McGladrey & Pullen
Certified Public Accountants

State of Illinois
Illinois Student Assistance Commission

Financial Audit
For the Year Ended June 30, 2005

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

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Agency Officials

Executive Director	Larry E. Matejka
Deputy Executive Director	Kathleen T. Rooney
Chief Financial Officer	Marcia Thompson
General Counsel	Karen Salas
Director of Internal Audit	Wendy Funk

Agency offices are located at:

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Deerfield, IL 60015

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Summary

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

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

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission) as of and for the year ended June 30, 2005, which collectively comprise the State of Illinois, Illinois Student Assistance Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Illinois Student Assistance Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the Commission are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2005, 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 State of Illinois, Illinois Student Assistance Commission, as of June 30, 2005 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 State of Illinois, Illinois Student Assistance 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 our report dated November 4, 2005 on our consideration of the State of Illinois, Illinois Student Assistance 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 Budgetary Comparisons Schedule – Major Governmental Fund and Notes to Required Supplementary Information (pages 71 and 72) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 4, 2005, except for the fourth paragraph in Note 16
as to which the date is January 4, 2006 and Note 18
as to which the date is December 8, 2005

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

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, 2005, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 4, 2005. 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 State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the separately issued compliance report dated November 4, 2005 as findings 05-1 and 05-2 in the Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported in the separately issued compliance report dated November 4, 2005 as State compliance findings in the Schedule of Findings. We also noted certain immaterial instances of internal control deficiencies which we have reported to management of the Commission in a separate letter dated November 4, 2005.

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 separately issued compliance report as findings 05-1 and 05-2 in the Schedule of Findings. We also noted certain matters which are reported in the separately issued compliance report as State compliance findings in the Schedule of Findings. We also noted certain other matters which we have reported to management of the Commission in a separate letter dated November 4, 2005.

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 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
November 4, 2005, except for the fourth paragraph in Note 16
as to which the date is January 4, 2006 and Note 18
as to which the date is December 8, 2005

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
June 30, 2005
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 524	$ -	$ 524
Cash and cash equivalents	47,613	70,551	118,164
Investments	-	84	84
Receivables			
Intergovernmental	28,234	2,528	30,762
Accrued interest on investments	119	99	218
Refunds of scholarships	28	-	28
Due from other ISAC funds	175	1,659	1,834
Due from State of Illinois component units	324	-	324
Total current assets - unrestricted	77,017	74,921	151,938
Restricted			
Cash and cash equivalents	-	115,893	115,893
Investments	-	188,865	188,865
Notes receivable	-	57,713	57,713
Receivables			
Student loans	-	671,392	671,392
Accrued interest on loans	-	45,786	45,786
Accrued interest on investments	-	1,749	1,749
Other, net	-	20,316	20,316
Due from other ISAC funds	-	1,076	1,076
Total current assets - restricted	-	1,102,790	1,102,790
Non-current			
Unrestricted			
Investments	-	640,974	640,974
Due from other ISAC funds - deferred charges	6,878	-	6,878
Notes receivable	3,308	-	3,308
Capital assets, net of accumulated depreciation	14,849	389	15,238
Total non-current assets - unrestricted	25,035	641,363	666,398
Restricted			
Notes receivable	-	39,975	39,975
Student loans receivable, net	-	2,715,991	2,715,991
Unamortized cost of issuance - bonds	-	565	565
Total non-current assets - restricted	-	2,756,531	2,756,531
Total assets	$ 102,052	$ 4,575,605	$ 4,677,657

(Continued)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
June 30, 2005
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 9,385	$ 11,055	$ 20,440
Accrued interest payable	-	6,572	6,572
Tuition payable	-	20,494	20,494
Accreted tuition payable	-	1,543	1,543
Due to other ISAC funds	2,802	108	2,910
Due to other State funds	69	712	781
Due to State of Illinois components units	805	12	817
Deferred revenue	54,657	-	54,657
Intergovernmental payable	8,525	-	8,525
Compensated absences	-	364	364
Installment purchase obligation	1,310	-	1,310
Capital leases payable	-	22	22
Current portion of revenue bonds payable	-	109,850	109,850
Demand revenue notes payable	-	20,500	20,500
Total current liabilities	77,553	171,232	248,785
Non-current			
Tuition payable	-	541,780	541,780
Accreted tuition payable	-	113,787	113,787
Due to U.S. Department of Education	6,687	-	6,687
Due to other ISAC funds - deferred revenues	-	6,878	6,878
Revenue bonds payable, net	-	3,607,495	3,607,495
Installment purchase obligation	11,175	-	11,175
Compensated absences	-	3,251	3,251
Total non-current liabilities	17,862	4,273,191	4,291,053
Total liabilities	95,415	4,444,423	4,539,838
Net Assets			
Invested in capital assets, net of related debt	2,364	367	2,731
Restricted	-	114,904	114,904
Unrestricted	4,273	15,911	20,184
Total net assets	$ 6,637	$ 131,182	$ 137,819

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2005
(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	$ 382,441	$ -	$ 1,753
Loan guarantees	123,694	-	123,525
Interest	689	-	-
Total governmental activities	506,824	-	125,278
Business-type activities			
Education			
Student loans	202,514	134,632	69,874
Prepaid tuition	41,148	2,435	47,544
Total business-type activities	243,662	137,067	117,418
Total Commission	$ 750,486	$ 137,067	$ 242,696

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

Total general revenues and transfers

Change in net assets

Net assets July 1, 2004

Net assets June 30, 2005

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
$ (380,688)	$ -	$ (380,688)
(169)	-	(169)
(689)	-	(689)
(381,546)	-	(381,546)
-	1,992	1,992
-	8,831	8,831
-	10,823	10,823
(381,546)	10,823	(370,723)
381,007	-	381,007
(272)	-	(272)
-	601	601
523	-	523
-	(6,308)	(6,308)
1,396	(1,396)	-
382,654	(7,103)	375,551
1,108	3,720	4,828
5,529	127,462	132,991
$ 6,637	$ 131,182	$ 137,819

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2005
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 524	$ -	$ 524
Cash and cash equivalents	-	47,613	47,613
Intergovernmental receivables	-	28,234	28,234
Accrued interest on investments	-	119	119
Refunds of scholarships receivable	28	-	28
Due from other ISAC funds	71	104	175
Due from State of Illinois component units	311	13	324
Due from other ISAC funds - deferred charges	-	6,878	6,878
Notes receivable, net of allowances	3,308	-	3,308
Total assets	$ 4,242	$ 82,961	$ 87,203
Liabilities			
Accounts payable and accrued liabilities	$ -	$ 9,385	$ 9,385
Due to other ISAC funds	-	2,802	2,802
Due to other State funds	69	-	69
Due to State of Illinois component units	794	11	805
Deferred revenues	-	54,657	54,657
Intergovernmental payable	-	8,525	8,525
Due to U.S. Department of Education	-	6,687	6,687
Total liabilities	863	82,067	82,930
Fund Balances			
Reserved for loans and notes receivable	3,308	-	3,308
Unreserved			
General Fund	71	-	71
Special Revenue Funds	-	894	894
Total fund balances	3,379	894	4,273
Total liabilities and fund balances	$ 4,242	$ 82,961	$ 87,203

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Balance Sheet
Governmental Funds to Statement of Net Assets
June 30, 2005
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds		$ 4,273
Amounts reported for governmental activities in the Statement of Net Assets are different due to:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 2,700	
Buildings	18,311	
Equipment	1,252	
Accumulated depreciation	(7,414)	
Total capital assets		14,849
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		(12,485)
Net assets of governmental activities		$ 6,637

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, 2005
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 122,188	$ 122,188
Interest and investment income	-	1,146	1,146
Collections on student loans previously reimbursed by the U.S. Department of Education	-	1,775	1,775
Repurchase/Rehabilitation/Consolidation fees and interest	-	169	169
Other	48	475	523
Total revenues	48	125,753	125,801
Expenditures			
Education			
Scholarships, awards and grants	380,528	1,795	382,323
Loan guarantees	-	123,694	123,694
Debt Service			
Principal	-	1,255	1,255
Interest	-	689	689
Total expenditures	380,528	127,433	507,961
Deficiency of revenues over expenditures	(380,480)	(1,680)	(382,160)
Other sources (uses) of financial resources			
Appropriations from State resources	380,905	102	381,007
Receipts remitted to State Treasury	(272)	-	(272)
Transfers-in	356	1,944	2,300
Transfers-out	(552)	(352)	(904)
Net other sources (uses) of financial resources	380,437	1,694	382,131
Net change in fund balance	(43)	14	(29)
Fund balance, July 1, 2004	3,422	880	4,302
Fund balance, July 1, 2005	$ 3,379	$ 894	$ 4,273

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$	(29)
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 report depreciation expense to allocate those expenditures over the life of the assets.		(473)
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.		1,255
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in unpaid accumulated vacation and sick leave		355
Change in net assets of governmental activities	$	1,108

