State of Illinois
Illinois Student Assistance Commission
Illinois Designated Account Purchase Program

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
Illinois Designated Account Purchase Program

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Agency Officials

Executive Director	Andrew Davis
Chief Financial Officer	John Sinsheimer
Director (7/1/08 – 5/15/09)	Steve Di Benedetto
Acting Director Operations (5/18/09 – Current)	Myron Kowalski
Director, Accounting and Finance	Frank Berauer

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015-5209
(847) 948-8500

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified matters involving IDAPP'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 30-34 of this report, as finding 09-1, (Debt Covenant Violation). The significant deficiencies are described in the accompanying Schedule of Findings on pages 30-34 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 IDAPP 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 Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Student Assistance Commission’s management. Our responsibility is to express an opinion 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 opinion.

As discussed in Note 2, the financial statements present only the Illinois Designated Account Purchase Program, a fund of the State of Illinois, Illinois Student Assistance Commission, and do not purport to, and do not present fairly the financial position of the State of Illinois or the Illinois Student Assistance Commission as of June 30, 2009, and its changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The State of Illinois, Illinois Student Assistance Commission has not presented a management’s discussion and analysis for the Illinois Designated Account Purchase Program that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2010 on our consideration of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Designated Account Purchase Program 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission. The schedule of bonds outstanding, listed in the table of contents as supplemental information, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
January 25, 2010

State of Illinois
Illinois Student Assistance Commission
Illinois Designated Account Purchase Program

Statement of Net Assets
June 30, 2009

Assets

Current assets - unrestricted	
Cash and cash equivalents	$ 1,078,176
Investments	52,476
Total current assets - unrestricted	1,130,652
Current assets - restricted	
Cash and cash equivalents	61,822,435
Investments	138,998,950
Notes receivable	35,693,280
Accounts receivable	
Student loans	217,367,778
Accrued interest - loans and notes	25,010,290
Accrued interest - investments	539,292
Other receivables	1,810,726
Due from other funds	1,724,448
Unamortized bond issuance cost	82,614
Total current assets - restricted	483,049,813
Noncurrent assets - unrestricted	
Depreciated capital assets, net	33,891
Noncurrent assets - restricted	
Notes receivable	7,516,387
Accounts receivable	
Student loans, net of allowance for loan losses of $7,454,039	982,668,612
Unamortized bond issuance costs	1,488,658
Total noncurrent assets - restricted	991,673,657
Total assets	1,475,888,013

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Designated Account Purchase Program

Statement of Net Assets (Continued)
June 30, 2009

Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$	1,918,445
Accrued interest payable		1,556,008
Federal special allowance and interest subsidy		2,677,059
Due to other ISAC funds		3,226,892
Due to other State funds		7,371
Due to State of Illinois component units		150,839
Compensated absences		448,954
Revenue bonds payable		96,100,000
Revolving credit line		398,946,936
Total current liabilities		505,032,504
Noncurrent liabilities		
Compensated absences		149,651
Revenue bonds payable, net		931,199,780
Total noncurrent liabilities		931,349,431
Total liabilities		1,436,381,935
Net Assets		
Invested in capital assets		33,891
Restricted		46,920,746
Unrestricted		(7,448,559)
Total net assets	$	39,506,078

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Designated Account Purchase Program

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2009

Operating revenues	
Investment income	
Interest - student loans	$ 49,494,851
Interest - investments	1,313,788
Total operating revenues	50,808,639
Operating expenses	
Interest and other student loan expenses	
Interest expense	
Student loan revenue bonds	29,903,346
Amortization of loan premiums and fees	3,513,404
Other student loan fees	2,845,888
Provision for loan losses	2,742,241
Other operating expenses	
Salaries and employee benefits	6,100,501
External loan servicing	3,515,144
Bond issuance and legal fees	200,701
Occupancy	53,670
Marketing expenses	1,133
Management and professional services	3,596,044
ISAC shared expense	4,166,755
Depreciation	13,177
Other	1,348,600
Total operating expenses	58,000,604
Operating loss	(7,191,965)
Nonoperating revenues (expenses)	
Federal special allowance and interest subsidy and excess interest expense (Note 6)	(1,891,029)
Loss before special item	(9,082,994)
Special Item (Note 16)	(2,729,897)
Change in net assets	(11,812,891)
Net assets, July 1, 2008	51,318,969
Net assets, June 30, 2009	$ 39,506,078

