Net Assets.

G. 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.

Future commitments under the installment purchase contract as of June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 1,510	$ 430	$ 1,940
2010	1,585	354	1,939
2011	1,670	273	1,943
2012	1,755	188	1,943
2013	1,845	97	1,942
	$ 8,365	$ 1,342	$ 9,707

(All dollar amounts are expressed in thousands)

Note 10. Mid-Term Credit Facility

On July 27, 2007 ISAC/IDAPP executed a $500 million mid-term revolving credit agreement through an affiliate of Citibank, CIESCO LLC. The revolving credit line was used to purchase alternative loans and FFELP student loans (guaranteed or insured or is an eligible loan under the Higher Education Act), and was due to expire on July 25, 2008. The line was extended to September 8, 2008 (see Note 20). Bank of New York is the Trustee (the Trust) for this credit line.

The terms of the Citibank credit line are as follows:

Citicorp North America through CIESCO, LLC facilitates an asset backed commercial paper program for up to $500 million for the benefit of IDAPP. CIESCO places the commercial paper and passes the interest cost on to IDAPP. The cost approximates the LIBOR rate which was 2.68% at June 30, 2008. IDAPP's borrowing is supported by a liquidity line of credit provided by Citibank NA, Inc. Citibank receives 43 basis points on the outstanding debt for providing the back credit facility and for serving as the administrative agent. As of June 30, 2008 there was $390,770 outstanding under this line.

On August 29, 2007 IDAPP retired its existing Bank of America credit line. Changes in the revolving credit lines are as follows:

	Balance, July 1, 2007	Additions	Deletions	Balance, June 30, 2008
Citibank	$ -	$ 410,770	$ (20,000)	$ 390,770
Bank of America, N.A.	195,170	278,228	(473,398)	-
	$ 195,170	$ 688,998	$ (493,398)	$ 390,770

IDAPP has also pledged the future student loan revenues of the above described portfolio to repay the $390,770 principal outstanding on the Citibank credit line. Under the terms of the agreement all revenues generated by the underlying student loan portfolio are transferred to the Trust. The Trust then pays all expenses related to the debt service and student loan servicing costs (capped at 65 basis points of the outstanding average balance in the portfolio). During fiscal 2008 there was $35,424 in principal and $15,094 in interest collected. The total amount transferred to the trust was $50,518. During the same period the Trust paid $16,233 for interest expense and other professional fees and $2,132 for servicing fees.

Note 11. 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, 2008.

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 12. 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 2008 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008. 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 years 2008, 2007 and 2006, the employer contribution rate was 16.6%, 11.5% and 7.8%, respectively. For fiscal years 2008, 2007 and 2006, the required and actual contribution was $3,743, $2,780 and $1,949, respectively.

Note 13. Post-Employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System do not contribute towards health, dental, and vision benefits.

Note 13. Post-Employment Benefits (Continued)

For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment 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 financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

Note 14. Fund Deficits

The current actuarially determined deficit for *College Illinois!,* the State's section 529 prepaid tuition program, as of June 30, 2008 is $273 million.

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 fee increases at those institutions.

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, public universities typically continue to increase fees annually for all students, not just new enrollees.

Tuition and fee increase assumptions were re-evaluated for FY2009, 2010 and beyond. Tuition and fee increase assumptions are 10% for FY2009, 9% for FY2010 and 8% thereafter due to continuing state budget problems and increasing institutional costs.

Each year when setting plan prices, the Commission reviews the assumptions that influence the actuarial deficit. Contract prices for the FY 2008-2009 enrollment period have been recommended at a level that will provide revenue from contract sales sufficient not only to fund future contract obligations and current administrative costs, but also to improve the actuarial soundness of the program. Management believes that this provision of building a stabilization premium into contract prices provides a buffer against uncertainty associated with the annual volatility of college cost increases and performance of program investments.

(All dollar amounts are expressed in thousands)

Note 14. Fund Deficits (Continued)

Investment performance lagged the assumed return for FY2008 due to the extreme market conditions experienced during the year. Additionally, the actuarial deficit has been significantly impacted by the negative investment performance recorded during FY2008. To address these unusual conditions, the Commission approved changes to the program's investment policy in June 2008. Those changes are designed to reduce the volatility in returns and to enhance performance over time.