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Enterprise Funds
June 30, 2005
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Assets			
Current			
Unrestricted			
Cash and cash equivalents	$ 43,166	$ 27,385	$ 70,551
Investments	84	-	84
Receivables			
Intergovernmental	-	2,528	2,528
Accrued interest on investments	-	99	99
Due from other ISAC funds	-	1,659	1,659
Total current assets - unrestricted	43,250	31,671	74,921
Restricted			
Cash and cash equivalents	115,893	-	115,893
Investments	188,865	-	188,865
Notes receivable	57,713	-	57,713
Receivables			
Student loans	671,392	-	671,392
Accrued interest - loans and notes	45,786	-	45,786
Accrued interest - investments	1,749	-	1,749
Other	20,316	-	20,316
Due from other ISAC funds	1,076	-	1,076
Total current assets - restricted	1,102,790	-	1,102,790
Non-current			
Unrestricted			
Investments	-	640,974	640,974
Capital assets, net of accumulated depreciation	107	282	389
Total non-current assets - unrestricted	107	641,256	641,363
Restricted			
Notes receivable	39,975	-	39,975
Student loans receivable, net	2,715,991	-	2,715,991
Other unamortized bond issuance costs	565	-	565
Total non-current assets - restricted	2,756,531	-	2,756,531
Total assets	$ 3,902,678	$ 672,927	$ 4,575,605

(Continued)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
Enterprise Funds
June 30, 2005
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 9,654	$ 1,401	$ 11,055
Accrued interest payable	6,572	-	6,572
Tuition payable	-	20,494	20,494
Accreted tuition payable	-	1,543	1,543
Due to other ISAC funds	14	94	108
Due to other State funds	2	710	712
Due to State of Illinois component units	-	12	12
Compensated absences	98	266	364
Capital leases payable	-	22	22
Current portion of revenue bonds payable	109,850	-	109,850
Demand revenue notes payable	20,500	-	20,500
Total current liabilities	146,690	24,542	171,232
Non-current			
Tuition payable	-	541,780	541,780
Accreted tuition payable	-	113,787	113,787
Due to other ISAC funds - deferred revenues	-	6,878	6,878
Revenue bonds payable, net	3,607,495	-	3,607,495
Compensated absences	857	2,394	3,251
Total non-current liabilities	3,608,352	664,839	4,273,191
Total liabilities	3,755,042	689,381	4,444,423
Net Assets			
Invested in capital assets, net of related debt	107	260	367
Restricted	114,904	-	114,904
Unrestricted	32,625	(16,714)	15,911
Total net assets	147,636	(16,454)	131,182
Total liabilities and net assets	$ 3,902,678	$ 672,927	$ 4,575,605

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, 2005
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Operating revenues			
Investment income			
Interest - student loans	$ 97,567	$ -	$ 97,567
Interest - investments	10,167	47,335	57,502
Interest - other	-	209	209
Total investment income	107,734	47,544	155,278
Other operating revenues			
Application and other fees	-	2,435	2,435
Loan processing and issuance fees	-	4,813	4,813
Portfolio maintenance fee	-	7,559	7,559
Collection retention	-	7,870	7,870
Direct consolidation cost	-	6,695	6,695
Default aversion fee	-	1,151	1,151
Repurchase/Rehabilitation/Consolidation retention fees and interest	-	8,941	8,941
Other	-	36	36
Total other operating revenues	-	39,500	39,500
Total operating revenues	107,734	87,044	194,778
Operating expenses			
Interest and other student loan expenses			
Interest expense			
Revenue bonds	88,785	-	88,785
Demand revenue notes	2,040	-	2,040
Amortization of loan premiums and fees	16,423	-	16,423
Other student loan fees	7,098	-	7,098
Provision for loan losses	3,897	-	3,897
Total interest and other student loan expenses	118,243	-	118,243

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets (Continued)
Enterprise Funds
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Other operating expenses			
Salaries and employee benefits	$ 11,318	$ 22,143	$ 33,461
External loan servicing	21,892	-	21,892
Accreted tuition expenses	-	35,581	35,581
Line of credit fees	1,345	-	1,345
Occupancy expense	908	-	908
Marketing expenses	2,114	-	2,114
Investment management fees	-	2,156	2,156
Bond issuance and legal fees	102	-	102
Management and professional services	10,353	16,168	26,521
Depreciation	52	128	180
Other	747	392	1,139
Total other operating expenses	48,831	76,568	125,399
Total operating expenses	167,074	76,568	243,642
Operating income (loss)	(59,340)	10,476	(48,864)
Non-operating revenues (expenses)			
Federal government special allowance and interest subsidy	59,707	-	59,707
Interest revenue	-	601	601
Interest on bonds/notes payable	-	(20)	(20)
Total non-operating revenues (expenses)	59,707	581	60,288
Income before transfers	367	11,057	11,424
Transfers out	(513)	(7,191)	(7,704)
Change in net assets	(146)	3,866	3,720
Net assets, July 1, 2004	147,782	(20,320)	127,462
Net assets, June 30, 2005	$ 147,636	$ (16,454)	$ 131,182

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows
Enterprise Funds
June 30, 2005
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ -	$ 37,330	$ 37,330
Cash paid for refund of contracts and tuition payments	-	(3,924)	(3,924)
Cash payments to suppliers for goods and services	(37,311)	(2,843)	(40,154)
Cash payments to employees for services	(11,346)	(21,719)	(33,065)
Cash receipts from student loans	624,442	-	624,442
Cash receipts from prepaid tuition contracts	-	118,576	118,576
Cash payments for student loans	(1,144,685)	-	(1,144,685)
Cash payments for management and professional fees	-	(11,829)	(11,829)
Cash payments for tuition and accretion	-	(10,329)	(10,329)
Net cash provided (used) by operating activities	(568,900)	105,262	(463,638)
Cash flows from noncapital financing activities			
Proceeds from sale of revenue bonds and other borrowing	348,171	-	348,171
Principal paid on revenue bonds and other borrowing	(214,734)	-	(214,734)
Interest paid on revenue bonds and other borrowing	(87,906)	-	(87,906)
Operating grants - special allowance and interest subsidy	46,795	-	46,795
Transfers out	(513)	(7,208)	(7,721)
Net cash provided (used) by noncapital financing activities	91,813	(7,208)	84,605
Cash flows from capital and related financing activities			
Principal paid on capital debt	-	(20)	(20)
Interest paid on capital debt	-	(8)	(8)
Acquisition and construction of capital assets	-	(130)	(130)
Net cash used by capital and related financing activities	-	(158)	(158)
Cash flows from investing activities			
Purchase of investment securities	(583,645)	(207,376)	(791,021)
Proceeds from sales and maturities of investment securities	1,071,694	91,727	1,163,421
Interest and dividends on investments	17,765	14,689	32,454
Cash paid to investment managers	-	(2,155)	(2,155)
Net cash provided (used) by investing activities	505,814	(103,115)	402,699
Net increase (decrease) in cash and cash equivalents	28,727	(5,219)	23,508
Cash and cash equivalents, July 1, 2004	130,332	32,604	162,936
Cash and cash equivalents, June 30, 2005	$ 159,059	$ 27,385	$ 186,444

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows (Continued)
Enterprise Funds
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	$ (59,340)	$ 10,476	$ (48,864)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	52	128	180
Interest - investments	(10,167)	(47,544)	(57,711)
Interest expense	90,826	-	90,826
Amortization of student loan premiums and fees	16,423	-	16,423
Accreted tuition expense	-	35,581	35,581
Provisions for loan lossess	3,896	-	3,896
Investment management fee	-	2,156	2,156
Change in assets and liabilities			
Notes receivable	3,329	-	3,329
Student loans receivable	(606,165)	-	(606,165)
Intergovernmental receivables	-	(373)	(373)
Accrued interest - loans and notes	(6,378)	-	(6,378)
Due from other funds	(167)	(442)	(609)
Other assets	150	-	150
Accounts payable and accrued liabilities	(1,298)	70	(1,228)
Due to other funds	(33)	463	430
Tuition payable	-	104,323	104,323
Compensated absences	(28)	424	396
Total adjustments	(509,560)	94,786	(414,774)
Net cash provided (used) by operating activities	$ (568,900)	$ 105,262	$ (463,638)
Supplemental disclosure of noncash transactions:			
Net appreciation (depreciation) in fair value of investments	$ (3,113)	$ 33,386	$ 30,273

See Notes to Financial Statements.

Note 1. Organization

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

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

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

A. Monetary Award Program

This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provides up to $5 in fiscal year 2005 for the payment of tuition and mandatory fees. The program is funded by the General Revenue and Educational Assistance Funds appropriations.

B. Illinois Incentive for Access Program

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

C. Merit Recognition Scholarship Program

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

Note 1. Organization (Continued)

D. Robert C. Byrd Honors Scholarship Program

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

E. Ancillary Award Programs

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

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

F. Federal Family Education Loan Program (FFELP)

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

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

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

Note 1. Organization (Continued)

G. Alternative Loan Program

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

H. Higher Education License Plate Grant Program

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

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

I. College Illinois!

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

J. Illinois Designated Account Purchase Program (IDAPP)

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

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

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

Note 2. Summary of Significant Accounting Polices

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

A. Financial Reporting Entity

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

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

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

2) Fiscal dependency on the primary government.

