State of Illinois
Illinois Student Assistance Commission

Financial Statements
For the Year Ended June 30, 2009

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

State of Illinois
Illinois Student Assistance Commission

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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 material weaknesses or significant deficiencies. The material weakness is described in the accompanying Schedule of Findings on pages 79-83 of this report, as finding 09-1 (Debt Covenant Violation). The significant deficiencies are described in the accompanying Schedule of Findings on pages 79-83 of this report, as findings 09-2 (Unapplied Cash) and 09-3 (Draft Financial Statements Not Completed Timely).

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on January 12, 2010. Attending were:

Illinois Student Assistance Commission	
Frank Berauer	Director, Accounting and Finance-IDAPP
Brian Begrowicz	Interim Chief Financial Officer-IDAPP
Anne Hunter	Financial Reporting Manager
John Sinsheimer	Chief Financial Officer
Shoba Nandhan	Director, Budget and Finance-ISAC
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 Brian Begrowicz in a letter dated January 20, 2010.

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, 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2009, 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, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2010 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 Fund – General Fund and Notes to Required Supplementary Information (pages 64 and 65) 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
January 25, 2010

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Year Ended June 30, 2009
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 269	$ -	$ 269
Cash and cash equivalents	830	113,734	114,564
Investments	-	52	52
Receivables			
Intergovernmental	-	36,790	36,790
Accrued interest on investments	-	38	38
Default fee	-	136	136
Other	85	-	85
Securities lending collateral	-	72,331	72,331
Due from other ISAC funds	4	(4)	-
Total current assets - unrestricted	1,188	223,077	224,265
Restricted			
Cash and cash equivalents	-	61,822	61,822
Investments	-	138,999	138,999
Notes receivable	-	35,693	35,693
Receivables			
Student loans	-	217,369	217,369
Accrued interest on loans	-	25,010	25,010
Accrued interest on investments	-	539	539
Other	-	1,811	1,811
Unamortized bond issuance costs	-	83	83
Total current assets - restricted	-	481,326	481,326
Non-current			
Unrestricted			
Investments	-	824,995	824,995
Notes receivable	5,344	-	5,344
Other assets	-	-	-
Capital assets, net of accumulated depreciation	12,999	223	13,222
Total non-current assets - unrestricted	18,343	825,218	843,561
Restricted			
Notes receivable	-	7,516	7,516
Student loans receivable, net	-	982,669	982,669
Unamortized bond issuance costs	-	1,489	1,489
Total non-current assets - restricted	-	991,674	991,674
Total assets	$ 19,531	$ 2,521,295	$ 2,540,826

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
June 30, 2009
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 228	$ 19,722	$ 19,950
Accrued interest payable	-	1,556	1,556
Tuition payable	-	55,050	55,050
Accreted tuition payable	-	4,950	4,950
Federal special allowance and interest subsidy	-	2,677	2,677
Due to other State funds	-	350	350
Due to State of Illinois component units	142	164	306
Deferred revenue	208	-	208
Intergovernmental payable	-	10,632	10,632
Due to U.S. Department of Education	328	-	328
Compensated absences	-	723	723
Installment purchase obligation	1,585	-	1,585
Securities lending collateral obligation	-	77,663	77,663
Line of credit	-	398,947	398,947
Revenue bonds payable	-	96,100	96,100
Total current liabilities	2,491	668,534	671,025
Non-current			
Tuition payable	-	829,435	829,435
Accreted tuition payable	-	332,419	332,419
Revenue bonds payable, net	-	931,200	931,200
Installment purchase obligation	5,270	-	5,270
Compensated absences	-	2,605	2,605
Total non-current liabilities	5,270	2,095,659	2,100,929
Total liabilities	7,761	2,764,193	2,771,954
Net Assets			
Invested in capital assets, net of related debt	6,144	223	6,367
Restricted	-	102,581	102,581
Unrestricted	5,626	(345,702)	(340,076)
Total net assets	$ 11,770	$ (242,898)	$ (231,128)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2009
(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	$ 430,626	$ -	$ 5,915
Interest	429	-	-
Total governmental activities	431,055	-	5,915
Business-type activities			
Education			
Student loan purchase program	58,001	49,495	(577)
Prepaid tuition	74,718	1,940	(155,873)
Loan guarantee program	231,148	32,100	193,578
Total business-type activities	363,867	83,535	37,128
Total Commission	$ 794,922	$ 83,535	$ 43,043

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 - loss on purchase commitment
Total general revenues, transfers and special item

Change in net assets

Net assets July 1, 2008

Net assets June 30, 2009

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
$ (424,711)	$ -	$ (424,711)
(429)	-	(429)
(425,140)	-	(425,140)
-	(9,083)	(9,083)
-	(228,651)	(228,651)
-	(5,470)	(5,470)
-	(243,204)	(243,204)
(425,140)	(243,204)	(668,344)
429,412	-	429,412
(2,949)	-	(2,949)
(1,965)	-	(1,965)
-	1,281	1,281
336	-	336
(168)	-	(168)
1,943	(1,943)	-
-	(2,730)	(2,730)
426,609	(3,392)	423,217
1,469	(246,596)	(245,127)
10,301	3,698	13,999
$ 11,770	$ (242,898)	$ (231,128)

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2009
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 269	$ -	$ 269
Cash and cash equivalents	1	829	830
Other receivables	-	85	85
Due from other ISAC funds	85	-	85
Notes receivable, net of allowances	5,344	-	5,344
Total assets	$ 5,699	$ 914	$ 6,613
Liabilities			
Accounts payable and accrued liabilities	$ 127	$ 101	$ 228
Due to other ISAC funds	-	81	81
Due to State of Illinois component units	142	-	142
Deferred revenues	-	208	208
Due to U.S. Department of Education	-	328	328
Total liabilities	269	718	987
Fund Balances			
Reserved for notes receivable	5,344	-	5,344
Unreserved			
General Fund	86	-	86
Special revenue funds	-	196	196
Total fund balances	5,430	196	5,626
Total liabilities and fund balances	$ 5,699	$ 914	$ 6,613

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, 2009
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds			$	5,626
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		614		
Accumulated depreciation		(8,626)		
Total capital assets				12,999
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				(6,855)
Net assets of governmental activities			$	11,770

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, 2009
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 5,915	$ 5,915
Other	5	331	336
Total revenues	5	6,246	6,251
Expenditures			
Education			
Scholarships, awards and grants	423,996	6,172	430,168
Debt Service			
Principal	-	1,510	1,510
Interest	-	429	429
Total expenditures	423,996	8,111	432,107
Deficiency of revenues over expenditures	(423,991)	(1,865)	(425,856)
Other sources (uses) of financial resources			
Appropriations from State resources	429,204	208	429,412
Lapsed appropriations	(2,949)	-	(2,949)
Receipts remitted to State Treasury	(1,965)	-	(1,965)
Amount of SAMS transfer in	(168)	-	(168)
Transfers in	179	1,939	2,118
Transfers out	-	(175)	(175)
Net other sources (uses) of financial resources	424,301	1,972	426,273
Net change in fund balance	310	107	417
Fund balance, July 1, 2008	5,120	89	5,209
Fund balance, June 30, 2009	$ 5,430	$ 196	$ 5,626

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, 2009
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$	417
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.		(458)
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.		1,510
Change in net assets of governmental activities	$	1,469

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Enterprise Funds
June 30, 2009
(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	$ 1,078	$ 61,332	$ 51,324	$ 113,734
Investments	52	-	-	52
Receivables				
Intergovernmental	-	-	36,790	36,790
Accrued interest on investments	-	7	31	38
Default fee	-	-	136	136
Securities lending collateral	-	72,331	-	72,331
Due from other ISAC funds	-	-	3,227	3,227
Total current assets - unrestricted	1,130	133,670	91,508	226,308
Restricted				
Cash and cash equivalents	61,822	-	-	61,822
Investments	138,999	-	-	138,999
Notes receivable	35,693	-	-	35,693
Receivables				
Student loans	217,369	-	-	217,369
Accrued interest on loans	25,010	-	-	25,010
Accrued interest on investments	539	-	-	539
Other	1,811	-	-	1,811
Due from other ISAC funds	1,724	-	-	1,724
Unamortized bond issuance costs	83	-	-	83
Total current assets - restricted	483,050	-	-	483,050
Noncurrent				
Unrestricted				
Investments	-	824,995	-	824,995
Capital assets, net of accumulated depreciation	34	-	189	223
Total noncurrent assets - unrestricted	34	824,995	189	825,218
Restricted				
Notes receivable	7,516	-	-	7,516
Student loans receivable, net	982,669	-	-	982,669
Unamortized bond issuance costs	1,489	-	-	1,489
Total noncurrent assets - restricted	991,674	-	-	991,674
Total assets	$ 1,475,888	$ 958,665	$ 91,697	$ 2,526,250