In September 2008, ISAC's Commissioners approved a new pricing plan for *College Illinois!.* The prices proposed for 2008-2009 reflect ISAC's plan to expand the *College Illinois!* program to more people at more price points. In the fall of 2008, *College Illinois!* introduced SmartChoice Pricing. Under SmartChoice Pricing, purchasers have, for the first time, the option of purchasing semesters at Community Colleges (Choice 1), at public universities and colleges within the State of Illinois excluding the University of Illinois at Urbana-Champaign (Choice 2) and, finally, semesters at any public university and college including the University of Illinois at Urbana-Champaign (Choice 3). This differential pricing expands the market for *College Illinois!* contracts to a wider range of household incomes. Management believes that contract sales for the upcoming enrollment will reach five thousand.

Consistent with past Commission action, the ultimate goal is to eliminate the current actuarial deficit over time. The Actuary's Report on Soundness as of June 30, 2008 indicates that the program's cash flow is expected to remain positive through the fiscal year that ends in 2011 even without reflecting expected proceeds from contracts sold after June 30, 2008.

	Actuarial Evaluation (Unaudited)
Net assets, before tuition/accretion payable	$ 992,676
Actuarial present value of future payments expected to be made by contract purchasers	193,923
Subtotal	1,186,599
Actuarial present value of future payments expected to be made by the program	1,459,764
Actuarial deficit as of June 30, 2008	$ (273,165)

Note 15. 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 $133 in 2008.

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

Note 16. Commitments and Contingencies

IDAPP has entered into a number of contracts with lenders, to act as IDAPP's agents and facilitate the purchase of Federal Family Education Loan Program (FFELP) student loans for IDAPP. FFELP loans are guaranteed by the Federal Department of Education. IDAPP is committed to disbursing the funds for the FFELP loans purchased by these lenders. The total amount of the purchase commitment is not specified in the individual contracts. IDAPP's obligation under these purchase agreements is estimated to range from $0.3 to $46 million. The total amount of loans purchased by IDAPP with all lenders in FY2008 was approximately $125.8 million.

The Commission receives grants from the federal government, which are subject to review and audit by federal grantor agencies. At June 30, 2008, 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 July 15, 2008 from Victoria Edwards, Chief Compliance Officer, FSA to the National Council of Higher Education Loan Programs (NCHELP).

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 with a claimed loss range of approximately $13.5 million. Commission management believes the lawsuit is without merit and intends to vigorously defend the Commission in the lawsuit. It is the opinion of the Commission's legal counsel that the likelihood that a material net liability will be established against ISAC in the cases described above is remote. Commission management does not believe the lawsuit will have a material effect on financial results.

Note 17. New Governmental Accounting Standards

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

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets (including certain internally developed software). All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to these intangible assets, as applicable. The Commission is required to implement this Statement for the year ending June 30, 2010.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The Commission is required to implement this Statement for the year ending June 30, 2010.

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

Note 18. Special Item

A. Sale of Student Loans

During fiscal 2008, the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of $2,639 million for $2,645 million. The loans receivable constituted 78% of IDAPP's total student loan portfolio as of the beginning of the year.

The gross premium from the sale of $77,314 less the expenses related to the sale of $231, the corresponding write-off of unamortized premiums, origination and default fees of $75,963 and the recovery of loan loss reserve of $3,246 are reported as special items in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

B. Early Extinguishment of Related Debt

ISAC also retired $2,607,650 in revenue bonds associated with the student loan portfolio, which was sold in July and August 2008. Expenses related to the early extinguishment of $7,190 and write-offs of unamortized bond discounts and costs of issuance of $8,031 are reported as special items in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

(All dollar amounts are expressed in thousands)

Note 18. Special Item (Continued)

B. Early Extinguishment of Related Debt (Continued)

Details of the amount reported as a special item are as follows:

Special Item		
Sale of student loan portfolio		
Premium from sale of loans	$	77,314
Expenses related to sale of loans		(231)
Gain from loan sale, net of direct expenses		77,083
Write-off of capitalized premiums, origination, and default fees		(72,717)
Net gain from sale of student loans		4,366
Early extinguishment of debt		
Expenses related to retirement of bonds		(7,190)
Write-off of unamortized discounts for bonds retired		(8,031)
Net loss related to early extinguishment of debt		(15,221)
Net special item	$	(10,855)

Note 19. Reclassification of Federal Student Loan Fund and Restatement of Net Assets