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

Note 2. Summary of Significant Accounting Polices (Continued)

A. Financial Reporting Entity (Continued)

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

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Interest expense related to borrowing for student loaning activities (business-type activities) totaling $107,248 (including amortization) is included in student loans expense in the Statement of Activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

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

Note 2. Summary of Significant Accounting Polices (Continued)

B. Basis of Presentation (Continued)

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

For fiscal year 2005, the Commission also received appropriations through the General Fund - Educational Assistance Account. This account is a shared account and its activity attributed to the operations of the Commission has been combined with the General Revenue Account for report presentation purposes. All monies received by this fund are held in the State Treasury.

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

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

Additionally, the Commission administers the following fund types:

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

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

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

Note 2. Summary of Significant Accounting Polices (Continued)

C. Basis of Accounting

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

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

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

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

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

D. Shared Fund Presentation

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

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

Note 2. Summary of Significant Accounting Polices (Continued)

D. Shared Fund Presentation (Continued)

Unexpended Appropriation

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.

Appropriations from State Resources

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.

Lapsed Appropriations

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.

Receipts Remitted to State Treasury

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

E. Budgetary Process

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

Note 2. Summary of Significant Accounting Polices (Continued)

E. Budgetary Process (Continued)

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

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

F. Cash and Cash Equivalents

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

G. Investments

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

H. Student Loans Receivable/Premiums

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

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

I. Allowance for Possible Loan Losses

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

Note 2. Summary of Significant Accounting Polices (Continued)

I. Allowance for Possible Loan Losses (Continued)

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

J. Interfund Transactions

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

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

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

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

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

K. Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	$100,000	N/A
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Equipment	5,000	3-25

Note 2. Summary of Significant Accounting Polices (Continued)

L. Restricted Assets

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

M. Encumbrances

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

N. Compensated Absences

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

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

O. Bond Premiums, Discounts, and Issuance Costs

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

P. Revenue Bonds and Demand Revenue Notes Payable

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

Q. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 42,847 contracts held by the fund as of June 30, 2005.

Note 2. Summary of Significant Accounting Polices (Continued)

R. Fund Balances

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

S. Net Assets

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

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

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

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

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

T. Use of Estimates

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

U. Funding and Actuarial Assumptions

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

Note 2. Summary of Significant Accounting Policies (Continued)

U. Funding and Actuarial Assumptions (Continued)

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

Note 3. Deposits and Investments

During the fiscal year ended June 30, 2005, the Commission adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.*

A. Authorized Deposits and Investments

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

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

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

Note 3. Deposits and Investments (Continued)

A. Authorized Deposits and Investments (Continued)

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

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

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

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. The Commission has no policy that would further limit the requirements under State law. As of June 30, 2005, the Commission's locally held deposits were not exposed to custodial credit risk.

Deposits in the custody of the State Treasurer, or in transit, totaled $72,650 at June 30, 2005. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Commission does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments

All investments held by the Commission as of June 30, 2005 pertain to the Illinois Designated Account Purchase Program (IDAPP), a major enterprise fund, and the Illinois Prepaid Tuition Program fund, a nonmajor enterprise fund.

Illinois Designated Account Purchase Program (IDAPP)

Interest Rate Risk

IDAPP's investments are correlated to future cash needs for operations and are generally short-term in nature. A minimal amount of GNMA securities held have longer maturities, ranging from 8 to 10 years. These GNMA securities equal approximately .05% of the investments held. IDAPP's investment policy generally limits investment maturities to within two years from the date of purchase. Investments matched to a specific cash flow may exceed this limitation. The portfolio's maturity characteristics at June 30, 2005 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury Bills	$ 20,168	0.13
Fannie Mae Demand Note (FNMDD)	35,000	0.24
GNMA Securities	84	9.63
Other U.S. Agency Obligations (FNMA, FHLB, FHLMC)	133,697	0.35
Portfolio weighted average maturity	$ 188,949	0.31

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Credit Risk

IDAPP's investment policy limits the following types of investments to the top two ratings issued by nationally recognized credit rating organizations: commercial paper, state or municipal bonds, and bankers acceptances. The investment policy places no further limitations on investment credit quality. As of June 30, 2005, IDAPP's investments were subject to credit risk as follows:

		Rating	
Investment Type	Fair Value	Standard & Poors	Moody's
Fannie Mae Demand Note (FNMDD)	$ 35,000	AAA	Aaa
U.S. government agencies (FNMA, FHLMC, FHLB)	133,697	AAA	Aaa
	$ 168,697		

Custodial Credit Risk

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

The Illinois Designated Account Purchase Program investments include $188,865 of uninsured, uncollateralized and unregistered investments for which the securities are held by IDAPP's agent but not in IDAPP's name.

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

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Concentration of Credit Risk

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

As of June 30, 2005, the following investments (other than U.S. government securities, and securities explicitly guaranteed by the U.S. government) exceed 5% of IDAPP's total investment portfolio.

Investment	Fair Value	Percentage of Portfolio
Federal Home Loan Bank (FHLB)	$ 59,380	31%
Federal Home Loan Mortgage Co. (FHLMC)	48,171	25%
Federal National Mortgage Association (FNMA)	26,146	14%
Fannie Mae Demand Note (FNMDD)	35,000	19%

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

Foreign Currency Risk

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

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2005 are presented below at fair value by investment type and by investment manager.

Investment Managers
Asset Allocation
June 30, 2005

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Core	J P Morgan	$ 87,245	13.47%
Fixed Income-Intermediate	Richmond Capital Management	100,488	15.51%
Fixed Income-Core	SSgA	30,024	4.63%
Total Fixed Income Portfolio		217,757	33.61%
Large-Cap Core Equity	SSgA S&P 500 Index	96,971	14.97%
Large-Cap Value Equity	LSV Asset Management	55,123	8.51%
Large-Cap Value Equity	SSgA	56,131	8.66%
Large-Cap Growth Equity	William Blair & Company	28,035	4.33%
Large-Cap Growth Equity	Holland Capital	27,948	4.31%
Large-Cap Growth Equity	New Amsterdam Partners	27,479	4.24%
Small-Cap Core Equity	SSgA Russell 2000 Index Fund	5,144	0.79%
Small-Cap Core Equity	Wasatch Advisors	57,101	8.81%
Small-Cap Value Equity	Nicholas Applegate	18,221	2.81%
Small-Cap Value Equity	Kenwood Capital	17,609	2.72%
Total Domestic Equity Mutual Funds		389,762	60.16%
International Equity	Jarislowsky Fraser	28,388	4.38%
International Equity	MSCI EAFE Index Fund	5,066	0.78%
Total International Equity Mutual Funds		33,454	5.16%
Cash and Equivalents	N/A	6,928	1.07%
TOTAL PORTFOLIO		$ 647,901	100%

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Interest Rate Risk

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

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

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

Fixed Income Portfolio Manager	Portfolio Average Duration	LB Aggregate Index	LB Intermediate Government/ Credit Index
JP Morgan	4.4 years	4.2 years	N/A
Richmond Capital Management	3.2 years	N/A	3.7 years
SSgA	4.2 years	4.2 years	N/A

As of June 30, 2005, all portfolios are within the guidelines permitted by the investment policy.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Interest Rate Risk (Continued)

Portfolio Weighted Average Maturity

Investment Type	Fair Value	Weighted Average Maturity (in Years)
U.S. treasury notes	$ 13,626	4.8
U.S. treasury bonds	2,692	16.6
U.S. treasury strips	6,652	10.0
U.S. agency obligations	19,449	4.1
Federal agencies bonds and notes	44,070	4.8
U.S. agency asset-backed securities	3,939	3.7
Corporate debt securities	82,405	4.5
Money market mutual funds	2,433	0.1
Corporate asset-backed securities	9,150	3.1
Foreign debt securities	145	8.5
Corporate mortgage backed securities	3,175	2.9
Passive bond index fund	30,021	6.7
Total Fair Value	$ 217,757	
Portfolio Weighted Average Maturity		5.0

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk

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

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

Credit Ratings (Excludes Corporate Securities)
June 30, 2005

	Total Fair Value	Credit Rating: Moody's	Credit Rating: Standard & Poor's	Credit Rating: Fitch
U.S. agency obligations	$ 19,449	Aaa	AAA	AAA
Federal agencies bonds and notes	44,070	Aaa	AAA	AAA
U.S. agency asset-backed securities	3,939	Aaa	AAA	AAA
Money market mutual funds	2,433	Aaa	AAA	AAA
Foreign debt securities	145	Baa	BBB	BBB
Corporate mortgage backed securities	3,175	Aaa	AAA	AAA
Passive bond index fund	30,021	Aa2	AA	AA

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Corporate Debt and Asset-Backed Securities)
June 30, 2005

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 3,085
	Corporate debt securities	Aa	18,926
	Corporate debt securities	A	50,997
	Corporate debt securities	Baa	8,695
	Corporate debt securities	Ba	702
			82,405
Standard and Poors:	Corporate debt securities	AAA	3,085
	Corporate debt securities	AA	6,585
	Corporate debt securities	A	59,693
	Corporate debt securities	BBB	12,340
	Corporate debt securities	BB	702
			82,405
Fitch:	Corporate debt securities	AAA	1,550
	Corporate debt securities	AA	15,048
	Corporate debt securities	A	50,658
	Corporate debt securities	BBB	9,303
	Corporate debt securities	BB	702
	Corporate debt securities	NR	5,144
			82,405
Moody's:	Corporate asset-backed securities	Aaa	5,497
	Corporate asset-backed securities	NR	1,333
	Corporate asset-backed securities	AAA	2,320
			9,150
Fitch:	Corporate asset-backed securities	AAA	5,825
	Corporate asset-backed securities	NR	3,325
			9,150

* NR - not rated

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

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.