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Designated Account Purchase Program

Statement of Cash Flows
Year Ended June 30, 2009

Cash flows from operating activities		
Cash payments to suppliers for goods and services	$	(13,039,423)
Cash payments to employees for services		(6,112,508)
Cash receipts from other operating activities (student loans)		128,003,572
Cash payments for other operating activities (student loans)		(97,312,591)
Cash payments for bank settlement		(2,729,897)
Net cash provided by operating activities		8,809,153
Cash flows from noncapital financing activities		
Principal paid on revolving credit line		(43,560,235)
Proceeds from revenue bonds and other borrowings		196,754,748
Interest paid on revenue bonds and other borrowing		(27,679,439)
Federal special allowance and interest subsidy		2,571,732
Net cash provided by noncapital financing activities		128,086,806
Cash flows from capital and related financing activities		
Acquisition of capital assets		(29,757)
Cash flows from investing activities		
Interest received from investment securities		710,842
Purchase of investment securities		(185,439,527)
Proceeds from sale and maturities of investment securities		46,511,480
Net cash used for investing activities		(138,217,205)
Net decrease in cash and cash equivalents		(1,351,003)
Cash and cash equivalents, July 1, 2008		64,251,614
Cash and cash equivalents, June 30, 2009	$	62,900,611
Reported as:		
Current - unrestricted	$	1,078,176
Current - restricted		61,822,435
	$	62,900,611

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Designated Account Purchase Program

Statement of Cash Flows (Continued)
Year Ended June 30, 2009

Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	$	(7,191,965)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation		13,177
Interest - investments		(1,313,788)
Interest expense		29,903,346
Provision for loan loss		2,742,241
Amortization of student loan premiums and fees		3,513,404
Loss on settlement (special item)		(2,729,897)
Change in assets and liabilities		
Notes receivable		50,581,752
Accounts receivable		
Student loans		(71,253,513)
Accrued interest - loans and notes		1,554,192
Due from other funds		(575,788)
Other receivables		(223,383)
Other assets		2,806
Accounts payable and accrued expenses		414,489
Due to other State funds and component units		3,384,086
Compensated absences		(12,006)
Net cash provided by operating activities	$	8,809,153
Supplemental disclosure of noncash transactions		
Net appreciation in fair value of investments	$	63,655

See Notes to Financial Statements.

Note 1. Description of Fund

The Illinois Student Assistance Commission (ISAC) administers the nonshared proprietary fund described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The Illinois Designated Account Purchase Program (IDAPP), a program of ISAC, was created through an Act of the State of Illinois General Assembly to increase participation of eligible lenders in ISAC's Student Loan Programs by purchasing guaranteed student loans from lenders in order to reduce the lenders' collection and administrative costs. IDAPP is also an originator and servicer of student loans. IDAPP is an integral unit of the State. As such, designation of management and governing authority are determined by the Governor of the State. The State also maintains overall accountability for IDAPP's fiscal matters. Activities of IDAPP 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 and the State Comptroller's Office) as defined by the General Assembly.