For the year ended June 30, 2008, the Federal Student Loan Fund (Federal Fund) was reclassified from a special revenue fund to an enterprise fund. This presentation was determined to be preferable because the activities of the Federal Fund are integral and related to the Student Loan Operating Fund (operating fund), a nonmajor enterprise fund. Both the Federal Fund and the Operating Fund are components of the Federal Family Education Loan Program (FFELP). The Federal Fund represents the program revenues and expenditures earned by the FFELP on behalf of the US Department of Education and the Operating Fund represents the income earned and administrative expenditures incurred by the Commission in the administration of the FFELP. Management believes that financial presentation of the FFELP would be more complete and accurate if the two funds were presented together as one activity. As a result of this change in the classification of the Federal Student Loan Fund, deferred revenue of $47.962 million from fiscal year 2007 has been reclassified and reported as restricted net assets. The change results in an increase in net income of $3.059 million for fiscal year 2008 and in a cumulative increase in restricted net assets of $47.962 million as of June 30, 2007.

Note 20. Subsequent Events

Illinois Student Assistance Commission

The unprecedented collapse of the credit and banking system in the United States in 2008 has resulted in a significant liquidity crisis in financial institutions. As a result effective December 12, 2008 Sun Trust Banks, Inc., ISAC's lender partner for the U.S. Department of Education Rehabilitation Loan Program has decided to terminate their contract and will no longer purchase FFELP rehabilitation loans from ISAC. The Commission believes that this will result in a decrease in revenue to the Student Loan Operating Fund of approximately $6 million for fiscal year 2009. The Commission is working with the Illinois Governor's Office of Management and Budget and the Illinois State Legislature to authorize issuance of bonds to raise capital with which IDAPP (ISAC's lending division) could purchase the rehabilitated loans. Management believes the process of authorization of issuance of bonds by the Illinois State Legislature would be completed by April 2009 and will effectively resolve this issue.

Illinois Designated Account Purchase Program

A. Citibank Mid-Term Asset Backed Commercial Paper Program:

On July 27, 2007, ISAC entered into a $500 million Mid-Term Asset Backed Commercial Paper Program through an affiliate of Citibank, CIESCO, LLC (Note 10). ISAC has pledged as collateral to CIESCO a portfolio of certain student loans. CIESCO acts as a conduit lender, issuing commercial paper, lending those funds at cost to ISAC. A back-up facility issued by Citibank N.A. on behalf of ISAC supports this Program. This back-up facility expired on September 8, 2008 resulting, by terms of the Indenture, in the commencement of the Liquidation Period. During the Liquidation Period, cash flow generated by the underlying student loans are applied as follows: First, to pay any fees due the U. S. Department of Education; Second, to pay operating costs of ISAC; Third, to pay fees of the Trustee; Fourth, to pay interest; Fifth, to pay program fees of Citibank; Sixth, to pay down principal outstanding under the Program. The Liquidation Period continues, by its term, until July 27, 2010, at which point any amounts not paid are due and payable. On October 2, 2008, ISAC reduced the size of this Program to $415 million. Management anticipates reducing the size of the Program from time to time as is deemed feasible. During the Liquidation Period, cost of borrowing under the Program will not exceed Citibank's commercial paper rate plus 43 basis points. Bank of New York Trust Company, N.A. is Trustee.

B. Sale of Bonds to Credit Union

On September 23, 2008, ISAC entered into a Bond Purchase Agreement with a group of Illinois Credit Unions to sell Taxable Student Loan Revenue Bonds (Series 2008A, Series 2008B, and Series 2008C) for an aggregate amount up to, but not to exceed $100,100,000. Funds from the bond sales will be used to support FFELP student loans for the 2008/2009 school year. On September 23, 2008 ISAC sold the first in the series of bonds and received $40,050,000. The Series 2008B bonds were sold for $40,050,000 on December 15, 2008. The Series 2008C bonds can be sold for up to $20,000,000 on or about the week ending March 27, 2009. Interest on the bonds is set at "AA" Financial Commercial Paper Rate plus 80 basis points. Interest and principal is due and payable on all three series of bonds upon maturity, which is set at August 20, 2009. An Indenture of Trust and Credit Agreement was also signed September 23, 2008 with Wells Fargo Bank, NA to serve as Trustee for the bond sale.

Note 20. Subsequent Events (Continued)

Illinois Prepaid Tuition Program (Unaudited)

Subsequent to the end of the fiscal year, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. As a result, certain investments have incurred a significant decline in fair value since June 30, 2008. As of March 27, 2009, unaudited interim financial statements of the Program report unrealized net losses of approximately $200 million, and realized net losses of approximately $27 million.