As of June 30, 2005, all investments were held by the Illinois Prepaid Tuition Program's agent in the Illinois Prepaid Tuition Program's name.

Concentration of Credit Risk

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

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

There were no individual securities (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) which exceeded 5% or more of the total investment portfolio as of June 30, 2005.

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, 2005, 5.16 % is invested in international equities.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Foreign Currency Risk (Continued)

The denominations of investments in foreign currency are as follows:

JF LLC International Pool Fund:

Denomination (i.e., British pound, Swiss franc, etc.)	Fair Value in U.S. Currency
United Kingdom /STL	$5,886
Japan /JPY	2,808
France/ Euro	4,959
Germany/ Euro	1,984
Switzerland/ CHF	2,700
Australia/ AS	1,357
Italy/ Euro	579
Netherlands/ Euro	2,172
Spain/ Euro	735
Sweden/ SEK	417
Canada/ CAD	1,226
Ireland/ Euro	179
Denmark/ DKK	514
Hong Kong/ HK	1,237
Cash and Cash Equivalents	1,635
Total	$28,388

SSgA MSCI EAFE Index CTF:

Denomination (i.e., British pound, Swiss franc, etc.)	Fair Value in U.S. Currency
United Kingdom /STL	$1,315
Japan /JPY	1,083
France/ Euro	497
Germany/ Euro	360
Switzerland/ CHF	351
Australia/ AS	277
Italy/ Euro	204
Netherlands/ Euro	175
Spain/ Euro	204
Sweden/ SEK	124
Ireland/ Euro	40
Denmark/ DKK	39
Hong Kong/ HK	93
Finland/Euro	75
Belgium/Euro	67
Singapore/Sin dollar	46
Norway/Euro	38
Greece/Euro	30
Austria/Euro	22
Portugal/Euro	14
New Zealand/ NZ Dollar	12
Total	$5,066

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

D. Derivatives – Interest Rate Swaps

IDAPP as of June 30, 2005 has two active interest rate swap contracts. Details are shown in the following table.

	Associated Bond Issue	
	Series 2001B*	Series 2001B*
Notional amounts	$ 150,000	$ 175,000
Effective date	7/01/2004	7/01/2005
Fixed rate paid	2.500%	3.925%
Variable rate received**	3.341%	3.341%
Fair values	$ 76	$ (124)
Swap termination date	7/01/2005	7/01/06
Counterparty credit rating	Aa2/AA+/AAA	Aa2/AA+/AAA

* Reset Auction Mode Securities, Student Loan Revenue Bonds and/or taxable debt instruments.

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

Objective of the interest rate swap

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

IDAPP entered into an interest rate exchange agreement on June 29, 2004 (the “2004 swap”) to reduce its exposure to adverse movements in interest rates related to $150,000 of PLUS loans that are in effect fixed loans for a one year period ending July 1, 2005. IDAPP did not elect to account for the 2004 swap as a hedge and the amounts to be paid or received under the 2004 swap are recognized as additions to or reductions in interest expense in the period they are incurred or received. Payments are made based on a variable rate of one month LIBOR (London Interbank Offered Rate) and IDAPP pays the counterparty based on a fixed rate of 2.50%. Both are paid on a monthly basis. During the fiscal year ended June 30, 2005 IDAPP recorded a charge of $371 to interest expense related to the 2004 swap.

A second one-year interest rate exchange agreement (the “2005 swap”) was entered into for a principal amount of $175,000. Payments will be based on a variable rate of one month LIBOR and IDAPP will pay the counterparty based on a fixed rate.

Note 3. Deposits and Investments (Continued)

D. Derivatives – Interest Rate Swaps (Continued)

Terms

The terms, fair values, and credit ratings of the swaps as of June 30, 2005 are as shown in the previous table.

Fair value

Because interest rates have fluctuated since the implementation of the swaps, the 2004 swap had a positive fair value as of June 30, 2005, while the 2005 swap had a negative fair value. Fair value was calculated using the zero coupon method. Because the coupons on IDAPP's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes.

Credit risk

As of June 30, 2005, IDAPP was not exposed to credit risk because of the negative net fair value of the swap, however, the 2005 swap had a greater negative fair value which negated the risk. IDAPP would only be exposed to credit risk in the amount of the swap's positive fair value. Fair value is a factor only upon termination.

Basis risk

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

Termination risk

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

Rollover risk

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

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

D. Derivatives – Interest Rate Swaps (Continued)

Swap payments and associated debt

As of June 30, 2005, debt service requirements of IDAPP's outstanding variable-rate debt-tied to swaps and net swap payments, assuming current interest rates remain the same, for their term are as follows:

Fiscal Year	Variable Rate Bonds		Interest Rate	
Ending	Principal	Interest	Swaps, Net	Total
2006	$ 5,600	$ 7,052	$ (54)	$ 12,598
2007	3,400	574	(2)	3,972
	$ 9,000	$ 7,626	$ (56)	$ 16,570

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 $ 98,000 as of June 30, 2005.

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 (the lender) are guaranteed at 98% by certain Guarantors in accordance with the Higher Education Act (100% for loans disbursed before October 1, 1993) and are reinsured by the United States Department of Education (ED). Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by ED. Alternative Loans are credit based and secured by insurance fees collected from the borrower at the time the loan is originated. The total amount of Alternative Loans outstanding approximated $372,400 at June 30, 2005.

Note 5. Student Loans Receivable (Continued)

ED has issued detailed loan servicing requirements which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. Management has identified loan servicing deficiencies which may result in loans which will not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $7,105 as of June 30, 2005 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, 2005 of $3,387,383 includes $1,076 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, 2005.

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 2005 are premiums and other acquisition fees paid on the origination and purchase of certain student loans. These premiums and other acquisition fees are being amortized over the average life of the related loans. Premiums and other acquisition fees totaling less than $50 paid to a particular party during a fiscal year are expensed. Other acquisition fees typically represent lender fees and insurance fees and are also being amortized over the average life of the related loans.

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

Federal Student Loan Fund

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

The cash balance in this fund as of June 30, 2005 as reported by ISAC was $46,312. The accrual basis balance due to ED, which includes $27,773 of claims in process, was $54,622. If the federal reinsurance percentage applied to guarantors was temporarily reduced from 95% to either 85% or 75% (for loans disbursed after October 1, 1998) due to excessive default claims and if the State's pledge of full faith and credit were found to be ineffective, then the full collectibility of the non-federal reinsurance amount (i.e. 5% to 25%) of the IDAPP's net student loans receivable of $3,387,383 at June 30, 2005 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 an interest subsidy on certain student loans during the time that the student is enrolled in an eligible educational institution or qualifies for deferment status. The federal interest receivable at June 30, 2005 was $6,833 and related revenue was $20,735 for the year ended June 30, 2005.

IDAPP is also eligible to receive special allowance payments from the federal government that are paid to adjust for the low yield on student loans in comparison to other investment sources. The special allowance payments receivable at June 30, 2005 were $13,483 and related revenue was $38,972 for the year ended June 30, 2005.

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity

A. Balances Due To / From Other Funds

The following balances at June 30, 2005 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	$ -	$ -	$ 311	Due from State universities for refunds of overpayments of scholarship/grant programs due to ineligible participants.
	67	-	-	Due from Accounts Receivable Fund for share of collections.
	4	-	-	Due from Student Loan Operating Fund for share of defaulted student collections.
	71	-	311	
Illinois Designated Account Purchase Program	1,076	-	-	Due from Federal Student Loan Fund for default claims receivable.
	1,076	-	-	
Nonmajor Governmental - Federal Student Loan	6,878	-	-	Due from Student Loan Operating Fund representing a portion of the default aversion fee that will need to be returned due to students defaulting.
	90	-	-	Due from Student Loan Operating Fund for cost of collection due to collection agencies.
	14	-	-	Due from IDAPP for lender refunds for default claims paid.
Federal Congressional Teacher Scholarship	-	-	13	Due from State universities for overpayments of scholarship/grant programs.
	6,982	-	13	
Nonmajor Proprietary - Student Loan Operating	1,659	-	-	Due from Federal Student Loan Fund for share of student defaulted loan collections and default aversion fee.
	$ 9,788	$ -	$ 324	

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity (Continued)

The following balances at June 30, 2005 represent amounts due to other ISAC and State of Illinois funds.