The accompanying financial statements present the financial position, results of operations, and cash flows of IDAPP. IDAPP's financial statements are an integral part of the State's overall comprehensive annual financial report. IDAPP was initially funded by a state appropriation as of July 1977 and has operated on a self-sustaining basis beginning in fiscal year 1979 through the issuance of student loan revenue bonds and notes, collection of its student loans receivable, payments from the United States Department of Education for interest and special allowance, and payments from various guarantors on defaulted loans. All IDAPP funds are held locally in various banks and financial institutions. The guaranteed student loans must be purchased from eligible lenders under the Illinois Student Assistance Law and the Federal Higher Education Act of 1965. IDAPP generally does not purchase student loans, which are more than 90 days delinquent. The reimbursement rates to lenders, such as IDAPP, in the Federal Family Education Loan Program (FFELP) are 100% for loans disbursed before October 1, 1993. For loans disbursed between October 1, 1993 and prior to July 1, 2006 the loans are reimbursed at 98%. Loans disbursed after July 1, 2006 are reimbursed at 97%.

Note 2. Summary of Significant Accounting Policies

The financial statements of IDAPP as administered by ISAC 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. Reporting Entity

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.

Note 2. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Based upon the required criteria, IDAPP has no component units, nor is it a component unit of any other entity. However, because IDAPP is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a proprietary fund. 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.

The financial statements present only IDAPP as administered by the State of Illinois and ISAC, and do not purport to, and do not, present fairly the financial position of the State of Illinois or ISAC as of June 30, 2009, and changes in its financial position and cash flows, where applicable, for the year then ended in conformity with GAAP.

B. Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities (net assets) which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows have been presented for IDAPP.

Operating revenues 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. Due to the nature of IDAPP activities, income from investments and interest expense are considered operating activities in the Statement of Revenues, Expenses and Changes in Fund Net Assets. Nonoperating revenues result from nonexchange transactions (e.g. grants (subsidy payments)) or ancillary activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

C. Basis of Accounting

IDAPP is 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.

D. Revenue Recognition

Revenues from federal special allowance and interest subsidy assistance are recognized when earned. Uncollected interest income on student loans is accrued as revenue at June 30, 2009.

E. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in banks for locally held funds and securities with maturities of less than 90 days at the date of purchase. Cash and cash equivalents also include deposits held in the State Treasury.

Note 2. Summary of Significant Accounting Policies (Continued)

F. Investments

IDAPP presents investments in 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 Statement of Revenues, Expenses and Changes in Fund Net Assets.

G. 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 $50,000 (in the aggregate) are capitalized and amortized on a straight-line basis over the average remaining useful lives of the student loans. Premiums under $50,000 (in the aggregate) are expensed.

H. 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 operations, 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 external loan servicers.

I. Interfund Transactions

IDAPP has the following type of interfund transactions with other funds of the State:

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 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 Statement 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/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

Note 2. Summary of Significant Accounting Policies (Continued)

J. Capital Assets

Capital assets, which include equipment, are reported at cost. Capital assets are depreciated using the straight-line method over a period of five years. IDAPP capitalizes all equipment that has a cost or value greater than or equal to $5,000.

K. Restricted Assets

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

L. Compensated Absences

The liability for compensated absences consists of unpaid, accumulated vacation and sick leave balances for IDAPP employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are 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.

M. Bond Premiums, Discounts, and Issuance Costs

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. Amortization expense is reported as a component of interest expense in the financial statements.

N. Revenue Bonds Payable

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

O. Net Assets

Invested in capital assets - this consists of capital assets, net of accumulated depreciation, less the outstanding balances, if any, of 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.

Unrestricted - consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

Note 2. Summary of Significant Accounting Policies (Continued)

O. Net Assets (Continued)

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

P. 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.

Q. Subsequent Events

IDAPP 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. Permitted Deposits and Investments

Bond documents such as Trust Indentures 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 (Act) 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. Permitted deposits and investments under the Act include (subject to various restrictions and limitations) direct federal obligations of the United States of America, federal guaranteed obligations, participation interests in federal obligations, federal affiliated institutions, certificates of deposit, time deposits, and other bank deposits which are fully insured by the Federal Deposit Insurance Corporation or similar federal agency or which are fully collateralized, money market funds, repurchase agreements, investment agreements with financial institutions, commercial paper, state or municipal bonds, and bankers' acceptances.

B. Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State law (30 ILCS 230/26) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. IDAPP has no policy that would further limit the requirements under the law.

The State Treasury is the custodian of the State's cash and cash equivalents for IDAPP maintained in the State Treasury. IDAPP independently manages cash and cash equivalents maintained outside the State Treasury. Deposits in the custody of the State Treasurer totaled $6,512 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 addressed as to custodial credit risk because IDAPP 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.

Note 3. Deposits and Investments (Continued)

C. Investments

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	$ 26,154,240	2.8
Federal Agencies	93,163,733	4.6
Muncipal Securities	4,058,702	26.8
Government Securites	15,622,275	5.6
GNMA Securities	52,475	9.0
Money Market Securities	46,063,543	0.1
Total	$ 185,114,968	
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	$ 26,154,240	AAA	Aaa
Federal Agencies	93,163,733	AAA	Aaa
Muncipal Securities	4,058,702	AAA	Aa1
Money Market Securities	46,063,543	AAAm	Aaa

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, IDAPP 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 $185,114,969 and include $52,475 in securities which are uninsured, unregistered and held by the counterparty, and $185,062,493 in securities which are held by IDAPP's agent but not in IDAPP's name.

The investment policy authorizes IDAPP 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, and 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% or more of IDAPP's total investment portfolio:

Issuer	Fair Value	Percentage of Portfolio
Federal Farm Credit Bank	$ 21,748,888	11.75%
Federal Home Loan Bank	25,767,020	13.92%
Federal Home Loan Mortgage Corporation	16,498,820	8.91%
Federal National Mortgage Association	24,171,005	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's investment policy does not address foreign currency risk and IDAPP is not exposed to foreign currency risk.

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 $43,209,667 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 $336,009,145 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 $7,454,039 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 $1,200,036,390 includes $2,389,099 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 $50,000 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.

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 for this fund include reinsurance receipts from ED.

The cash balance in this fund as of June 30, 2009 as reported by ISAC was $46,181,116. Restricted net assets, which includes $35,318,592 of claims in process, was $55,660,494. If the federal reinsurance percentage were 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 $1,200,036,390 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 Subsidies

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 $2,677,059.

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	$ 10,347,817
Special Allowance Payments	2,675,123
Excess Interest	(14,913,969)
Net Amount Paid to DOE	$ (1,891,029)

Note 7. Interfund Balances and Activity

Balances Due from/to Other Funds

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

Fund	Amount	Description/Purpose
Federal Student Loan Fund	$ 1,724,448	Claim payments - collection of these funds are anticipated in fiscal year 2010.

Note 7. Interfund Balances and Activity (Continued)

Balances Due from/to Other Funds (Continued)

The following balances at June 30, 2009 represent amounts due to other ISAC and State funds, and other State component units.

Fund	Amount	Description/Purpose
Other ISAC Funds:		
Federal Student Loan Fund	$ 16,153	Lender refunds for default claims
Student Loan Operating Fund	3,210,739	Shared services
	$ 3,226,892	
Other State Funds:		
Audit Fund	$ 7,371	Audit fees
Other State of Illinois Component Units:	$ 150,839	Student loan premiums

Note 8. Capital Assets

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

	Equipment	Accumulated Depreciation	Capital Assets, Net
Balance, July 1, 2008	$ 514,172	$ (496,861)	$ 17,311
Additions	29,757	(13,177)	16,580
Balance, June 30, 2009	$ 543,929	$ (510,038)	$ 33,891

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.