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Budgetary Comparisons Schedule - Major Governmental Funds - General Fund
Year Ended June 30, 2008
(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	$ 429,205	$ 429,205	$ 424,146	$ -	$ 424,146
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General Revenue Account	429,205	429,205	423,878	-	423,878
Excess of revenues over expenditures	-	-	268	-	268
Other sources of financial resources					
Transfers in/General Revenue Account	-	-	217	-	217
Net change in fund balance	-	-	485	-	485
Fund balance, July 1, 2007	-	-	4,635	-	4,635
Fund balance, June 30, 2008	$ -	$ -	$ 5,120	$ -	$ 5,120

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	$	424,146
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	$	424,146

State of Illinois
Illinois Student Assistance Commission

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008
(All dollar amounts are expressed in thousands)

	Special Revenue Funds		
	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable
Assets			
Cash and cash equivalents	$ -	$ 336	$ 88
Receivables			
Other	-	5	-
Total assets	$ -	$ 341	$ 88
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	$ -	$ -	$ 2
Due to other ISAC funds	-	-	48
Deferred revenue	-	15	-
Due to U.S. Department of Education			
Other	-	326	-
Total liabilities	-	341	50
Fund balances			
Unreserved	-	-	38
Total liabilities and fund balances	$ -	$ 341	$ 88

Special Revenue Funds				Debt Service Fund	Total Nonmajor Governmental Funds
University Grant	Contract and Grant	Optometric Education	Total	I S A C COP	
$ 51	$ 265	$ -	$ 740	$ -	$ 740
-	-	-	5	-	5
$ 51	$ 265	$ -	$ 745	$ -	$ 745
$ -	$ 2	$ -	$ 4	$ -	$ 4
-	-	-	48	-	48
-	263	-	278	-	278
-	-	-	326	-	326
-	265	-	656	-	656
51	-	-	89	-	89
$ 51	$ 265	$ -	$ 745	$ -	$ 745

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2008
(All dollar amounts are expressed in thousands)

	Special Revenue Funds		
	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable
Revenues			
Federal government	$ 3,488	$ 1,564	$ -
Other	-	-	291
Total revenues	3,488	1,564	291
Expenditures			
Education			
Scholarships, awards and grants	3,488	1,564	50
Debt Service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	3,488	1,564	50
Excess (deficiency) of revenues over expenditures	-	-	241
Other sources (uses) of financial resources			
Appropriations from State resources	-	-	-
Transfers in	-	-	-
Transfers out	-	-	(215)
Net other sources (uses) of financial resources	-	-	(215)
Net change in fund balance	-	-	26
Fund balance, July 1, 2007	-	-	12
Fund balance, June 30, 2008	$ -	$ -	$ 38

Special Revenue Funds				Debt Service Fund	Total
University Grant	Contract and Grant	Optometric Education	Total	I S A C COP	Nonmajor Governmental Funds
$ -	$ -	$ -	$ 5,052	$ -	$ 5,052
51	15	-	357	-	357
51	15	-	5,409	-	5,409
52	15	52	5,221	-	5,221
-	-	-	-	1,440	1,440
-	-	-	-	500	500
52	15	52	5,221	1,940	7,161
(1)	-	(52)	188	(1,940)	(1,752)
52	-	52	104	-	104
-	-	-	-	1,940	1,940
-	-	-	(215)	-	(215)
52	-	52	(111)	1,940	1,829
51	-	-	77	-	77
-	-	-	12	-	12
$ 51	$ -	$ -	$ 89	$ -	$ 89