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
Enterprise Funds
June 30, 2009
(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	$ 1,918	$ 638	$ 17,166	$ 19,722
Accrued interest payable	1,556	-	-	1,556
Tuition payable	-	55,050	-	55,050
Accreted tuition payable	-	4,950	-	4,950
Federal special allowance and interest subsidy	2,677	-	-	2,677
Due to other ISAC funds	3,227	-	1,728	4,955
Due to other State funds	7	88	255	350
Due to State of Illinois component units	151	13	-	164
Intergovernmental payable	-	-	10,632	10,632
Compensated absences	449	7	267	723
Securities lending collateral obligation	-	77,663	-	77,663
Line of credit	398,947	-	-	398,947
Revenue bonds payable	96,100	-	-	96,100
Total current liabilities	505,032	138,409	30,048	673,489
Noncurrent				
Tuition payable	-	829,435	-	829,435
Accreted tuition payable	-	332,419	-	332,419
Revenue bonds payable, net	931,200	-	-	931,200
Compensated absences	150	61	2,394	2,605
Total noncurrent liabilities	931,350	1,161,915	2,394	2,095,659
Total liabilities	1,436,382	1,300,324	32,442	2,769,148
Net Assets				
Invested in capital assets, net of related debt	34	-	189	223
Restricted	46,921	-	55,660	102,581
Unrestricted	(7,449)	(341,659)	3,406	(345,702)
Total net assets	39,506	(341,659)	59,255	(242,898)
Total liabilities and net assets	$ 1,475,888	$ 958,665	$ 91,697	$ 2,526,250

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, 2009
(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	$ 49,495	$ -	$ -	$ 49,495
Interest - investments	1,314	-	-	1,314
Loss - investment securities	-	(155,994)	-	(155,994)
Interest - other	-	121	-	121
Total investment income (loss)	50,809	(155,873)	-	(105,064)
Other operating revenues				
Application and other fees	-	1,940	-	1,940
Loan processing and issuance fees	-	-	1,857	1,857
Portfolio maintenance fee	-	-	4,657	4,657
Direct consolidation cost	-	-	5,821	5,821
Licenses and fees	-	-	3,415	3,415
Collections on student loans previously reimbursed by the U.S. Department of Education	-	-	16,341	16,341
Other	-	-	9	9
Total other operating revenues	-	1,940	32,100	34,040
Total operating revenues	50,809	(153,933)	32,100	(71,024)
Operating expenses				
Interest and other student loan expenses				
Interest expense				
Revenue bonds	29,903	-	-	29,903
Amortization of loan premiums and fees	3,513	-	-	3,513
Other student loan fees	2,846	-	-	2,846
Provision for loan losses	2,742	-	-	2,742
Total interest and other student loan expenses	39,004	-	-	39,004

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds (Continued)
Year Ended June 30, 2009
(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	$ 6,101	$ 1,856	$ 22,013	$ 29,970
Loan guarantee	-	-	199,964	199,964
External loan servicing	3,515	-	-	3,515
Accreted tuition expenses	-	67,775	-	67,775
Occupancy expense	54	-	-	54
Marketing expenses	1	-	-	1
Investment management fees	-	1,649	-	1,649
Bond issuance and legal fees	201	-	-	201
Management and professional services	3,596	3,438	9,050	16,084
ISAC shared expense	4,167	-	-	4,167
Depreciation	13	-	121	134
Other	1,349	-	-	1,349
Total other operating expenses	18,997	74,718	231,148	324,863
Total operating expenses	58,001	74,718	231,148	363,867
Operating loss	(7,192)	(228,651)	(199,048)	(434,891)
Non-operating revenues (expenses)				
Federal government special allowance, interest subsidy and excess interest expense	(1,891)	-	-	(1,891)
Federal government	-	-	193,578	193,578
Interest revenue	-	-	1,281	1,281
Total non-operating revenues (expenses)	(1,891)	-	194,859	192,968
Loss before special item and transfers	(9,083)	(228,651)	(4,189)	(241,923)
Special item (Note 18)	(2,730)	-	-	(2,730)
Transfers out	-	(31)	(1,912)	(1,943)
Change in net assets	(11,813)	(228,682)	(6,101)	(246,596)
Net assets, July 1, 2008	51,319	(112,977)	65,356	3,698
Net assets, June 30, 2009	$ 39,506	$ (341,659)	$ 59,255	$ (242,898)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds
Year Ended June 30, 2009
(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	$ -	$ 1,940	$ 96,008	$ 97,948
Cash paid for refund of contracts and tuition payments	-	(8,791)	-	(8,791)
Cash payments to suppliers for goods and services	(13,039)	(3,562)	(1,867)	(18,468)
Cash payments to employees for services	(6,113)	(1,868)	(21,928)	(29,909)
Cash payments for loan guarantees	-	-	(205,680)	(205,680)
Cash receipts from student loans	128,004	-	-	128,004
Cash receipts from prepaid tuition contracts	-	114,320	-	114,320
Cash payments for other operating activities	-	-	(58,480)	(58,480)
Cash payments for student loans	(97,313)	-	-	(97,313)
Cash payments for management and professional fees	-	-	(9,539)	(9,539)
Cash payments for tuition and accretion	-	(53,856)	-	(53,856)
Cash payments for bank settlement (special item)	(2,730)	-	-	(2,730)
Net cash provided (used) by operating activities	8,809	48,183	(201,486)	(144,494)
Cash flows from noncapital financing activities				
Proceeds from revenue bonds and other borrowing	196,755	-	-	196,755
Principal paid on revolving credit line	(43,560)	-	-	(43,560)
Interest paid on revenue bonds and other borrowing	(27,680)	-	-	(27,680)
Special allowance and interest subsidiary	2,572	-	-	2,572
Federal government grants	-	-	190,169	190,169
Transfers in	-	-	23,294	23,294
Transfers out	-	(31)	(25,204)	(25,235)
Net cash provided (used) by noncapital financing activities	128,087	(31)	188,259	316,315
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(30)	-	(174)	(204)
Cash flows from investing activities				
Purchase of investment securities	(185,440)	(302,901)	-	(488,341)
Proceeds from sales and maturities of investment securities	46,511	287,524	-	334,035
Cash returned for securities lending collateral transactions	-	(93,113)	-	(93,113)
Investments sold from securities lending collateral transactions	-	93,113	-	93,113
Interest and dividends on investments	711	24,208	1,364	26,283
Cash paid to investment managers	-	(1,649)	-	(1,649)
Net cash provided (used) by investing activities	(138,218)	7,182	1,364	(129,672)
Net increase (decrease) in cash and cash equivalents	(1,352)	55,334	(12,037)	41,945
Cash and cash equivalents, July 1, 2008	64,252	5,998	63,361	133,611
Cash and cash equivalents, June 30, 2009	$ 62,900	$ 61,332	$ 51,324	$ 175,556

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds (Continued)
Year Ended June 30, 2009
(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	$ (7,192)	$ (228,651)	$ (199,048)	$ (434,891)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation	13	-	121	134
Interest - investments	(1,314)	157,522	-	156,208
Interest expense	29,903	-	-	29,903
Amortization of student loan premiums and fees	3,513	-	-	3,513
Accreted tuition expense	-	67,775	-	67,775
Provision for loan losses	2,742	-	-	2,742
Loss on settlement (special item)	(2,730)	-	-	(2,730)
Change in assets and liabilities				
Notes receivable	50,582	-	-	50,582
Student loans receivable	(71,253)	-	-	(71,253)
Accounts receivable	-	-	(33)	(33)
Intergovernmental receivables	-	-	240	240
Accrued interest - loans and notes	1,554	-	-	1,554
Due from other funds	(575)	-	(3,222)	(3,797)
Other receivables	(223)	-	-	(223)
Other noncurrent assets	3	-	-	3
Accounts payable and accrued liabilities	414	(222)	(3,864)	(3,672)
Intergovernmental payables	-	-	3,907	3,907
Due to other funds	-	85	364	449
Due to other State funds and component units	3,384	13	(37)	3,360
Compensated absences	(12)	(12)	86	62
Tuition payable	-	51,673	-	51,673
Total adjustments	16,001	276,834	(2,438)	290,397
Net cash provided (used) by operating activities	$ 8,809	$ 48,183	$ (201,486)	$ (144,494)
Supplemental disclosure of noncash transactions:				
Net appreciation (depreciation) in fair value of investments	$ 64	$ (180,056)	$ -	$ (179,992)

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 2009 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 $33,416 (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 2009, 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	N/A
Buildings	100	10-60
Building Improvements	25	10-45
Equipment	5	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 54,965 contracts held by the fund as of June 30, 2009.