Note 9. Long-Term Obligations Payable (Continued)

A. Revenue Bonds Payable and Pledged Revenues (Continued)

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 $17,473,392 and total related student loan principal and interest received were $88,721,888 and $15,487,417, 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 $40,050,000. The Series 2008B bonds were sold for $40,050,000 on December 15, 2008. The Series 2008C bonds were sold for $16,000,000 on March 27, 2009. Interest on the bonds is set at "AA" Financial Commercial Paper Rate plus 80 basis points. The principal of $96,100,000 and interest of $1,206,200 was paid off on August 11, 2009.

On May 19, 2009, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell $50,000,000 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.

Note 9. Long-Term Obligations Payable (Continued)

B. Changes in Long-term Obligations Payable

Changes in long-term obligations payable 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
Compensated absences payable	$ 610,611	$ 387,620	$ (399,626)	$ 598,605	$ 448,954
Revenue bonds payable	884,400,000	146,100,000	-	1,030,500,000	96,100,000
Unamortized discounts	(4,959,298)	(339,500)	2,098,578	(3,200,220)	-
	$ 880,051,313	$ 146,148,120	$ 1,698,952	$ 1,027,898,385	$ 96,548,954

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.

Note 9. Long-Term Obligations Payable (Continued)

D. Future Maturities of Revenue Bonds Payable

IDAPP issues bonds to provide funds for student loan originations and purchases. IDAPP pledges the income derived from its assets to pay debt service. Annual debt service requirements to maturity for revenue bonds are as follows (amounts in thousands):

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.

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

On July 27, 2007, ISAC entered into a $500,000,000 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 $34,343,796 in principal and $12,161,202 in interest collected. The total amount transferred to the trust was $46,504,998. During the same period the trust paid $10,703,857 for interest expense and other professional fees and $3,278,928 for servicing fees.

On December 22, 2008 ISAC/IDAPP executed a $7,000,000 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	Borrowings	Repayments	Balance, June 30, 2009	Amounts Due Within One Year
Citibank	$ 390,770,062	$ 48,747,000	$ (43,560,235)	$ 395,956,827	$ 395,956,827
ShoreBank	-	2,990,109	-	2,990,109	2,990,109
Total	$ 390,770,062	$ 51,737,109	$ (43,560,235)	$ 398,946,936	$ 398,946,936

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 can not 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.

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

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 million to $4.7 million.

Note 11. Pension Plan

Substantially all of ISAC'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. 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 SERS for fiscal year 2009 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009. SERS issues a separate CAFR that may be obtained by writing to 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 SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

IDAPP pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. IDAPP's required and actual contributions for fiscal year 2009, 2008 and 2007 were $828,291, $1,058,674 and $853,909, respectively. For fiscal year 2009, 2008 and 2007, the employer contribution rate was 21.0%, 16.6% and 11.5% , respectively.

Note 12. 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 $5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis.

Note 12. Post-Employment Benefits (Continued)

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 13. Risk Management

IDAPP, through 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.

Note 14. 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 million. The total amount of loans purchased by IDAPP with all lenders in FY2009 was approximately $36 million.

Note 15. 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. All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to these intangible assets, as applicable. The Commission is required to implement this Statement for the year ending June 30, 2010.

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

Management has not currently determined what impact, if any, these Statements may have on its financial statements.

Note 16. 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 $4.7 million in deposited funds. The settlement agreement stipulated that Guaranty Bank would disburse $2.0 million to IDAPP with the remaining deposited funds paid to the bank. The amount paid to the bank was $2,729,897 and is reported as a special item in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Note 17. Subsequent Events

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 $110,400,000. 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 $44,175,000. The Series 2009B bonds were sold for $44,175,000 on December 15, 2009. The Series 2009C bonds can be sold for up to $22,050,000 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 $3,677,535 to NatEd and NatEd SPV while NatEd and NatEd SPV owed other miscellaneous amounts to ISAC of $4,516,272. The parties agreed to make payments to an Escrow Agent with NatEd SPV paying $1,192,571 while ISAC paid $353,834. On August 27, 2009, the Escrow Agent paid $1,192,571 to ISAC and $353,834 to NatEd SPV.