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2008
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Assets				
Current				
Cash and cash equivalents	$ 13,327	$ 50,034	$ -	$ 63,361
Receivables				
Intergovernmental	1,711	31,910	-	33,621
Accrued interest on investments	30	84	-	114
Default fee	-	104	-	104
Due from other ISAC funds	-	1	-	1
Due from Federal Student Loan fund	1,098	-	(1,098)	-
Due from Student Loan Operating fund	-	181	(181)	-
Total current assets	16,166	82,314	(1,279)	97,201
Noncurrent				
Capital assets, net of accumulated depreciation	136	-	-	136
Due from Student Loan Operating fund - Deferred charges	-	3,514	(3,514)	-
Total noncurrent assets	136	3,514	(3,514)	136
Total assets	$ 16,302	$ 85,828	$ (4,793)	$ 97,337
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 737	$ 20,289	$ -	$ 21,026
Due to other ISAC funds	2	1,149	-	1,151
Due to Federal Student Loan fund	181	-	(181)	-
Due to Student Loan Operating fund	-	1,098	(1,098)	-
Due to other State funds	467	-	-	467
Due to State of Illinois Component Units	37	-	-	37
Intergovernmental payable	-	6,725	-	6,725
Compensated absences	257	-	-	257
Total current liabilities	1,681	29,261	(1,279)	29,663
Noncurrent				
Due to Federal Student Loan fund - deferred revenue	3,514	-	(3,514)	-
Compensated absences	2,318	-	-	2,318
Deferred revenue	-	-	-	-
Total noncurrent liabilities	5,832	-	(3,514)	2,318
Total liabilities	7,513	29,261	(4,793)	31,981

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds (Continued)
June 30, 2008
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Net Assets				
Invested in capital assets, net of related debt	$ 136	$ -	$ -	$ 136
Restricted	-	56,567	-	56,567
Unrestricted	8,653	-	-	8,653
Total net assets	8,789	56,567	-	65,356
Total liabilities and net assets	$ 16,302	$ 85,828	$ (4,793)	$ 97,337

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses and Changes in Net Assets -
Nonmajor Enterprise Funds
Year Ended June 30, 2008
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Operating revenues			
Loan processing and issuance fees	$ 4,862	$ -	$ 4,862
Portfolio maintenance fee	5,771	-	5,771
Direct consolidation fees	4,649	-	4,649
Licenses and fees	-	804	804
Collections on student loans previously reimbursed by the U.S. Department of Education	-	24,826	24,826
Other	367	-	367
Total operating revenues	15,649	25,630	41,279
Operating expenses			
Salaries and employee benefits	22,927	-	22,927
Loan guarantee	-	192,772	192,772
Management and professional services	10,744	-	10,744
Depreciation	110	-	110
Total operating expenses	33,781	192,772	226,553
Operating loss	(18,132)	(167,142)	(185,274)
Non-operating revenues			
Federal government	-	185,003	185,003
Interest revenue	867	1,712	2,579
	867	186,715	187,582
Income (loss) before transfers	(17,265)	19,573	2,308
Transfers in from IDAPP	2,500	-	2,500
Transfers out to Debt Service Fund	(2,623)	-	(2,623)
Transfers for:			
Default fees	(11,733)	11,733	-
Collection retention fees	6,175	(6,175)	-
Repurchases/Rehabilitations/Consolidation Retention fees	16,809	(16,809)	-
Direct Consolidation fee refund	(2,135)	2,135	-
Default aversion fees	1,852	(1,852)	-
Net transfers	10,845	(10,968)	(123)
Change in net assets	(6,420)	8,605	2,185
Net assets, July 1, 2007, as restated	15,209	47,962	63,171
Net assets, June 30, 2008	$ 8,789	$ 56,567	$ 65,356

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds
Year Ended June 30, 2008
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ 13,765	$ 92,703	$ 106,468
Cash payments to suppliers for goods and services	(304)	-	(304)
Cash payments to employees for services	(23,166)	-	(23,166)
Cash payments for loan guarantees	-	(189,090)	(189,090)
Cash payments for other operating activities	-	(64,375)	(64,375)
Cash payments for management and professional fees	(34,079)	-	(34,079)
Net cash used by operating activities	(43,784)	(160,762)	(204,546)
Cash flows from noncapital financing activities			
Federal government grants	-	179,884	179,884
Transfers in	53,853	14,248	68,101
Transfers out	(16,874)	(24,353)	(41,227)
Net cash provided by noncapital financing activities	36,979	169,779	206,758
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(24)	-	(24)
Cash flows from investing activities			
Interest and dividends on investments	920	1,785	2,705
Net increase (decrease) in cash and cash equivalents	(5,909)	10,802	4,893
Cash and cash equivalents, July 1, 2007	19,236	39,232	58,468
Cash and cash equivalents, June 30, 2008	$ 13,327	$ 50,034	$ 63,361