	Due from Primary Government Funds		Due to Component	
Fund	ISAC	Other State	Units	Description/Purpose
General Revenue	$ -	$ -	$ 794	Due to State universities for scholarship and MAP grants.
	-	69	-	Due to Central Management Services for EDP Services and efficiency initiative.
	-	69	794	
Illinois Designated Account Purchase Program	14	-	-	Due to Student Loan Operating Fund for lender refunds for default claims paid.
	-	2	-	Due to Auditor General for cost of audit.
	14	2	-	
Nonmajor Governmental - Federal Student Loan	1,659	-	-	Due to Student Loan Operating Fund for share of student defaulted loan collections.
	1,076	-	-	Due to IDAPP for default claims payable.
Federal Congressional Teacher Scholarship	-	-	11	Due to State universities for scholarship/grant programs.
ISAC Accounts Receivable	67	-	-	Due to the General Revenue Fund for its share of collections.
	2,802	-	11	
Nonmajor Proprietary - Student Loan Operating	-	684	-	Due to Central Management Services for EDP, garage, communications and Auditor General for audit of federal programs.
	4	-	-	Due to General Revenue Fund for its share of defaulted student collections.
	6,878	-	-	Due to Federal Student Loan for default aversion fee due to students returning to a "default" status.
	90	-	-	Due to Federal Student Loan Fund for cost of collection due to collection agencies.
Illinois Prepaid Tuition Program	-	26	-	Due to Auditor General for cost of audit.
	-	-	12	Due to State universities for tuition and fees for benefits under College Illinois.
	6,972	710	12	
	$ 9,788	$ 781	$ 817	

(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, 2005 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General Revenue	$ 356	Transfer from Student Loan Operating Fund and ISAC Accounts Receivable Fund for share of receivable collections.
Nonmajor Governmental-ISAC COP Debt Service	1,944	Transfer from the Student Loan Operation Fund, IDAPP and the General Fund for lease payments.
	$ 2,300	

Interfund transfers out for the year ended June 30, 2005 were as follows:

Fund	Transfers Out To Other ISAC Funds	Transfers Out To Other State Funds	Description/Purpose
General Revenue	$ 552	$ -	Transfer to ISAC COP Debt Service Fund for lease payments.
IDAPP	513	-	Transfer to ISAC COP Debt Service Fund for lease payments.
Nonmajor Governmental - ISAC Accounts Receivable	352	-	Transfer to General Revenue for share of receivable collections.
Nonmajor Proprietary - Student Loan Operating	879	-	Transfer to ISAC COP Debt Service Fund for lease payments.
	-	6,308	Transfer to General Revenue Fund.
	4	-	Transfer to General Revenue Fund for share of receivable collections.
	$ 2,300	$ 6,308	

(All dollar amounts are expressed in thousands)

Note 8. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	1,342	-	(90)	1,252
Total capital assets being depreciated	19,653	-	(90)	19,563
Less accumulated depreciation:				
Buildings	(5,723)	(458)	-	(6,181)
Equipment	(1,308)	(15)	90	(1,233)
Total accumulated depreciation	(7,031)	(473)	90	(7,414)
Total capital assets being depreciated, net	12,622	(473)	-	12,149
Govermental activities capital assets, net	$ 15,322	$ (473)	$ -	$ 14,849
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 518	$ -	$ (18)	$ 500
Less accumulated depreciation:				
Equipment	(359)	(52)	18	(393)
Total capital assets being depreciated, net	159	(52)	-	107
Nonmajor Enterprise Funds:				
Capital assets being depreciated:				
Equipment and automobiles	656	130	(78)	708
Less accumulated depreciation:				
Equipment and automobiles	(364)	(128)	66	(426)
Total capital assets being depreciated, net	292	2	(12)	282
Business-type activities capital assets, net	$ 451	$ (50)	$ (12)	$ 389

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2005 amounted to $473. Of that amount, 100% was charged to the Education function.

(All dollar amounts are expressed in thousands)

Note 9. Long-term Obligations Payable (IDAPP)

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

Revenue Bonds and Notes*		Demand Revenue Bonds*		
Resolution Issues	Amount Outstanding	Resolution Issues	Amount Outstanding	Total
A (1)	$ 803,895	B (1)	$ 49,841	
A (2)	936,352	B (2)	21,978	
A (3)	883,437	B (3)	56,814	
A (4)	835,112	B (4)	50,964	
		B (5)	99,452	
	$ 3,458,796		$ 279,049	$ 3,737,845

* Reported net of unamortized discounts.

A. Revenue Bonds and Notes Payable

1. On October 2, 1992, ISAC adopted a general resolution and adopted supplemental resolutions on October 2, 1992, January 21, 1994, February 28, 1995, November 17, 1995, January 17, 1997, March 13, 1998, January 22, 1999, January 24, 2000, November 13, 2000, and July 27, 2001 authorizing the issuance of Student Loan Revenue Bonds Series AA, BB, CC (1992 Resolution Bonds), Series DD, EE, FF (1994 Resolution Bonds), Series GG (1995 Resolution Bonds), Series HH, II (1995 Second Resolution Bonds), Series JJ, KK, LL (1997 Supplemental Resolution Bonds), Series MM, NN, OO (1998 Resolution Bonds), Series PP, QQ, RR (1999 Resolution Bonds), Series SS, TT, UU (2000 Supplemental Resolution Bonds), Series VV, WW, XX (2000 Second Supplemental Resolution), and Series YY (2001 Supplemental Resolution), respectively. The Series AA and BB Bonds bear interest at rates ranging from 5.05% to 6.75%. The Series CC Bonds bear interest at 6.875%. The Series DD, EE and FF Bonds bear interest at rates ranging from 4.6% to 5.7%. The Series LL Bonds bear interest at 5.75%. The Series QQ and RR Bonds bear interest at rates ranging from 3.25% to 4.25%. The Series TT and UU Bonds bear interest at rates ranging from 4.10% to 5.6 %. The Series WW and XX Bonds bear interest at rates ranging from 4.50% to 5.10%. All other bonds are at a variable rate of interest. Certain bonds are subject to early redemption at the option of ISAC in inverse order of their maturity at various percentages of par value. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues.

Note 9. Long-term Obligations Payable (IDAPP) (Continued)

A. Revenue Bonds and Notes Payable (Continued)

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

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

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

The 1992 Resolution Bonds, the 1994 Resolution Bonds, the 1997 Resolution Bonds - Series KK, and LL, the 1998 Resolution Bonds - Series OO, the 1999 Resolution Bonds - Series QQ and RR, the 2000 Resolution Series Bonds Series - TT, UU, WW and XX and the General Resolution Bonds - Series 6, Series 1996A, Series 1997A, Series 1998A, Series 1999A, Series 2001A , Series 2003A and Series 2003 III are tax-exempt. Bonds not specifically referred to in this paragraph are taxable. The variable interest rate for tax exempt debt is reset every 35 days based on the 90-day Treasury Bill rate. The variable interest rate for taxable debt is reset every 28 days based on the one month LIBOR rate. The variable interest rate for tax-exempt debt at June 30, 2005 was 2.59%. The variable interest rate for taxable debt at June 30, 2005 was 3.40%.

B. Demand Revenue Bonds Payable

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

2. On January 19, 1996, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1996A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1996B. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues. The $22,000 Variable Rate Demand Student Loan Revenue Bonds, Series 1996A and 1996B have a final maturity of March 1, 2006 and March 1, 2016, respectively.

Note 9. Long-term Obligations Payable (IDAPP) (Continued)

B. Demand Revenue Bonds Payable Resolution Issues B (Continued)

3. On February 1, 1997, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1997A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1997B. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues. The $57,000 of Variable Rate Demand Student Loan Revenue Bonds, Series 1997A and 1997B have a final maturity date of September 1, 2031.

4. On February 1, 1998, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1998A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1998B. All bonds are at a variable rate of interest. Any subsequent bonds issued under this resolution are issued on parity and the assets acquired and revenues generated under these bond issues serve as collateral for all of these issues. The $51,200 of Variable Rate Demand Student Loan Revenue Bonds, Series 1998A and 1998B have a final maturity date of September 1, 2032.

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

The Variable Rate Demand Student Loan Revenue Bonds Series D, 1996A, 1996B, 1997A, 1997B, 1998A, 1998B, 1999A and 1999B totaling approximately $280,000 are currently in a Weekly Rate Mode with the interest rate changing weekly as determined by the Remarketing Agent and are secured by letters-of-credit (see Note 9c and 16). These bonds may be converted to a Fixed Interest Rate Mode at the option of the Bond Trustee. The bonds may be redeemed prior to the conversion date (as defined) at the principal amount plus accrued interest to the date of redemption. The variable interest rate for tax exempt debt is reset weekly based on the 90-day treasury bill rate. The variable interest rate for taxable debt is reset weekly based on the 90-day commercial paper rate. As of June 30, 2005, interest rates were 2.38% for tax-exempt debt and 3.33% for taxable debt.

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

Note 9. Long-term Obligation Payable (IDAPP) (Continued)

C. Demand Revenue Bonds Payable – Other Terms and Agreements

IDAPP had $ 280,200 in demand bonds payable as of June 30, 2005. The demand bonds are described in Note 9 items B1-B5. These demand bonds do not constitute a debt, liability or obligation of the State of Illinois or a pledge of the full faith and credit of the State of Illinois. Neither IDAPP nor ISAC have taxing power. These demand bonds are limited obligations of IDAPP, payable from the revenues to be derived from student loans purchased or originated, and from other assets within the trust estate. The bonds were issued for the purpose of providing IDAPP with monies to originate or acquire eligible loans.

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

IDAPP has reported principal amounts scheduled to mature during fiscal year 2006, totaling $20,500, as current liabilities. Remaining amounts are reported as non-current because IDAPP entered into take out agreements to convert bonds "put" but not resold into other forms of long-term obligations. The details of these arrangements are described below, by issue.