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 are 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.

U. Subsequent Events

The Commission has evaluated subsequent events for potential recognition and for disclosure through January 25, 2010, the date the financial statements were available to be issued.

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.

Note 3. Deposits and Investments (Continued)

A. Authorized Deposits and Investments (Continued)

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.

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.

Deposits in the custody of the State Treasurer, or in transit, totaled $110,895 at June 30, 2009. 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. As of June 30, 2009, IDAPP's locally held deposits were not exposed to custodial credit risk.

C. Investments

All investments held by the Commission as of June 30, 2009, 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 invests its funds in a manner that meets its cash flow needs while conforming to state statutes governing the investment of funds, including, without limitation, the Investment Act and all requirements/limitations of the various bond documents applicable to bonds and other securities issued by ISAC. The portfolio's maturity characteristics at June 30, 2009 are as follows:

Investment Type		Fair Value	Weighted Average Maturity (Years)
Corporate securities	$	26,154	2.8
Federal agencies		93,164	4.6
Municpal securities		4,059	26.8
Government securities		15,622	5.6
GNMA securities		52	9.0
Money market securities		46,064	0.1
Total	$	185,115	
Portfolio weighted average maturity			3.7

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, 2009, IDAPP's investments were subject to credit risk (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) as follows:

			Rating	
Investment Type		Fair Value	Standard & Poor's	Moody's
Corporate securities	$	26,154	AAA	Aaa
Federal agencies		93,164	AAA	Aaa
Municipal securities		4,059	AAA	Aa1
Money market securities		46,064	AAAm	Aaa

(All dollar amounts are expressed in thousands)

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 $185,115 and include $52 in securities which are uninsured and unregistered and held by the counterparty, and $185,062 in securities which are held by IDAPP's agent but not in IDAPP's name.

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

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, 2009, the following investments (other than U.S. Treasury or securities explicitly guaranteed by the U.S. Government) exceed 5% of IDAPP's total investment portfolio:

Investment	Fair Value	Percentage of Portfolio
Federal Farm Credit Bank	$ 21,749	11.75%
Federal Home Loan Bank	25,767	13.92%
Federal Home Loan Mortgage Corporation	16,499	8.91%
Federal National Mortgage Corporation	24,171	13.06%

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, 2009 are presented below at fair value by investment type and by investment manager.

Investment Managers
Asset Allocation
June 30, 2009

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Intermediate	Galliard Capital	$ 79,005	8.91%
Fixed Income-Core	C.S. Mckee	76,698	8.65%
Fixed Income-Core	Piedmont	30,557	3.45%
Fixed Income-Core	Pugh Capital	32,702	3.69%
Fixed Income-Intermediate	Income Research Management	81,450	9.19%
Fixed Income-Core	SSgA Passive Bonds	57,908	6.53%
TIPS Account	N/A	30,688	3.46%
Total Fixed Income Portfolio		389,008	43.88%
Large-Cap Core Equity	SSgA S&P 500 Index	108,477	12.24%
Large-Cap Value Equity	LSV Asset Management	24,541	2.77%
Large-Cap Growth Equity	Rhumb Line Advisors	90,820	10.25%
Small-Cap Value Equity	Rhumb Line Advisors	38,348	4.33%
Small-Cap Core Equity	Rhumb Line Advisors	38,226	4.30%
Total Domestic Equity		300,412	33.89%
International Core Equity	SSgA MSCI EAFE	41,102	4.64%
International Core Equity	LSV Asset Management	46,158	5.21%
Total International Equity		87,260	9.85%
Private Equity Venture	ShoreBank	9,534	1.08%
Total Private Equity		9,534	1.08%
Money Market Mutual Funds	U.S. Bank	38,781	4.38%
Total Investments		824,995	93.08%
Cash and Equivalents	N/A	61,332	6.92%
Total Cash Equivalents		61,332	6.92%
TOTAL PORTFOLIO		$ 886,327	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, 2009, 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	$ 53,179
Ineligible Securities Liquidating Trust	12,521
Deeper Discounted Securities Liquidating Trust	3,356
Illiquid Securities Liquidating Trust	3,275
	$ 72,331

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 Barclays Intermediate Government/Credit Index and the Barclays Aggregate Index, respectively (see schedule of investments on previous page). As of June 30, 2009, 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	BarCap Aggregate Index	BarCap Int. Government/ Credit Index
Galliard Capital	3.4 Years	N/A	3.9 Years
Income Research Management	3.7 Years	N/A	3.9 Years
SSgA	4.3 Years	4.3 Years	N/A
C.S. McKee	3.6 Years	4.3 Years	N/A
Piedmont	4.3 Years	4.3 Years	N/A
Pugh Capital	4.1 Years	4.3 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 bills	$ 1,703	0.4
U.S. treasury notes	23,496	5.3
U.S. treasury bonds	45,310	10.7
Federal agencies bonds and notes	30,524	11.4
U.S. agency asset-backed securities	471	31.4
Municipal Debt	10,267	4.6
Corporate debt securities	113,229	6.4
Corporate asset-backed securities	7,683	6.4
Other debt securities	949	12.7
Passive bond index funds	57,908	6.6
Corporate mortgage-backed securities	13,739	30.4
Mortgage backed securities:		
Pass through (fixed rate, adjustable rate)	51,476	16.7
Collateralized mortgage obligations	7,108	19.9
Delegated underwriting and servicing bonds and surety bonds	22,718	5.7
Money market mutual funds	41,208	0.2
Equity in public Treasurer's investment pool (Illinois Funds)	1,469	0.0
Total Fair Value	$ 429,258	
Portfolio weighted average maturity		8.7

(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)
Ineligible Securities Liquidating Trust	$	12,521	255.2
Deeper Discounted Securities Liquidating Trust		3,356	112.0

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, 2009, 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, 2009

			Credit Rating*		
		Total Fair Value	Moody's	Standard & Poor's	Fitch
U.S. Agency asset-backed securities	$	471	Baa3	NR	NR
Other debt securities		949	Aaa	AAA	AAA
Mortgage-backed securities (collateralized and delegated)		29,826	Aaa	AAA	AAA
Passive Bond Index funds		57,908	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, 2009, for debt security investments that received multiple ratings.