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 $79,291,807 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 $96,100,000 and interest of $1,206,200 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
Illinois Designated Account Purchase Program

Schedule of Bonds Outstanding
June 30, 2009

A summary of bonds and notes outstanding at June 30, 2009 is presented as follows:

	Series 2002 I and Series 2002II	Series 2003 III 2003IV and 2003V	Series 2004 VI and 2004 VII	Series 2005 VIII and 2005 IX	2008 Series A, B, C	Series 2009
Original amount	$ 250,000,000	$ 350,000,000	$ 250,000,000	$ 600,000,000	$ 96,100,000	$ 50,000,000
Principal retirements	(150,150,000)	(240,450,000)	(175,000,000)	-	-	-
Unamortized discount	(356,722)	(365,517)	(263,280)	(1,880,876)	-	(333,826)
Balance at June 30, 2009	$ 99,493,278	$ 109,184,483	$ 74,736,720	$ 598,119,124	$ 96,100,000	$ 49,666,174
Effective interest rate (1)	Variable	Variable	Variable	Variable	Variable	Fixed
Date of bonds	8/20/02	10/2/03	4/21/04	7/19/05 12/08/05	09/23/08 12/15/08 03/27/09	05/28/09
Interest dates	Varies	Varies	Varies	Varies	08/11/2009	November 1 & May 1
Paying agents	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY	Wells Fargo Chicago, IL	Wells Fargo Chicago, IL
Optional call feature beginning:	At issuance 100%	At issuance 100%	At issuance 100%	At issuance 100%		05/01/2010 100%
Taxable/Tax-exempt	Taxable	Taxable	Taxable	Taxable	Taxable	Tax-exempt

	Total
Original amount	$ 1,596,100,000
Principal retirements	(565,600,000)
Unamortized discount	(3,200,220)
Balance at June 30, 2009	$ 1,027,299,780

Debt outstanding per Statement of Net Assets

Current portion of :	
Revenue bonds payable	$ 96,100,000
Long-term revenue bonds payable, net	931,199,780
Total debt outstanding	$ 1,027,299,780

(1) As of June 30, 2009 variable interest rates were 1.92% for taxable auction rate securities debt.

McGladrey & Pullen
Certified Public Accountants

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

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2009 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 of the Illinois Designated Account Purchase Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission'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 or deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as finding 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 Current Findings – *Government Auditing Standards*. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
January 25, 2010

Current Findings – *Government Auditing Standards*

Finding 09-1 Debt Covenant Violation

(Note: This finding is also reported in the Department-wide audit of the Illinois Student Assistance Commission)

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.

Current Findings – *Government Auditing Standards* (Continued)

Finding 09-2 Unapplied Cash

(Note: This finding is also reported in the Department-wide audit of the Illinois Student Assistance Commission)

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.

Current Findings – *Government Auditing Standards* (Continued)

Finding 09-2 Unapplied Cash (Continued)

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).

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.

Current Findings – *Government Auditing Standards* (Continued)

Finding 09-3 Draft Financial Statements Not Completed Timely

(Note: This finding is also reported in the Department-wide audit of the Illinois Student Assistance Commission)

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

(Note: Prior finding not repeated A. is reported in the Illinois Student Assistance Commission – Illinois Prepaid Tuition Program financial audit. It is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

B. Draft Financial Statements Not Accurate

(Note: This prior finding not repeated is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

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 statement prepared by the Commission.

C. Investment Policies Not Followed

(Note: This prior finding not repeated is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

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 did not have any uncollateralized deposits as of June 30, 2009. Additionally, none of IDAPP's investments in a single issuer exceeded investment policy limits.

D. Documentation of Journal Entry Approval is Lacking

(Note: This prior finding not repeated is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

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, our sample testing indicated that journal entries are now reviewed by supervisory personnel and initialed to document the review.