<u>Series D Bonds</u>

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

If the remarketing agent is unable to resell the bonds that are "put", IDAPP has a take out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 6.75% as of June 30, 2005. The take out agreement expires February 28, 2009.

IDAPP is required to pay Bank of America a quarterly commitment fee for the letter of credit. Quarterly commitment fees currently in effect range from .450% to .550% of the available amount of the letters of credit. IDAPP has not paid a take out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2005, IDAPP had not drawn any funds under its existing letter of credit agreements.

<u>Series 1996A and 1996B Bonds</u>

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

Note 9. Long-term Obligations Payable (IDAPP) (Continued)

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

Series 1996A and 1996B Bonds (Continued)

If the remarketing agent is unable to resell the bonds that are "put", IDAPP has a take out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 4.090% as of June 30, 2005. The take out agreement expires on February 28, 2009.

IDAPP is required to pay Bank of America a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2005, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Series 1997A and 1997B Bonds

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

If the remarketing agent is unable to resell the bonds that are "put", IDAPP has a take out agreement with JP Morgan Chase to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 6.75% as of June 30, 2005. The take out agreement expires on February 25, 2008.

IDAPP is required to pay JP Morgan Chase a quarterly commitment fee for the letter of credit. Quarterly commitment fees currently in effect range from .450% to .550% of the available amounts of the letter of credit. IDAPP has not paid a take out agreement fee to JP Morgan Chase. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2005, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Series 1998A and 1998B Bonds

Under a standby bond purchase agreement issued by Bank of America, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The standby bond purchase agreement will expire on March 19, 2007.

If the remarketing agent is unable to resell the bonds that are "put", IDAPP has a take out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 4.09% as of June 30, 2005. The take out agreement expires on March 19, 2007.

IDAPP is required to pay Bank of America a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2005, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Note 9. Long-term Obligations Payable (IDAPP) (Continued)

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

Series 1999A and 1999B Bonds

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

If the remarketing agent is unable to resell the bonds that are "put", IDAPP has a take out agreement with JP Morgan Chase to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 6.75% as of June 30, 2005. The take out agreement expires December 9, 2008.

IDAPP is required to pay JP Morgan Chase a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take out agreement fee to JP Morgan Chase. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2005, IDAPP had not drawn any funds under its existing liquidity facility agreements.

(All dollar amounts are expressed in thousands)

Note 9. Long-term Obligations Payable (IDAPP) Continued)

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

Debt Service Requirements – Take Out Agreements

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

	Series D		Series 1996A and 1996B		Series 1997A and 1997B	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 13,953	$ 2,943	$ 5,867	$ 810	$ -	$ 3,847
2007	13,953	2,001	5,867	570	-	3,847
2008	13,954	1,060	5,866	330	57,000	2,565
2009	8,140	183	4,400	90	-	-
Total	$ 50,000	$ 6,187	$ 22,000	$ 1,800	$ 57,000	$ 10,259

	Series 1998A and 1998B		Series 1999A and 1999B	
Year	Principal	Interest	Principal	Interest
2006	$ -	$ 2,094	$ -	$ 6,750
2007	-	2,094	-	6,750
2008	10,240	1,954	-	6,750
2009	10,240	1,536	20,000	6,750
2010	10,240	1,117	20,000	5,963
2011-2015	20,480	977	60,000	10,351
Total	$ 51,200	$ 9,772	$ 100,000	$ 43,314

(All dollar amounts are expressed in thousands)

Note 10. Long-term Obligations

A. Changes in Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2005 were as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year
Governmental activities:					
Other long-term obligations:					
Installment purchase obligations	$ 13,740	$ -	$ (1,255)	$ 12,485	$ 1,310
Compensated absences	355	-	(355)	-	-
Total governmental activities	$ 14,095	$ -	$ (1,610)	$ 12,485	$ 1,310
Business-type activities:					
Illinois Designated Account Purchase Program Fund:					
Revenue notes payable	$ 100,294	$ -	$ (100,294)	$ -	$ -
Revenue bonds payable	3,517,305	350,000	(114,440)	3,752,865	130,350
Unamortized discounts	(14,389)	(1,265)	634	(15,020)	-
Other long-term obligations:					
Compensated absences	984	15	(44)	955	98
Total Illinois Designated Account Purchase Program	3,604,194	348,750	(214,144)	3,738,800	130,448
Nonmajor Enterprise Funds:					
Other long-term obligations:					
Compensated absences	2,236	1,851	(1,427)	2,660	266
Capital leases payable	42	-	(20)	22	22
Tuition payable	457,228	118,576	(13,530)	562,274	20,494
Accreted tuition payable	80,471	35,582	(723)	115,330	1,543
Total nonmajor enterprise funds	539,977	156,009	(15,700)	680,286	22,325
Total business-type activities	$ 4,144,171	$ 504,759	$ (229,844)	$ 4,419,086	$ 152,773

(All dollar amounts are expressed in thousands)

Note 10. Long-term Obligations (Continued)

B. 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
2006	$ 130,350	$ 124,885	$ 255,235
2007	32,200	121,689	153,889
2008	11,300	120,754	132,054
2009	6,485	120,556	127,041
2010	-	120,458	120,458
2011-2015	149,980	586,496	736,476
2016-2020	15,100	574,661	589,761
2021-2025	115,000	570,536	685,536
2026-2030	330,750	535,304	866,054
2031-2035	905,200	469,075	1,374,275
2036-2040	1,056,950	256,083	1,313,033
2041-2044	999,550	77,026	1,076,576
	3,752,865	$ 3,677,523	$ 7,430,388
Less:			
Current portion of revenue bonds	109,850		
Demand revenue bonds	20,500		
Long-term principal outstanding	3,622,515		
Less:			
Unamortized bond discounts	15,020		
Net long-term principal outstanding	$ 3,607,495		

Approximately 98% of IDAPP's debt outstanding is comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the current interest rate of 2.38% on tax-exempt variable rate demand note debt, 2.59% on tax-exempt auction rate debt, 3.33% on taxable variable rate demand note debt and 3.40% on taxable auction rate debt. Actual interest paid in future years could be materially different.

(All dollar amounts are expressed in thousands)

Note 10. Long-term Obligations (Continued)

C. Bond Covenant Non-compliance

Certain bond indentures require IDAPP to deliver to bond trustees audited financial statements within 120 days (150 days for two bond series) after its fiscal year ended June 30, 2005. Although IDAPP is not in compliance with either the 120 day or 150 day filing requirements, there has been no notice of nonperformance of this provision by the bond trustees and, therefore, no event of default. IDAPP would have 30 days after receiving notice to remedy the condition.

D. Bond Issuances

During fiscal year 2005, IDAPP issued Student Loan Revenue Bond, Series 2005B (refunding bond) in the amount of $350,000, to fund student loan operations. The bonds mature in 2040. The bonds carry a variable interest rate over the life of the bonds and the rate adjusts (resets) every 35 days based upon the London Interbank Offered Rate (LIBOR).

E. Note Redemptions

During fiscal year 2005, IDAPP redeemed in full its taxable Student Loan Revenue Note BB and Note EE. The bonds had a balance outstanding of $100,294. IDAPP redeemed all bonds in order to lower its borrowing costs and to better manage its balance sheet.

F. Tuition Payable

Tuition payable activity for the year ended June 30, 2005 is as follows:

Balance as of July 1, 2004	$ 457,228
Add:	
Contributions	118,576
Less:	
Return of contributions	(3,924)
Tuition payments	(9,606)
Balance as of June 30, 2005	$ 562,274
Reported as:	
Current	$ 20,494
Noncurrent	541,780
	$ 562,274

(All dollar amounts are expressed in thousands)

Note 10. Long-term Obligations (Continued)

G. 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 2005 is estimated as a percentage of net tuition contracts paid to date. The rate is 7.75% and is based on the average increase in tuition for Illinois colleges.

Average tuition payable balance over the year	$ 488,401
Estimate of 7.75% increase of tuition payable	$ 37,851
Present value	$ 37,473
Beginning balance accreted tuition payable as of July 1, 2004	$ 80,471
Accretion expense	35,582
Accretion payments	(723)
Ending balance accreted tuition payable as of June 30, 2005	$ 115,330
Reported as:	
Current	$ 1,543
Noncurrent	113,787
	$ 115,330

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

H. Installment Purchase Obligations

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

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

(All dollar amounts are expressed in thousands)

Note 10. Long-term Obligations (Continued)

H. Installment Purchase Obligations (Continued)

Future commitments under the installment purchase contract as of June 30, 2005, are as follows:

Year Ending June 30	Principal	Interest	Total
2006	$ 1,310	$ 630	$ 1,940
2007	1,370	569	1,939
2008	1,440	500	1,940
2009	1,510	430	1,940
2010	1,585	354	1,939
2011-2013	5,270	558	5,828
	$ 12,485	$ 3,041	$ 15,526

I. Capital Lease Obligation

The Commission leases equipment under the terms of a capital lease. Leased equipment of $17, net of accumulated depreciation of $43, is reflected as capital assets in the accompanying Statement of Net Assets. The corresponding depreciation expense is recorded in the Statement of Revenues, Expenses and Changes in net assets. The lease calls monthly payments of principal and interest at 6.7% through January 2006.