Credit Ratings (Corporate Debt Securities)
June 30, 2009

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 1,594
	Corporate debt securities	Aa	21,721
	Corporate debt securities	A	56,219
	Corporate debt securities	Baa	32,770
	Corporate debt securities	Ba	536
	Corporate debt securities	NR	389
			113,229
Standard and Poors:	Corporate debt securities	AAA	2,380
	Corporate debt securities	AA	14,075
	Corporate debt securities	A	65,122
	Corporate debt securities	BBB	30,268
	Corporate debt securities	BB	233
	Corporate debt securities	B	295
	Corporate debt securities	NR	856
			113,229
Fitch:	Corporate debt securities	AAA	423
	Corporate debt securities	AA	14,558
	Corporate debt securities	A	54,404
	Corporate debt securities	BBB	25,121
	Corporate debt securities	BB	528
	Corporate debt securities	NR	18,195
			113,229

* 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 Securities)
June 30, 2009

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate asset-backed securities	Aaa	$ 7,239
	Corporate asset-backed securities	Caa	115
	Corporate asset-backed securities	NR	329
			7,683
Standard and Poors:	Corporate asset-backed securities	AAA	6,790
	Corporate asset-backed securities	AA	329
	Corporate asset-backed securities	D	115
	Corporate asset-backed securities	NR	449
			7,683
Fitch:	Corporate asset-backed securities	AAA	4,981
	Corporate asset-backed securities	AA	329
	Corporate asset-backed securities	NR	2,373
			7,683

* 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 and Other Corporate Mortgage-Backed Securities)
June 30, 2009

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Municipal Debt	Aaa	$ 3,120
	Municipal Debt	Aa	5,043
	Municipal Debt	A	978
	Municipal Debt	Baa	553
	Municipal Debt	NR	573
			10,267
Standard and Poors:	Municipal Debt	AAA	2,706
	Municipal Debt	AA	6,190
	Municipal Debt	A	1,056
	Municipal Debt	NR	315
			10,267
Fitch:	Municipal Debt	AA	255
	Municipal Debt	BB	1,909
	Municipal Debt	NR	8,103
			10,267
Moody's:	Other CMBS	Aaa	12,766
	Other CMBS	NR	973
			13,739
Standard and Poors:	Other CMBS	AAA	12,167
	Other CMBS	NR	1,572
			13,739
Fitch:	Other CMBS	AAA	7,452
	Other CMBS	NR	6,287
			13,739

* NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

D. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (MBS Pass Through and Federal Agencies Bonds and Notes)
June 30, 2009

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	MBS-Pass Through	Aaa	$ 50,407
	MBS-Pass Through	Aa	529
	MBS-Pass Through	A	75
	MBS-Pass Through	Caa	465
			51,476
Standard and Poors:	MBS-Pass Through	AAA	51,344
	MBS-Pass Through	AA	132
			51,476
Fitch:	MBS-Pass Through	AAA	42,322
	MBS-Pass Through	NR	9,154
			51,476
Moody's:	Fed Agencies Bonds and Notes	Aaa	30,524
Standard and Poors:	Fed Agencies Bonds and Notes	AAA	29,341
	Fed Agencies Bonds and Notes	AA	857
	Fed Agencies Bonds and Notes	A	326
			30,524
Fitch:	Fed Agencies Bonds and Notes	AAA	29,038
	Fed Agencies Bonds and Notes	AA	326
	Fed Agencies Bonds and Notes	NR	1,160
			30,524

* NR - not rated

Note 3. Deposits and Investments (Continued)

E. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Securities Lending Collateral

The liquidating trusts consisting of debt securities were not rated.

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, 2009, investments of cash collateral under the securities lending program ($72,300) were held by the counterparty in the Program's name. These investments are not 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, 2009.

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, 2009, 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 terms 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 Commission's 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, 2009, the market value of securities on loan was $74,672, and the value of cash collateral invested was $72,231. Liabilities to the borrowers totaled $77,663. The approximate $5,300 decline in the fair value of the invested cash collateral has been recorded as a loss and is reported as a component of investment income (loss) 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 $43,210 as of June 30, 2009.

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, 1993 are guaranteed at 100% by Guarantors in accordance with the Higher Education Act. For loans disbursed between October 1, 1993 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 was $336,009 at June 30, 2009.

ED has issued detailed loan servicing requirements, which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. Management has identified loan-servicing deficiencies, which may result in loans that will not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $7,454 as of June 30, 2009, which includes the amount collected from borrowers as an insurance fee for the Alternative Loans.

In addition, the net student loans receivable at June 30, 2009 of $1,200,036 includes $2,389 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, 2009.

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 2009 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.

(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, 2009 as reported by ISAC was $46,181. Restricted net assets, which include $35,319 of claims in process, was $55,660. 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 collectability of the non-federal reinsurance amount (i.e. 5% to 25%) of the IDAPP's net student loans receivable of $1,200,036 at June 30, 2009 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 or IDAPP owes the federal government 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 payable at June 30, 2009 was $2,677.

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. In addition IDAPP owes the federal government excess interest on the portfolio.

Federal interest benefits	$	10,348
Special allowance payments		2,675
Excess interest		(14,914)
Net amount paid to Department of Education	$	(1,891)

Note 7. Interfund Balances and Activity

A. Balances Due To / From Other Funds

The following balances at June 30, 2009 represent amounts due from other ISAC and State of Illinois funds.

Fund	Due from Primary Government Funds: ISAC	Due from Primary Government Funds: Other State	Due from Component Units	Description/Purpose
General Revenue	$ 81	$ -	$ -	Due from Accounts Receivable Fund for share of collections.
	4	-	-	Due from Student Loan Operating Fund for share of defaulted collections.
	85	-	-	
Illinois Designated Account Purchase Program	1,724	-	-	Due from Federal Student Loan Fund for default claims receivable.
Nonmajor Proprietary - Federal Student Loan	16	-	-	Due from IDAPP for lender refunds for default claims paid.
Student Loan Operating	3,211	-	-	Due from IDAPP for shared services.
	3,227	-	-	
	$ 5,036	$ -	$ -	

(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, 2009 represent amounts due to other ISAC and State of Illinois funds.

Fund	Due to Primary Government Funds: ISAC	Due to Primary Government Funds: Other State	Due to Component Units	Description/Purpose
General Revenue	$ -	$ -	$ 142	Due to State universities for scholarship and MAP grants.
Illinois Designated Account Purchase Program	16	-	-	Due to Federal Student Loan Fund for lender refunds for default claims paid.
	3,211	-	-	Due to Student Loan Operating Fund for shared services.
	-	7	-	Due to Auditor General for audit of loan purchase trust fund.
	-	-	151	Due to State universities for student loan premiums.
	3,227	7	151	
Nonmajor Governmental - ISAC Accounts Receivable	81	-	-	Due to the General Revenue Fund for its share of collections.
Nonmajor Proprietary - Federal Student Loan	1,724	-	-	Due to IDAPP for default claims payable.
Student Loan Operating	-	255	-	Due to Central Management Services for EDP, communications, garage and Auditor General for audit of federal programs.
	4	-	-	Due to General Revenue Fund for share of defaulted collections.
Illinois Prepaid Tuition Program	-	85	-	Due to Auditor General for audit of prepaid program.
	-	3	-	Due to Central Management Services for communications and garage.
	-	-	13	Due to State universities for payment of tuition contracts.
	1,728	343	13	
	$ 5,036	$ 350	$ 306	

(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, 2009 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General Revenue	$ 179	Transfer from Student Loan Operating Fund and ISAC Accounts Receivable Fund for share of receivable collections.
Nonmajor Governmental-ISAC COP Debt Service	1,939	Transfer from the Student Loan Operating Fund and the Illinois Prepaid Tuition Fund for lease payments.
	$ 2,118	

Interfund transfers out for the year ended June 30, 2009 were as follows:

Fund	Transfers Out To Other ISAC Funds	Description/Purpose
Illinois Prepaid Tuition Program	$ 31	Transfer to the ISAC COP Debt Service Fund for lease payments.
Nonmajor Governmental - ISAC Accounts Receivable	175	Transfer to General Revenue Account for share of receivable collections.
Nonmajor Proprietary - Student Loan Operating	1,908	Transfer to ISAC COP Debt Service Fund for lease payments.
	4	Transfer to General Revenue Account for share of receivable collections.
	$ 2,118	

(All dollar amounts are expressed in thousands)

Note 8. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	1,143	-	(529)	614
Total capital assets being depreciated	19,454	-	(529)	18,925
Less accumulated depreciation:				
Buildings	(7,555)	(458)	-	(8,013)
Equipment	(1,142)	-	529	(613)
Total accumulated depreciation	(8,697)	(458)	529	(8,626)
Total capital assets being depreciated, net	10,757	(458)	-	10,299
Govermental activities capital assets, net	$ 13,457	$ (458)	$ -	$ 12,999
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 514	$ 30	$ -	$ 544
Less accumulated depreciation:				
Equipment	(497)	(13)	-	(510)
Total capital assets being depreciated, net	17	17	-	34
Nonmajor Enterprise Funds:				
Capital assets being depreciated:				
Equipment and automobiles	883	174	(56)	1,001
Less accumulated depreciation:				
Equipment and automobiles	(747)	(121)	56	(812)
Total capital assets being depreciated, net	136	53	-	189
Business-type activities capital assets, net	$ 153	$ 70	$ -	$ 223

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2009 amounted to $458. 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 (1.92% at June 30, 2009). 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 auction rate" which, as defined in the 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), 1.5% (for "A" rated bonds), 1.75% (for bonds rated below the lowest category of "A") and one-month LIBOR plus 1.5%. The average maximum rate at June 30, 2009 was 1.92%. 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 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 $1.4 billion. Interest paid for the current year was $17,473 and total related student loan principal and interest received were $88,722 and $15,487, respectively.