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds
Year Ended June 30, 2008
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	$ (18,132)	$ (167,142)	$ (185,274)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	110	-	110
Change in assets and liabilities			
Accounts receivable	-	(103)	(103)
Intergovernmental receivables	756	-	756
Due from other funds	21	33	54
Accounts payable and accrued liabilities	(19,613)	8,158	(11,455)
Intergovernmental payables	-	(2,087)	(2,087)
Due to other funds	(71)	379	308
Due to other component units	(6,616)	-	(6,616)
Compensated absences	(239)	-	(239)
Total adjustments	(25,652)	6,380	(19,272)
Net cash used by operating activities	$ (43,784)	$ (160,762)	$ (204,546)

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois, and

Mr. Donald J. McNeil
Honorable Chairman of the Governing Board
Illinois Student Assistance Commission

As Special Assistant Auditors for the Auditor General, we have audited the 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, 2008, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of Current Findings - *Government Auditing Standards* to be significant deficiencies in internal control over financial reporting (findings 08-1 through 08-5).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 08-1 through 08-3 to be material weaknesses.

Compliance and Other Matters

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

We also noted certain matters which we have reported to management of the Commission in a separate letter dated March 27, 2009.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of Current Findings – *Government Auditing Standards*. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Commission management, the Commission Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 27, 2009

Current Findings – *Government Auditing Standards*

Finding 08-1 Securities Lending Program Not Accounted for Properly

The Illinois Prepaid Tuition Program (Program) of the Illinois Student Assistance Commission (Commission) did not have adequate internal controls over financial reporting for its securities lending transactions.

The Commission implemented a securities lending program in fiscal year 2008. The Commission did not record its $168 million in securities lending collateral investments or $171 million in liabilities related to securities lending as of June 30, 2008, or the associated $3 million unrealized loss incurred for the fiscal year. In addition, the draft financial statements provided to the auditors did not have the required securities lending disclosures.

Generally accepted accounting principles (GAAP) require that the Commission record the collateral assets, liabilities and gains or losses associated with securities lending transactions and disclose certain information related to securities lending transactions in its financial statements. The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

According to Commission management, the Commission receives information on a monthly basis from the custodial bank. The final information regarding impairment of the value of the securities lending collateral was received by the Commission only after year-end in August 2008.

Failure to record and disclose material assets, liabilities and investment losses results in materially misstated financial statements not prepared in accordance with GAAP. (Finding No. 08-1)

Recommendation

We recommend the Commission improve its controls so that it timely obtains all relevant investment information necessary to properly record and disclose of all material investment transactions in the Program's annual financial statements.

Commission Response

Agree.

The Commission has implemented additional controls to ensure that all material transactions and disclosures are properly recorded on the financial statements on a timely basis.

Current Findings – *Government Auditing Standards* (Continued)

Finding 08-2 Draft Financial Statements Not Accurate

The Illinois Designated Account Purchase Program (IDAPP) of the Illinois Student Assistance Commission (Commission) did not have sufficient controls over financial reporting.

Several errors and omissions were identified during the audit of the draft financial statements provided for IDAPP. Some of the more significant adjustments and omissions were as follows:

- Unamortized bond issuance costs that totaled approximately $840,000 were inappropriately classified as unrestricted other assets instead of restricted unamortized bond issuance costs.
- Approximately $16 million of student loans, net of allowance for loan losses, were inappropriately classified as unamortized bond issuance costs.
- Net assets were not properly categorized as to restricted and unrestricted.
- Generally Accepted Accounting Standards Board (GASB) Statement No. 40 disclosure of custodial credit risk for deposits and investments was not complete.
- Cash flows from operating activities were not properly classified.

All material transactions should be recorded in accordance with generally accepted accounting principles (GAAP), and financial statement amounts should be supported with complete and accurate disclosures in the form of notes to the financial statements. The errors and omissions described above resulted in certain aspects of the draft financial statements for IDAPP to be prepared not in accordance with GAAP.

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

According to Commission management, the primary issues noted above were caused by a change in procedures and reductions in the workforce resulting from the outsourcing of the servicing of alternative loans.

Insufficient and/or ineffective controls over financial reporting could lead to significant reporting inaccuracies in the financial statements and notes to the financial statements. (Finding Nos. 08-2, 07-3)

Recommendation

We recommend the Commission review its procedures over outsourced services, allocate the resources necessary, and improve controls over financial reporting to ensure accurate presentation and disclosure of IDAPP's annual financial statements.

Commission Response

Agree.

Subsequent to the audit being performed the Commission has implemented several changes to address the issues noted above. The Accounting department has been reorganized to better utilize existing talent and also a new financial reporting manager (with a CPA certificate) has been hired who will assist in the review process. In addition a formal review and sign-off process has been implemented.