Year Ending June 30	Principal and Interest
2006	$ 24
Interest portion	$ 2

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, 2005.

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

Note 12. Pension Plan

Substantially all of the Commission's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2005 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Commission pays employer contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2005, the employer contribution rate was 16.11%. For fiscal year 2005, the required and actual contribution was $3,860.

Note 13. Post-employment Benefits

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

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2005. Post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental, and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual State agency is not available. Payments are made on a “pay-as-you-go” basis.

Note 14. Fund Deficits

College Illinois!, the State’s section 529 prepaid tuition program, has taken action to reduce and ultimately eliminate its $112 million current actuarially determined deficit over time. The Illinois Student Assistance Commission (ISAC), administrator of the College Illinois! program, has added a premium to contract prices during each of the past four enrollment periods (2001-02 through 2004-05) to partially amortize the current actuarial deficit, and the Commission could perpetuate these or similar actions in subsequent years until any deficit is fully amortized.

In terms of the program's actuarially determined deficit, actual investment performance is only one influencing factor. Expected future investment performance is another factor, as is the level of actual tuition and fee increases at Illinois public universities, new contracts for each future enrollment period, as well as future expectations for tuition and fees increases at those institutions. A large proportion of the program's actuarial deficit is related to increasing the Illinois public universities' tuition growth expectation to 10% for fiscal years 2003 and 2004, 9% for fiscal years 2005 through 2007 and 7.5% long-term rather than 7%. Another factor contributing to the actuarial deficit is that beginning with fiscal year 2003, the program’s long-range investment return assumption was lowered by 25 basis points from 8% to 7.75%.

The Commission changed these assumptions when pricing contracts during 2002 through 2005, recognizing that the State's continuing budget crisis has resulted in higher-than-expected public university tuition during each of the past four years. In 2002 the Commission reduced the program’s long-term investment return assumption, in recognition that the economy may recover more slowly than expected due to external shocks that have adversely affected financial markets during the past several years.

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 a year of implementation of the law was that while tuition rates charged to students who remain enrolled for continuous academic years must remain level, all except one university continue to increase fees annually for all students, not just new enrollees. Considering the potential impact of fee increases as well as a refinement made in the calculation of weighted average tuition and fees for students impacted by Truth in Tuition, the actuarial deficit has been impacted significantly.

(All dollar amounts are expressed in thousands)

Note 14. Fund Deficits (Continued)

ISAC is required by State statute to prepare a report describing the financial condition of the program. Included in this report shall be an actuarial evaluation on the financial viability of the program. An Actuary's Report on Soundness was prepared on College Illinois! Prepaid Tuition Program. According to the actuarial evaluation report, there is a deficit of ($111,678) in the program.

	Actuarial Evaluation
Net assets, before tuition/accretion payable	$ 647,133
Actuarial present value of future payments expected to be made by contract purchasers	177,054
Subtotal	824,187
Actuarial present value of future payments expected to be made by the program	935,865
Actuarial deficit as of June 30, 2005	$ (111,678)

Actuarial projections indicate that the program's cash flow (contributions received less tuition benefits and expenses) is expected to remain positive through FY2009 even without reflecting the expected proceeds from contracts sold after June 30, 2004. Moreover, on this basis, total program assets are projected to cover benefit payments through FY 2020.

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 $139 in 2005.

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

Note 16. Commitments and Contingencies

The Internal Revenue Code requires that an issuer of tax-exempt bonds rebate to the United States any excess investment earnings made with the gross proceeds of an issue over the amount which would have been earned had such proceeds been invested at a rate equal to the yield on the issue. Accordingly, IDAPP has accrued $2,315 as of June 30, 2005 for amounts potentially due to the government and has treated this as a reduction to investment income.

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

Letters-of-credit and liquidity facilities in the amount of $285,059 have been established with financial institutions in support of the Student Loan Revenue Bonds, Series D, Series 1996A and 1996B, Series 1997A and 1997B, Series 1998A and 1998B, and Series 1999A and 1999B, for liquidity and credit enhancement purposes. IDAPP has drawn $0 on the letters-of-credit as of June 30, 2005.

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

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

The Commission has been in contact with the National Council of Higher Education Loan Programs (NCHELP), which is coordinating the Common Claims Initiative discussions with the Department of Education on behalf of the guaranty agency industry (36 guarantors, of which ISAC is one). Management believes that any major changes in regulations based on discussions between NCHELP and the Department of Education will be applied prospectively.

(All dollar amounts are expressed in thousands)

Note 17. New Governmental Accounting Standards

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

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires governments to report the effects of capital asset impairment in their financial statements when it occurs. It also provides guidance for accounting for insurance recoveries. The Commission is required to implement this Statement for the year ending June 30, 2006.

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

Statement No. 46, *Net Assets Restricted by Legislation*, *an Amendment of GASB Statement No. 34*, clarifies definition of "legally enforceable enabling legislation" as established in GASB Statement No. 34, and requires the portion of net assets that is restricted by enabling legislation to be separately disclosed from other restricted net assets. This Statement will become effective for the year ending June 30, 2006.

Statement No. 47, *Accounting for Termination Benefits,* establishes accounting standards for voluntary and involuntary termination benefits, including termination benefits provided through a defined benefit other post employment benefit plan (OPEB). For those termination benefits provided through a defined benefit OPEB plan, this Statement must be implemented concurrently with Statement No. 45. For all other termination benefits, this Statement will become effective for the year ending June 30, 2006.

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

Note 18. Subsequent Event

Subsequent to year-end, IDAPP issued $600 million in Taxable Student Loan Revenue Bonds, Senior Series VIII and Subordinate Series IX, as follows:

Amount	Date Issued
$240,000	July 19, 2005
360,000	December 8, 2005
$600,000	

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Required Supplementary Information
Budgetary Comparisons Schedule - Major Governmental Funds - General Fund
June 30, 2005
(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	$ 391,601	$ 392,251	$ 380,877	$ -	$ 380,877
Education Assistance Account	-	-	(196)	-	(196)
Combined totals	391,601	392,251	380,681	-	380,681
Expenditures (outflows)					
Education					
Program, Administration, and Capital outlay					
General Revenue Account	$ 391,601	392,251	380,724	-	380,724
Education Assistance Account	-	-	(196)	-	(196)
Combined Totals	391,601	392,251	380,528	-	380,528
Excess of (deficiency) of revenues over expenditures	-	-	153	-	153
Other sources (uses) of financial resources					
Transfers in/General Revenue Account	-	-	356	-	356
Transfers out/General Revenue Account	-	-	(552)	-	(552)
Net other sources (uses) of financial resources	-	-	(196)	-	(196)
Net change in fund balance	-	-	(43)	-	(43)
Fund balance, July 1, 2004	-	-	3,422	-	3,422
Fund balance, June 30, 2005	$ -	$ -	$ 3,379	$ -	$ 3,379

Required Supplementary Information
Notes to Required Supplementary Information

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

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, presents comparisons of the legally adopted budgets with actual data on a budgetary basis.

Actual revenue amounts on the budgetary basis	$ 380,681
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	$ 380,681

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Combining Schedule of Accounts
General Fund
June 30, 2005
(All dollar amounts are expressed in thousands)

	General Revenue Account	Education Assistance Account	Total
Assets			
Unexpended appropriations	$ 524	$ -	$ 524
Refunds of scholarships receivable	28	-	28
Due from other ISAC funds	71	-	71
Due from State of Illinois component units	311	-	311
Notes receivable, net of allowances of $29,774	3,308	-	3,308
Total assets	$ 4,242	$ -	$ 4,242
Liabilities and Fund Balances			
Liabilities			
Due to other State funds	$ 69	$ -	$ 69
Due to State of Illinois component units	794	-	794
Total liabilities	863	-	863
Fund Balances			
Reserved for			
Loans and notes receivable	3,308	-	3,308
Unreserved	71	-	71
Total fund balances	3,379	-	3,379
Total liabilities and fund balances	$ 4,242	$ -	$ 4,242

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Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

	General Revenue Account	Education Assistance Account	Total
Revenues			
Other	$ 48	$ -	$ 48
Expenditures			
Current			
Education			
Scholarship, awards and grants	380,724	(196)	380,528
Excess (deficiency) of revenues over expenditures	(380,676)	196	(380,480)
Other sources (uses) of financial resources			
Appropriations from State resources	381,101	(196)	380,905
Receipts remitted to State Treasury	(272)	-	(272)
Transfers-in	356	-	356
Transfers-out	(552)	-	(552)
Net other sources (uses) of financial resources	380,633	(196)	380,437
Net change in fund balance	(43)	-	(43)
Fund balance, July 1, 2004	3,422	-	3,422
Fund balance, June 30, 2005	$ 3,379	$ -	$ 3,379

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Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Loan	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable
Assets				
Cash and cash equivalents	$ 46,312	$ 6	$ 303	$ 83
Receivables				
Intergovernmental	28,234	-	-	-
Accrued interest on investments	119	-	-	-
Due from other ISAC funds	104	-	-	-
Due from State of Illinois component units	-	-	13	-
Due from other ISAC funds - Deferred Charges	6,878	-	-	-
Total assets	$ 81,647	$ 6	$ 316	$ 83
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ 9,383	$ -	$ -	$ 2
Due to other ISAC funds	2,735	-	-	67
Due to State of Illinois component units	-	-	11	-
Deferred revenue	54,622	6	-	-
Intergovernmental payable	8,525	-	-	-
Due to U.S. Department of Education				
Reserve recall and advance	6,382	-	-	-
Other	-	-	305	-
Total liabilities	81,647	6	316	69
Fund balances				
Unreserved	-	-	-	14
Total liabilities and fund balances	$ 81,647	$ 6	$ 316	$ 83