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). Funds from the bond sales were 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. The Series 2008B bonds were sold for $40,050 on December 15, 2008. The Series 2008C bonds were sold for $16,000 on March 27, 2009. Interest on the bonds is set at "AA" Financial Commercial Paper Rate plus 80 basis points. The principal of $96,100 and interest of $1,206 was paid off on August 11, 2009.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

A. Revenue Bonds Payable and Pledged Revenues (Continued)

On May 19, 2009, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell $50,000 Student Loan Revenue Bonds, Series 2009 (State Guaranteed). The bonds mature on May 1, 2014 and bear interest at the rate of 3.15% per annum. The interest on the bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. The proceeds of the bonds will fund (a) the financing of eligible loans to the extent permitted under the Indenture, (b) fund, together with certain funds provided by ISAC, a debt service reserve fund, and (c) pay cost of issuance of the bonds.

B. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2009, were as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Amounts Due Within One Year
Governmental activities:					
Nonmajor Governmental fund:					
Installment purchase obligations	$ 8,365	$ -	$ (1,510)	$ 6,855	$ 1,585
Business-type activities:					
Illinois Designated Account Purchase Program:					
Revenue bonds payable	$ 884,400	$ 146,100	$ -	$ 1,030,500	$ 96,100
Unamortized discounts	(4,959)	(340)	2,099	(3,200)	-
Other long-term obligations:					
Compensated absences	610	388	(399)	599	449
Total Illinois Designated Account Purchase Program	880,051	146,148	1,700	1,027,899	96,549
Illinois Prepaid Tuition Program:					
Compensated absences	79	68	(79)	68	7
Tuition payable	828,100	114,320	(57,935)	884,485	55,050
Accreted tuition payable	274,306	67,775	(4,712)	337,369	4,950
Total Illinois Prepaid Tuition Program	1,102,485	182,163	(62,726)	1,221,922	60,007
Nonmajor Enterprise Fund:					
Compensated Absences	2,575	1,675	(1,589)	2,661	267
Total business-type activities	$ 1,985,111	$ 329,986	$ (62,615)	$ 2,252,482	$ 156,823

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

C. Bond Covenant Non-compliance

Certain bond indentures require IDAPP to deliver to bond trustees audited financial statements within 150 days after its fiscal year ended June 30, 2009. 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.

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
2010	$ 96,100	$ 18,345	$ 114,445
2011	-	17,257	17,257
2012	-	17,257	17,257
2013	-	17,257	17,257
2014	50,000	17,257	67,257
2015-2019	-	78,412	78,412
2020-2024	-	78,412	78,412
2025-2029	-	78,412	78,412
2030-2034	-	78,412	78,412
2035-2039	-	78,412	78,412
2040-2044	284,400	72,369	356,769
2045	600,000	7,672	607,672
	1,030,500	$ 559,474	$ 1,589,974
Less:			
Unamortized bond discounts	(3,200)		
Net long-term principal outstanding	$ 1,027,300		

A majority of IDAPP's debt outstanding revenue bonds are comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the current interest rate of 1.92% 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, 2009, is as follows:

Balance as of July 1, 2008	$	828,100
Add:		
Contributions		114,320
Less:		
Return of contributions		(8,792)
Tuition payments		(49,143)
Balance as of June 30, 2009	$	884,485
Reported as:		
Current	$	55,050
Noncurrent		829,435
	$	884,485

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 2009 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.25% and is based on the average increase in tuition for Illinois colleges.

Average tuition payable balance over the year	$	829,819
Estimate of 8.25% increase of tuition payable	$	68,460
Present value	$	67,775
Beginning balance accreted tuition payable as of July 1, 2008	$	274,306
Accretion expense		67,775
Accretion payments		(4,712)
Ending balance accreted tuition payable as of June 30, 2009	$	337,369
Reported as:		
Current	$	4,950
Noncurrent		332,419
	$	337,369

(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, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 1,585	$ 354	$ 1,939
2011	1,670	273	1,943
2012	1,755	188	1,943
2013	1,845	97	1,942
	$ 6,855	$ 912	$ 7,767

(All dollar amounts are expressed in thousands)

Note 10. Mid-Term Credit Facility and Short Term Revolving Credit Line and Pledged Revenues

On July 27, 2007, ISAC entered into a $500,000 Mid-Term Asset Backed Commercial Paper Program through an affiliate of Citibank, CIESCO, LLC. 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. Management anticipates reducing the size of the Program from time to time as is deemed feasible. During the Liquidation Period, costs of borrowing under the Program will not exceed Citibank's commercial paper rate plus 43 basis points for dealer commission. Bank of New York Trust Company, N.A. is Trustee.

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 2009 there was $34,344 in principal and $12,161 in interest collected. The total amount transferred to the trust was $46,505. During the same period the trust paid $10,704 for interest expense and other professional fees and $3,279 for servicing fees.

On December 22, 2008, ISAC/IDAPP executed a $7,000 credit and security agreement with ShoreBank. The revolving credit line was used for the purchase or origination of student loans under the Capstone program established in 2007. The credit line currently has a 5% interest rate and matures on December 22, 2010. Changes in the revolving credit lines are as follows:

	Balance, July 1, 2008	Additions	Deletions	Balance, June 30, 2009	Amounts Due Within One Year
Citibank	$ 390,770	$ 48,747	$ (43,560)	$ 395,957	$ 395,957
ShoreBank	-	2,990	-	2,990	2,990
	$ 390,770	$ 51,737	$ (43,560)	$ 398,947	$ 398,947

Due to an inconsistency between the Citibank Indenture and the monthly Coverage Condition Certificate that is submitted to Citibank, IDAPP believes that it is in breach of the Coverage Condition. Since the Coverage Condition cannot be satisfied within 2 business days this would qualify as an Event of Termination which Citibank would then be eligible for remedies under the Indenture.

IDAPP has notified Citibank of this inconsistency. As of January 25, 2010, IDAPP has not heard from Citibank as to what their course of action will be.

As a result of the Citibank breach, the ShoreBank Credit and Security Agreement was considered to be in default. ShoreBank has granted IDAPP a deferment of exercising its rights in connection with such default until January 30, 2010. ShoreBank and IDAPP have also agreed to reduce the commitment from $7,000 to $4,700.

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, 2009.

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 General Revenue Fund, Student Loan Operating Fund, 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 2009 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009. 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 2009, 2008 and 2007, the employer contribution rate was 21.0%, 16.6% and 11.5%, respectively. For fiscal years 2009, 2008 and 2007, the required and actual contribution was $4,467, $3,743 and $2,780, 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.

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.

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 estimated actuarially determined deficit for *College Illinois!®,* the State's section 529 prepaid tuition program, as of June 30, 2009, is $515,557.

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.

Note 14. Fund Deficits (Continued)

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 reevaluated for FY2010 and beyond. Each year when setting plan prices, the Commission reviews the assumptions that influence the actuarial deficit. The program opened on November 1, 2009 for its first year-round enrollment in the program's history. Contract prices 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.

Investment performance lagged the assumed return for FY2009 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 FY2009. 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.

The Commission also approved changes to the program's investment policy in June 2009. Those changes are designed to reduce the volatility in returns and to enhance performance over time. Consistent with past Commission action, the ultimate goal is to eliminate the current actuarial deficit over time.

In September 2009, ISAC's Commissioners approved new prices for 2009-2010 which reflect ISAC's ongoing efforts 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 5,500.

(All dollar amounts are expressed in thousands)

Note 14. Fund Deficits (Continued)

The Actuary's Report on Soundness as of June 30, 2009 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, 2010 and the program's assets are projected to cover expected benefit payments through fiscal year 2018. The report also highlights a continuing business scenario based on current point estimate and future contract sales projected by the Commission. Based on this scenario, the soundness of the program would improve over time.