Current Findings – *Government Auditing Standards* (Continued)

Finding 08-3 Investment Policies Not Followed

The Illinois Designated Account Purchase Program (IDAPP) does not have adequate collateral to cover 100% of its bank deposit balances that exceed FDIC insured amounts, and investments in a single issuer exceeded investment policy established limits.

IDAPP is in violation of its current investment policy restricting investments in a single issuer to no more than 5% of the total investment portfolio of the agency. In addition, during testing of cash and investments, a lack of sufficient collateral for deposits in excess of FDIC insured amounts was noted. IDAPP has an uninsured uncollateralized deposit balance of approximately $5 million at June 30, 2008, consisting of 2 locally held accounts in violation of the State Officers and Employees Money Disposition Act (Act).

At June 30, 2008, IDAPP held over $5.6 million in commercial paper issued by another financial institution. This investment is approximately 10% of IDAPP's total investment balance at its fiscal year-end. IDAPP's investment policy requires IDAPP to diversify its investments by security type and institution. With the exception of certain obligations as set forth in the investment policy (direct federal obligations, federal guaranteed obligations, and federal affiliated institutions) or investments fully collateralized by these obligations, IDAPP's investment policy states that no more than 5% of IDAPP's total investment portfolio will be invested in the obligations of a single issuer.

Good business practices require that an entity's bank balances be adequately insured or collateralized to prevent losses in the event of a bank failure and to properly safeguard the entity's assets. In addition, a good internal control environment includes checks and balances to ensure policies established by the Board are followed. The Act (30 ILCS 230/2c) states, "Whenever funds deposited with a bank or savings and loan association exceed the amount of federal deposit insurance coverage, a bond, pledged securities, or other eligible collateral shall be obtained."

According to Commission management, one of the bank accounts had an uncollateralized deposit ($435k) at year end. The account was set-up incorrectly, resulting in the balances being uncollateralized. An additional $4.7 million in a different bank was set up as a collateral account based on a contractual agreement. It was an oversight that a reciprocal collateralization was not provided (by the bank) for the funds that IDAPP provided to the bank as collateral. The $5,612,565 of commercial paper at another financial institution was also set-up in error.

IDAPP's uncollateralized and uninsured deposits are susceptible to loss in the event of a bank failure, as the amount of deposits in excess of FDIC insured limits may not be recoverable. In addition, IDAPP has failed to comply with State Statute and its investment policy and has exposed itself to concentration of credit risk in excess of levels deemed appropriate by its governing officials. (Finding No. 08-3)

Current Findings – *Government Auditing Standards* (Continued)

Finding 08-3 Investment Policies Not Followed (Continued)

Recommendation

We recommend IDAPP obtain sufficient collateral to cover uninsured deposit balances at each applicable bank. In addition, IDAPP should improve monitoring controls over deposit balances at each bank to make sure collateral is sufficient to cover deposit balances in the event of a bank failure. We also recommend IDAPP improve controls to ensure that it adheres to its investment policy.

Commission Response

Agree.

The $5.6 million of commercial paper at June 30, 2008 has subsequently been reduced to $3.5 million and invested in treasury bills. Therefore we no longer have over 10% of our investments with one issuer. With the switch in investments to treasury bills, the funds are now collateralized.

The $435k of investments had been held at LaSalle Bank, which was acquired by Bank of America subsequent to 6/30/08. With the switch to Bank of America, the funds are now fully collateralized

The $4.7 million uncollateralized deposit at Guarantee Bank was held pending the resolution of a legal dispute which was resolved in December 2008. The account has now been closed.

Additionally, ISAC's Commissioners approved a new Investment Policy at its November 2008 meeting. This included the restructuring of IDAPP's Investment Committee, chaired by ISAC's Chief Investment Officer.

Current Findings – *Government Auditing Standards* (Continued)

Finding 08-4 Documentation of Journal Entry Approval is Lacking

The Illinois Designated Account Purchase Program (IDAPP) does not have adequate controls over the preparation and posting of journal entries.

During our testing of internal controls over accounting for the federal special allowance revenues and receivables, we noted that there was no evidence of review of the journal entries prepared to record this revenue and related receivables by an appropriate supervisor. The federal special allowance and interest subsidy revenue was $20,828,750 and the related receivable at year-end was $1,785,701.

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. A good system of internal control requires that journal entries and supporting documentation related to significant accounts should be reviewed by an appropriate supervisor.