Special Revenue Funds						
Monetary Award Program Reserve	University Grant	Contract and Grant	Optometric Education	Total	Debt Service Fund I S A C COP	Total Nonmajor Governmental Funds
$ 880	$ -	$ 29	$ -	$ 47,613	$ -	$ 47,613
-	-	-	-	28,234	-	28,234
-	-	-	-	119	-	119
-	-	-	-	104	-	104
-	-	-	-	13	-	13
-	-	-	-	6,878	-	6,878
$ 880	$ -	$ 29	$ -	$ 82,961	$ -	$ 82,961
$ -	$ -	$ -	$ -	$ 9,385	$ -	$ 9,385
-	-	-	-	2,802	-	2,802
-	-	-	-	11	-	11
-	-	29	-	54,657	-	54,657
-	-	-	-	8,525	-	8,525
-	-	-	-	6,382	-	6,382
-	-	-	-	305	-	305
-	-	29	-	82,067	-	82,067
880	-	-	-	894	-	894
$ 880	$ -	$ 29	$ -	$ 82,961	$ -	$ 82,961

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Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Loan	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable
Revenues				
Federal government	$ 120,604	$ -	$ 1,584	$ -
Interest and other investment income	1,146	-	-	-
Collections on student loans previously reimbursed by the U.S. Department of Education	1,775	-	-	-
Repurchase/Rehabilitation/Consolidation fees and interest	169	-	-	-
Other	-	-	-	462
Total revenues	123,694	-	1,584	462
Expenditures				
Education				
Scholarships, awards and grants	-	-	1,584	96
Loan guarantee	123,694	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	123,694	-	1,584	96
Excess (deficiency) of revenues over expenditures	-	-	-	366
Other sources (uses) of financial resources				
Appropriations from State resources	-	-	-	-
Transfers in	-	-	-	-
Transfers (out)	-	-	-	(352)
Net other sources (uses) of financial resources	-	-	-	(352)
Net change in fund balance	-	-	-	14
Fund balance, July 1, 2004	-	-	-	-
Fund balance, June 30, 2005	$ -	$ -	$ -	$ 14

Special Revenue Funds					Debt Service Fund	
Monetary Award Program Reserve	University Grant	Contract and Grant	Optometric Education	Total	I S A C COP	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ 122,188	$ -	$ 122,188
-	-	-	-	1,146	-	1,146
-	-	-	-	1,775	-	1,775
-	-	-	-	169	-	169
-	-	13	-	475	-	475
-	-	13	-	125,753	-	125,753
-	52	13	50	1,795	-	1,795
-	-	-	-	123,694	-	123,694
-	-	-	-	-	1,255	1,255
-	-	-	-	-	689	689
-	52	13	50	125,489	1,944	127,433
-	(52)	-	(50)	264	(1,944)	(1,680)
-	52	-	50	102	-	102
-	-	-	-	-	1,944	1,944
-	-	-	-	(352)	-	(352)
-	52	-	50	(250)	1,944	1,694
-	-	-	-	14	-	14
880	-	-	-	880	-	880
$ 880	$ -	$ -	$ -	$ 894	$ -	$ 894

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Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2005
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Assets			
Current			
Cash and cash equivalents	$ 20,457	$ 6,928	$ 27,385
Receivables			
Intergovernmental	2,528	-	2,528
Accrued interest on investments	69	30	99
Due from other ISAC funds	1,659	-	1,659
Total current assets	24,713	6,958	31,671
Non-current			
Investments	-	640,974	640,974
Capital assets, net of accumulated depreciation	282	-	282
Total non-current assets	282	640,974	641,256
Total assets	24,995	647,932	672,927
Liabilities			
Current			
Accounts payable and accrued liabilities	720	681	1,401
Tuition payable	-	20,494	20,494
Accreted tuition payable	-	1,543	1,543
Due to other ISAC funds	94	-	94
Due to other State funds	684	26	710
Due to State of Illinois component units	-	12	12
Compensated absences	258	8	266
Capital leases payable	22	-	22
Total current liabilities	1,778	22,764	24,542
Non-current			
Tuition payable	-	541,780	541,780
Accreted tuition payable	-	113,787	113,787
Due to other ISAC funds	6,878	-	6,878
Compensated absences	2,323	71	2,394
Total non-current liabilities	9,201	655,638	664,839
Total liabilities	10,979	678,402	689,381
Net Assets			
Invested in capital assets, net of related debt	260	-	260
Unrestricted (deficit)	13,756	(30,470)	(16,714)
Total net assets	$ 14,016	$ (30,470)	$ (16,454)

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Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Operating revenues			
Investment income			
Income - investment securities	$ -	$ 47,335	$ 47,335
Interest - other	-	209	209
Total investment income	-	47,544	47,544
Other operating revenues			
Application and other fees	-	2,435	2,435
Loan processing and issuance fees	4,813	-	4,813
Portfolio maintenance fee	7,559	-	7,559
Collection retention	7,870	-	7,870
Direct consolidation cost	6,695	-	6,695
Default aversion fee	1,151	-	1,151
Repurchase/rehabilitation/consolidation retention fees and interest	8,941	-	8,941
Other	36	-	36
Total other operating revenues	37,065	2,435	39,500
Total operating revenues	37,065	49,979	87,044
Operating expenses			
Salaries and employee benefits	21,490	653	22,143
Accreted tuition expenses	-	35,581	35,581
Investment management fees	-	2,156	2,156
Management and professional services	13,410	2,758	16,168
Depreciation	128	-	128
Other	392	-	392
Total operating expenses	35,420	41,148	76,568
Operating income	1,645	8,831	10,476
Non-operating revenues (expenses)			
Interest revenue	601	-	601
Interest on bonds/notes payable	(20)	-	(20)
Total non-operating revenues (expenses)	581	-	581

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds - Continued
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Income before transfers	$ 2,226	$ 8,831	$ 11,057
Transfers - out	(7,191)	-	(7,191)
Change in net assets	(4,965)	8,831	3,866
Net assets, July 1, 2004	18,981	(39,301)	(20,320)
Net assets, June 30, 2005	$ 14,016	$ (30,470)	$ (16,454)

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Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Illinois Prepaid Tuition Program Fund	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ 34,895	$ 2,435	$ 37,330
Cash paid for refund of contracts	-	(3,924)	(3,924)
Cash payments to suppliers for goods and services	(411)	(2,432)	(2,843)
Cash payments to employees for services	(21,071)	(648)	(21,719)
Cash receipts from prepaid tuition contracts	-	118,576	118,576
Cash payments for management and professional fees	(11,829)	-	(11,829)
Cash payments for tuition and accretion	-	(10,329)	(10,329)
Net cash provided by operating activities	1,584	103,678	105,262
Cash flows from noncapital financing activities			
Transfer out	(7,208)	-	(7,208)
Cash flows from capital and related financing activities			
Principal paid on capital debt	(20)	-	(20)
Interest paid on capital debt	(8)	-	(8)
Acquisition and construction of capital assets	(130)	-	(130)
Net cash used by capital and related financing activities	(158)	-	(158)
Cash flows from investing activities			
Purchase of investment securities	-	(207,376)	(207,376)
Proceeds from sale and maturities of investment securities	-	91,727	91,727
Interest and dividends on investments	552	14,137	14,689
Cash paid to investment managers	-	(2,155)	(2,155)
Net cash provided (used) by investing activities	552	(103,667)	(103,115)
Net increase (decrease) in cash and cash equivalents	(5,230)	11	(5,219)
Cash and cash equivalents, July 1, 2004	25,687	6,917	32,604
Cash and cash equivalents, June 30, 2005	$ 20,457	$ 6,928	$ 27,385

(Continued)

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Combining Statement of Cash Flows (Continued)
Nonmajor Enterprise Funds
Year Ended June 30, 2005
(All dollar amounts are expressed in thousands)

	Student Loan Student Operating Fund	Illinois Prepaid Tuition Prepaid Program Fund	Total
Reconciliation of net operating income to net cash provided by operating activities			
Operating income	$ 1,645	$ 8,831	$ 10,476
Adjustments to reconcile net operating income to net cash provided by operating activities			
Depreciation	128	-	128
Interest - investments		(47,544)	(47,544)
Accreted tuition expense	-	35,581	35,581
Investment management fees	-	2,156	2,156
Change in assets and liabilities			
Intergovernmental receivables	(373)	-	(373)
Due from other funds	(442)	-	(442)
Accounts payable and accrued liabilities	(244)	314	70
Due to other funds	451	12	463
Tuition payable	-	104,323	104,323
Compensated absences	419	5	424
Total adjustments	(61)	94,847	94,786
Net cash provided by operating activities	$ 1,584	$ 103,678	$ 105,262
Supplemental disclosure of noncash transactions:			
Net appreciation in fair value of investments	$ -	$ 33,386	$ 33,386