	Actuarial Evaluation (Unaudited)
Net assets, before tuition/accretion payable	$ 880,194
Actuarial present value of future payments expected to be made by contract purchasers	196,581
Subtotal	1,076,775
Actuarial present value of future payments expected to be made by the program	1,592,332
Actuarial deficit as of June 30, 2009	$ (515,557)

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 $135 in 2009.

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. This program ended during fiscal year 2009. IDAPP is committed to disbursing the funds for the FFELP loans purchased by these lenders. The remaining obligation under these purchase agreements is estimated to be approximately $43,000. The total amount of loans purchased by IDAPP with all lenders in FY2009 was approximately $36,000.

Note 16. Commitments and Contingencies (Continued)

The Commission receives grants from the federal government, which are subject to review and audit by federal grantor agencies. The Commission is 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 $1,500.

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 $13,500. 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.

Note 17. New Governmental Accounting Standards (Continued)

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was established to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Commission is required to implement this Statement for the year ending June 30, 2011.

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

Guaranty Bank Settlement

On December 16, 2008, IDAPP entered into an agreement with Guaranty Bank to settle a difference regarding the Loan Purchase Agreement between the two parties. As part of the Loan Purchase Agreement, Guaranty Bank was holding approximately $4,700 in Deposited Funds. The settlement agreement stipulated that Guaranty Bank would disburse $2,000 to IDAPP with the remaining Deposited Funds paid to the bank. The amount paid to the bank was $2,730.

Note 19. Subsequent Events

Illinois Designated Account Purchase Program

A. Sale of Bonds to Credit Union

On August 13, 2009, ISAC entered into a Bond Purchase Agreement with a group of Illinois Credit Unions to sell Taxable Student Loan Revenue Bonds (Series 2009A, Series 2009B, and Series 2009C) for an aggregate amount up to, but not to exceed $110,400. Funds from the bond sales will be used to support the Federal Family Education Loan Program (FFELP) student loans for the 2009 - 2010 school year. On August 13, 2009, ISAC sold the first in the series of bonds and received $44,175. The Series 2009B bonds were sold for $44,175 on December 15, 2009. The Series 2009C bonds can be sold for up to $22,050 on or about March 31, 2010. 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 10, 2010. An Indenture of Trust and Credit Agreement was also signed August 1, 2009 with Wells Fargo Bank, NA to serve as trustee.

B. National Education Servicing Settlement

In August 2009, ISAC, National Education Servicing, LLC (NatEd) and National Ed Financing LLC (NatEd SPV) entered into a Termination and Settlement Agreement. The agreement satisfied the parties desire to terminate their earlier agreements and settle any and all monetary claims from the agreements and to mutually release each other from any and all claims arising under or relating to the earlier agreements. ISAC owed past servicing costs of $3,677 to NatEd and NatEd SPV while NatEd and NatEd SPV owed other miscellaneous amounts to ISAC of $4,516. The parties agreed to make payments to an Escrow Agent with NatEd SPV paying $1,192 while ISAC paid $353. On August 27, 2009, the Escrow Agent paid $1,192 to ISAC and $353 to NatEd SPV.

Note 19. Subsequent Events (Continued)

C. Department of Education Loan Purchase Program

The provisions of the 2008A, B & C Taxable Student Loan Revenue Bonds Indenture required IDAPP to sell the loans held under this Indenture to the Department of Education (DOE) pursuant to IDAPP's Master Loan Sale Agreement with the DOE. As a result of this agreement, IDAPP sold $79,291 of loans to the DOE. The proceeds of the Loan Purchase Program (PUT) and the existing cash in the Trust at the time of sale were used to payoff the principal of $96,100 and interest of $1,206 on August 11, 2009.

D. EdFinancial Services Outsourcing

In September 2009 IDAPP signed an agreement with EdFinancial Services, LLC for the outsourcing of the loan origination and servicing components of the FFELP portion of IDAPP's portfolio. The term of the agreement is for 5 years. As a result of this agreement and the need to get IDAPP's expenses in line with revenues, IDAPP will be reducing its headcount. The first reduction in force was completed in September 2009 and was comprised of 9 positions. The second reduction is contingent upon the portfolios being de-converted from the existing servicers and transferred to the EdFinancial system. It is estimated that 50-55 positions will be impacted by that reduction.

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Budgetary Comparisons Schedule - Major Governmental Funds - General Fund
Year Ended June 30, 2009
(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	$ 28,855	$ 28,855	$ 24,137	$ -	$ 24,137
Education Assistance Account	400,349	400,349	399,990	-	399,990
Combined totals	429,204	429,204	424,127	-	424,127
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General Revenue Account	28,855	28,855	24,006	-	24,006
Education Assistance Account	400,349	400,349	399,990	-	399,990
Combined totals	429,204	429,204	423,996	-	423,996
Excess of revenues over expenditures	-	-	131	-	131
Other sources of financial resources					
Transfers in/General Revenue Account	-	-	179	-	179
Net change in fund balance	-	-	310	-	310
Fund balance, July 1, 2008	-	-	5,120	-	5,120
Fund balance, June 30, 2009	$ -	$ -	$ 5,430	$ -	$ 5,430

See Notes to Required Supplementary Information.

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	$ 24,137
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	$ 24,137

State of Illinois
Illinois Student Assistance Commission

Combining Schedule of Accounts
General Fund
June 30, 2009
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Assets			
Unexpended appropriations	$ 240	$ 29	$ 269
Cash and cash equivalents	1	-	1
Due from other ISAC funds	85	-	85
Notes receivable, net of allowances	5,344	-	5,344
Total assets	$ 5,670	$ 29	$ 5,699
Liabilities			
Accounts payable and accrued liabilities	$ 98	$ 29	$ 127
Due to State of Illinois component units	142	-	142
Total liabilities	240	29	269
Fund Balances			
Reserved for notes receivable	5,344	-	5,344
Unreserved	86	-	86
Total fund balances	5,430	-	5,430
Total liabilities and fund balances	$ 5,670	$ 29	$ 5,699

State of Illinois
Illinois Student Assistance Commission

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Year Ended June 30, 2009
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Revenues			
Other	$ 5	$ -	$ 5
Expenditures			
Education			
Scholarships, awards and grants	24,006	399,990	423,996
Deficiency of revenues over expenditures	(24,001)	(399,990)	(423,991)
Other sources (uses) of financial resources			
Appropriations from State resources	28,855	400,349	429,204
Lapsed appropriations	(2,590)	(359)	(2,949)
Receipts remitted to State Treasury	(1,965)	-	(1,965)
Amount of SAMS transfer in	(168)	-	(168)
Transfers in	179	-	179
Net other sources (uses) of financial resources	24,311	399,990	424,301
Net change in fund balance	310	-	310
Fund balance, July 1, 2008	5,120	-	5,120
Fund balance, June 30, 2009	$ 5,430	$ -	$ 5,430

State of Illinois
Illinois Student Assistance Commission

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009
(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	$ -	$ 343	$ 98
Receivables			
Other	-	1	-
Total assets	$ -	$ 344	$ 98
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	$ -	$ -	$ 2
Due to other ISAC funds	-	-	81
Deferred revenue	-	16	-
Due to U.S. Department of Education			
Other	-	328	-
Total liabilities	-	344	83
Fund balances			
Unreserved	-	-	15
Total liabilities and fund balances	$ -	$ 344	$ 98

Special Revenue Funds							
College Access Challenge Grant	Future Teacher Corp	University Grant	Contract and Grant	Optometric Education	Total	Debt Service Fund I S A C COP	Total Nonmajor Governmental Funds
$ -	$ 104	$ 77	$ 207	$ -	$ 829	$ -	$ 829
84	-	-	-	-	85	-	85
$ 84	$ 104	$ 77	$ 207	$ -	$ 914	$ -	$ 914
$ 84	$ -	$ -	$ 15	$ -	$ 101	$ -	$ 101
-	-	-	-	-	81	-	81
-	-	-	192	-	208	-	208
-	-	-	-	-	328	-	328
84	-	-	207	-	718	-	718
-	104	77	-	-	196	-	196
$ 84	$ 104	$ 77	$ 207	$ -	$ 914	$ -	$ 914