According to Commission management, IDAPP's accounting personnel are aware of the requirement to have all journal entries reviewed and initialed to document the review. In an effort to meet closing deadlines, sign-offs were not always obtained.

Lack of supervisory review of journal entries could result in federal special allowance revenues and related receivables being misstated. In addition, errors in analyses and journal entries will not be detected if not reviewed by an appropriate supervisor. (Finding No. 08-4)

Recommendation

We recommend that account reconciliations, analyses and journal entries prepared for all significant accounts be reviewed by a supervisor other than the preparer. In addition, these reviews should be documented by dating and signing or initialing the item. Journal entries lacking documentation of supervisory review should not be posted until after written documentation of such review has been obtained.

Commission Response

Agree.

IDAPP's Accounting personnel are aware of the requirement to have all journal entries reviewed and initialed to document the review. In an effort to meet closing deadlines, sign-offs were not always obtained.

The Commission has re-emphasized this requirement for fiscal year 2009, both in writing and in departmental meetings and will continue to monitor this requirement.

Current Findings – *Government Auditing Standards* (Continued)

Finding 08-5 Draft Financial Statements Not Completed Timely

The Illinois Student Assistance Commission (Commission) did not provide the auditors with complete and accurate financial statements on a timely basis.

During the audit entrance conference on May 14, 2008 a deadline for submission of the Commission's draft financial statements for timely completion of the financial audit was determined and agreed to by the auditors and Commission management. The deadline for delivery of the complete draft financial statements to the auditors for fiscal year 2008 was September 26, 2008. Although an initial draft was provided to the auditors on September 26, 2008, the draft was incomplete and had not been fully reviewed by all parties involved with the preparation and approval of the financial statements. Changes and adjustments to the initial draft were occurring as late as January 14, 2009, 110 days after the agreed upon deadline, when a $185 million reclassification and other minor changes were made affecting the financial statements and note disclosures.

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. In addition, a good system of internal control ensures that financial statements are prepared timely to benefit users of those financial statements.

According to Commission management, the delay is due to the growing complexity of financial reporting for the Commission coupled with the number of parties involved in the financial reporting process.

Submitting incomplete and unadjusted draft financial statements delays completion of the audit process and the timely release of the Commission's financial report to users. (Finding Code No. 08-5)

Recommendation

We recommend the Commission take a comprehensive look at the entire financial reporting process and make changes needed to timely release audit financial reports to users and to auditors.

Commission Response

Agree.

The Commission made all efforts and was in constant communication with the Illinois Office of the Comptroller and the auditors prior to the end of the fiscal year to ensure that the year-end process was timely and accurate.

The Commission is committed to working with the Illinois Office of the Comptroller and the Office of the Auditor General to complete financial statements accurately and in a timely manner and will continue to review our internal procedures to determine if additional modifications can be made to assist in timely and accurate reporting.

Prior Findings Not Repeated

A. Financial Reporting

During our review of the fiscal year 2007 draft financial statements of the Illinois Prepaid Tuition Program (the Program), we noted the Illinois Student Assistance Commission (Commission) did not have sufficient controls over the Program's reporting process. The disclosures related to the multiple ratings of securities as required by the Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* were not properly calculated by the Commission. (Finding Code No. 07-1)

In our fiscal year 2008 audit we noted the Program's GASB Statement No. 40 disclosures of the multiple ratings of securities in its financial reports were presented in accordance with GASB standards.

B. Internal Auditing

During our fiscal year 2007 audit and examination we noted the Commission failed to perform internal audits of 4 of its 12 (33%) major systems of internal accounting and administrative controls within the last two years. (Finding Code Nos. 07-2, 06-3)

We noted during the fiscal year 2008 audit that internal audits were performed that addressed the required major internal accounting and administrative control systems.

C. Material Year-end Financial Statement Adjustment Not Recorded

The Commission did not record a material year-end adjustment to its financial statements in fiscal year 2007. Although the Commission performed a detailed analysis supporting the estimated amount of Default Aversion Fees (DAF) earned, the adjustment to decrease the liability in the Student Loan Operating Fund and to decrease the corresponding asset in the Federal Student Loan Fund by $3.7 million was not recorded by the Commission in the draft fiscal year 2007 financial statements. (Finding Code No. 07-4)

During our fiscal year 2008 audit, we noted the amounts recorded in the Student Loan Operating and Federal Student Loan Funds were in accordance with the detailed analysis performed.