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2009
(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	$ 4,023	$ 1,808	$ -
Other	-	-	228
Total revenues	4,023	1,808	228
Expenditures			
Education			
Scholarships, awards and grants	4,023	1,808	76
Debt Service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	4,023	1,808	76
Excess (deficiency) of revenues over expenditures	-	-	152
Other sources (uses) of financial resources			
Appropriations from State resources	-	-	-
Transfers in	-	-	-
Transfers out	-	-	(175)
Net other sources (uses) of financial resources	-	-	(175)
Net change in fund balance	-	-	(23)
Fund balance, July 1, 2008	-	-	38
Fund balance, June 30, 2009	$ -	$ -	$ 15

Special Revenue Funds						Debt Service Fund	
College Access Challenge Grant	Future Teacher Corp	University Grant	Contract and Grant	Optometric Education	Total	I S A C COP	Total Nonmajor Governmental Funds
$ 84	$ -	$ -	$ -	$ -	$ 5,915	$ -	$ 5,915
-	-	27	76	-	331	-	331
84	-	27	76	-	6,246	-	6,246
84	-	53	76	52	6,172	-	6,172
-	-	-	-	-	-	1,510	1,510
-	-	-	-	-	-	429	429
84	-	53	76	52	6,172	1,939	8,111
-	-	(26)	-	(52)	74	(1,939)	(1,865)
-	104	52	-	52	208	-	208
-	-	-	-	-	-	1,939	1,939
-	-	-	-	-	(175)	-	(175)
-	104	52	-	52	33	1,939	1,972
-	104	26	-	-	107	-	107
-	-	51	-	-	89	-	89
$ -	$ 104	$ 77	$ -	$ -	$ 196	$ -	$ 196

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2009
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Assets				
Current				
Cash and cash equivalents	$ 5,143	$ 46,181	$ -	$ 51,324
Receivables				
Intergovernmental	1,471	35,319	-	36,790
Accrued interest on investments	4	27	-	31
Default fee	-	136	-	136
Due from other ISAC funds	3,211	16	-	3,227
Due from Federal Student Loan fund	972	-	(972)	-
Due from Student Loan Operating fund	-	90	(90)	-
Total current assets	10,801	81,769	(1,062)	91,508
Noncurrent				
Capital assets, net of accumulated depreciation	189	-	-	189
Due from Student Loan Operating fund - Deferred charges	-	3,455	(3,455)	-
Total noncurrent assets	189	3,455	(3,455)	189
Total assets	$ 10,990	$ 85,224	$ (4,517)	$ 91,697
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 930	$ 16,236	$ -	$ 17,166
Due to other ISAC funds	4	1,724	-	1,728
Due to Federal Student Loan fund	90	-	(90)	-
Due to Student Loan Operating fund	-	972	(972)	-
Due to other State funds	255	-	-	255
Intergovernmental payable	-	10,632	-	10,632
Compensated absences	267	-	-	267
Total current liabilities	1,546	29,564	(1,062)	30,048
Noncurrent				
Due to Federal Student Loan fund - deferred revenue	3,455	-	(3,455)	-
Compensated absences	2,394	-	-	2,394
Total noncurrent liabilities	5,849	-	(3,455)	2,394
Total liabilities	7,395	29,564	(4,517)	32,442

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds (Continued)
June 30, 2009
(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	$ 189	$ -	$ -	$ 189
Restricted	-	55,660	-	55,660
Unrestricted	3,406	-	-	3,406
Total net assets	3,595	55,660	-	59,255
Total liabilities and net assets	$ 10,990	$ 85,224	$ (4,517)	$ 91,697

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses and Changes in Net Assets -
Nonmajor Enterprise Funds
Year Ended June 30, 2009
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Operating revenues			
Loan processing and issuance fees	$ 1,857	$ -	$ 1,857
Portfolio maintenance fee	4,657	-	4,657
Direct consolidation fees	5,821	-	5,821
Licenses and fees	-	3,415	3,415
Collections on student loans previously reimbursed by the U.S. Department of Education	-	16,341	16,341
Other	9	-	9
Total operating revenues	12,344	19,756	32,100
Operating expenses			
Salaries and employee benefits	22,013	-	22,013
Loan guarantee	-	199,964	199,964
Management and professional services	9,050	-	9,050
Depreciation	121	-	121
Total operating expenses	31,184	199,964	231,148
Operating loss	(18,840)	(180,208)	(199,048)
Non-operating revenues			
Federal government	-	193,578	193,578
Interest revenue	295	986	1,281
	295	194,564	194,859
Income (loss) before transfers	(18,545)	14,356	(4,189)
Transfers out to other ISAC funds	(1,912)	-	(1,912)
Transfers for:			
Default fees	(1,292)	1,292	-
Collection retention fees	5,972	(5,972)	-
Repurchases/Rehabilitations/Consolidation Retention fees	10,996	(10,996)	-
Direct Consolidation fee refund	(2,646)	2,646	-
Default aversion fees	2,233	(2,233)	-
Net transfers	13,351	(15,263)	(1,912)
Change in net assets	(5,194)	(907)	(6,101)
Net assets, July 1, 2008	8,789	56,567	65,356
Net assets, June 30, 2009	$ 3,595	$ 55,660	$ 59,255

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds
Year Ended June 30, 2009
(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	$ 11,671	$ 84,337	$ 96,008
Cash payments to suppliers for goods and services	(1,867)	-	(1,867)
Cash payments to employees for services	(21,928)	-	(21,928)
Cash payments for loan guarantees	-	(205,680)	(205,680)
Cash payments for management and professional fees	(9,539)	-	(9,539)
Cash payment for other operating activities	-	(58,480)	(58,480)
Net cash used by operating activities	(21,663)	(179,823)	(201,486)
Cash flows from noncapital financing activities			
Federal government grants	-	190,169	190,169
Transfers in	19,268	4,026	23,294
Transfers out	(5,936)	(19,268)	(25,204)
Net cash provided by noncapital financing activities	13,332	174,927	188,259
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(174)	-	(174)
Cash flows from investing activities			
Interest and dividends on investments	321	1,043	1,364
Net increase (decrease) in cash and cash equivalents	(8,184)	(3,853)	(12,037)
Cash and cash equivalents, July 1, 2008	13,327	50,034	63,361
Cash and cash equivalents, June 30, 2009	$ 5,143	$ 46,181	$ 51,324

(continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds
Year Ended June 30, 2009
(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	$ (18,840)	$ (180,208)	$ (199,048)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	121	-	121
Change in assets and liabilities			
Accounts receivable	-	(33)	(33)
Intergovernmental receivables	240	-	240
Due from other funds	(3,211)	(11)	(3,222)
Accounts payable and accrued liabilities	189	(4,053)	(3,864)
Intergovernmental payables	-	3,907	3,907
Due to other funds	(211)	575	364
Due to other component units	(37)	-	(37)
Compensated absences	86	-	86
Total adjustments	(2,823)	385	(2,438)
Net cash used by operating activities	$ (21,663)	$ (179,823)	$ (201,486)

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, 2009, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated January 25, 2010. 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in finding 09-1 in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 09-2 and 09-3 in the accompanying schedule of findings to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 09-1.

We also noted certain matters which we have reported to management of the Commission in a separate letter dated January 25, 2010.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings. 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
January 25, 2010

Current Findings – *Government Auditing Standards*

Finding 09-1 Debt Covenant Violation

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) was not in compliance with one of the covenants relating to the agency's revolving credit line agreement.

During our audit of the agency's June 30, 2009 financial statements, the Illinois Designated Account Purchase Program (IDAPP) management brought to our attention that they had potentially violated one of the covenants relating to the agency's revolving credit line (loan) agreement with a bank. The non-compliance pertained to the "Coverage condition ratio" covenant. According to the line of credit agreement with the bank, the "Forbearance Excess Amount", defined as the aggregate value of all eligible student loans that are subject to forbearance, is to be used in the calculation of the coverage condition ratio covenant. When IDAPP completed the report, created by the bank, and as instructed by the bank, the report produced an inaccurate calculation of the amount for the loans in forbearance. Once the error was discovered and the Coverage condition ratio was recalculated, it resulted in a lack of compliance with the Coverage condition ratio by IDAPP.

As a result of the violation, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the event of default and, as of the end of fieldwork on October 30, 2009, had not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. Management believes the bank would have little incentive to call the line of credit and begin servicing the student loans itself, particularly because IDAPP has made all of its required payments in a timely fashion. The balance of the line of credit with the bank was $395,956,827 at June 30, 2009.

The debt covenant violation with the bank also triggered a default in one of the covenants in the loan agreement with another bank. This bank granted IDAPP a deferment from exercising its rights in connection with such default until January 30, 2010. The balance in the line of credit with this bank was $2,990,109 at June 30, 2009.

Under the terms of its various debt indentures, IDAPP is required to comply with several debt related covenants. Under a good system of internal control, effective controls should be in place to monitor these requirements and to report compliance accurately to management and lenders.

According to Commission management, the monthly report of the Coverage condition ratio was created by the bank and can only be changed by them. There were numerous emails and phone conversations between Citibank and IDAPP personnel on how to prepare the report. There were also numerous versions of the report and different methodologies to calculate the amount of forbearances. IDAPP prepared the report in accordance with the directions received from the bank.

Failure to comply with debt covenants could result in the debt becoming due and payable in advance of scheduled retirement dates. As a result of the violation, both banks may have certain remedies under the terms of the loan agreements, principal of which would be rights call the loans and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code No. 09-1)

Current Findings – *Government Auditing Standards* (Continued)

Finding 09-1 Debt Covenant Violation (Continued)

Recommendation

We recommend that IDAPP improve controls over calculation of and monitoring of debt covenants. A checklist should be developed containing all debt covenants. All covenants should be reviewed monthly for compliance and this review should be documented on the checklist. In addition, formal calculations of the covenants should be completed monthly and reviewed by management. Any instance of non-compliance should be immediately brought to the attention of management and/or the Commission Board and addressed with the appropriate financial institution in a timely fashion.

Commission Response

We accept the recommendation.

IDAPP was in full compliance with all requirements as set forth by its agreement with the lending institution. Included, as part of this compliance was the monthly completion of the Coverage Condition report, the form of such report was provided to IDAPP by the lending institution. Management completed this report as instructed by the lending institution. During its review of the report and the language of the indenture, management subsequently uncovered the potential non-compliance. As soon as the non-compliance was identified management brought it to the attention of all parties involved.

IDAPP has a master checklist that incorporates all reporting requirements of the various indentures. The checklist is monitored and maintained on a monthly basis. All of the reporting requirements are reviewed and signed off by management.

Finding 09-2 Unapplied Cash

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not apply cash collections in a timely manner.

During our analysis of the deferred credit fees account and a review of the year-end reconciliation for this account, we noted unapplied student loan payments totaling $760,113. This relates to cash received that had not yet been applied to the respective borrower loan accounts or returned to sender as of June 30, 2009. The Illinois Designated Account Purchase Program (IDAPP) has seen a large increase in cash received but unapplied. Per review of the detailed report for these cash receipts, we noted that some of the amounts unapplied date as far back as fiscal year 2003. The amount fluctuates daily and historically, month-to-month changes can occur in the hundreds of thousands of dollars.

Good internal controls require that all significant accounts be reconciled on a regular basis, preferably monthly, to underlying documentation. The Fiscal Control and Internal Auditing Act (30 ILCS 10/1002) requires each State Agency to establish and maintain an effective system of internal control, which would include controls over the financial reporting process. Cash collections should be analyzed timely and applied to existing borrowers' accounts or returned to the sender if the borrower cannot be identified.

According to Commission management, due to loan sales that have occurred over the last several years, many payments, vouchers and wires were sent to IDAPP with no supporting information or sender contact information. Upon tracking down the remitter, in many instances, IDAPP no longer owns or has never owned the underlying loans associated with the funds. Until IDAPP is instructed by the remitter on what to do with the cash receipts, the funds will remain unapplied.

The deferred credit account is a contra-asset account and is reported with the student loan receivables, as a reduction of the receivable. Failure to complete reconciliations and apply cash receipts on a timely basis could result in cash receipts not being recorded on the Commission's books and also results in the gross loan receivable amounts being misstated. The timely preparation of reconciliations is critical to ensuring that data is correctly recorded in the Commission's general ledger. In addition, for cash collection and credit review to be at an optimum level of performance, it is imperative that cash receipts be posted on a more timely basis. (Finding Code No. 09-2)

Recommendation

We recommend that all significant accounts be reconciled on a regular basis, preferably monthly, to underlying documentation. In addition, account reconciliations should be reviewed by an additional IDAPP employee to ensure that the information is accurately reported. Any necessary adjustments should be made in a timely manner. Any items unresolved for long periods of time should be investigated and reconciled promptly.

We further recommend that cash collections be posted to the respective accounts in a timely manner, in order to ensure that student loan receivable balances are accurately stated at all times. Cash receipts that are unrelated to student loan receivables should be segregated and reported separately as a liability on IDAPP's books, until resolved or returned to the remitter. Unclaimed funds more than seven years old should be reported and remitted to the State Treasurer in accordance with the Uniform Disposition of Unclaimed Property Act (765 ILCS 1025/8).

Finding 09-2 Unapplied Cash (Continued)

Commission Response

We accept the recommendation.

IDAPP management addressed the situation by creating a team of employees whose primary focus was to resolve the unapplied items. By December 31, 2009 the unapplied list was below $15,000 and the oldest items on the list are from mid-2007. IDAPP is committed to dedicating the necessary resources needed to eliminate all unapplied items.

With the transition to two external loan servicers the amount of unapplied cash received at IDAPP should be minimal. We are required to obtain SAS70 reports for the servicers and will be able to monitor any issues regarding cash processing.

Finding 09-3 Draft Financial Statements Not Completed Timely

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

During the audit entrance conference on May 26, 2009, a deadline for submission of the Illinois Designated Account Purchase Program (IDAPP)'s draft financial statements was determined and agreed to by the auditors and IDAPP management. The deadline for delivery of the complete draft financial statements to the auditors for fiscal year 2009 was October 2, 2009. An initial draft was provided to the auditors on October 9, 2009, which was incomplete and had not been fully reviewed by the agency and all parties involved with the preparation and approval of the financial statements. Changes and adjustments to the initial draft were occurring as late as November 17, 2009, 46 days after the agreed upon deadline, when several reclassification and other 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 IDAPP management, changes subsequent to the initial delivery of the draft financial statements were the result of the ongoing review of the financials by the agency and the Illinois State Comptroller's office.

Submitting incomplete and unadjusted draft financial statements delays completion of the audit process and the timely release of IDAPP's and the Commission's financial reports to users. (Finding Code No. 09-3, 08-5)

Recommendation

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

Commission Response

We accept the recommendation.

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.

Many of the reporting issues were the result of revisions being made to the Statement of Cash Flows. IDAPP management will be reviewing the procedures for changes to the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets and the impacts to the Statement of Cash Flows.

Prior Findings Not Repeated

A. Securities Lending Program Not Properly Accounted For

During our fiscal year 2008 audit, 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. (Finding Code No. 08-1)

During our fiscal year 2009 audit, we noted that the securities lending program was properly accounted for. The Commission recorded the assets, liabilities and loss related to the securities lending transactions balances on a monthly basis throughout the year. In addition, the financial statements provided to the auditors had the required securities lending disclosures.

B. Draft Financial Statements Not Accurate

During our fiscal year 2008 audit, we noted 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. (Finding Code No. 08-2)

During our fiscal year 2009 audit, we did not note the errors or omissions identified in the previous year’s financial statements, or any new material or significant misstatements in the IDAPP draft financial statements prepared by the Commission.

C. Investment Policies Not Followed

During our fiscal year 2008 audit, we noted the Illinois Designated Account Purchase Program (IDAPP) did 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. (Finding Code No. 08-3)

During our fiscal year 2009 audit, we noted that IDAPP does not have any uncollateralized deposits as of June 30, 2009. Additionally, IDAPP’s investment in a single issuer did not exceed investment policy limits.

Prior Findings Not Repeated (Continued)

D. Documentation of Journal Entry Approval is Lacking

During our fiscal year 2008 audit, we noted the Illinois Designated Account Purchase Program (IDAPP) did 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. (Finding Code No. 08-4)

During our fiscal year 2009 audit, we noted that all journal entries are now reviewed by supervisory personnel and initialed to document the review.