McGladrey & Pullen
Certified Public Accountants

State of Illinois
Illinois Student Assistance Commission

Financial Statements
For the Year Ended June 30, 2007

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

State of Illinois
Illinois Student Assistance Commission

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State of Illinois
Illinois Student Assistance Commission

Agency Officials

Executive Director (01/01/07 – Current)	Andrew Davis
Executive Director (07/01/06 – 12/31/06)	Larry Matejka
Chief Financial Officer (03/19/07 – Current)	John Sinsheimer
Chief Financial Officer (07/01/06 – 03/18/07)	Theresa Morgan
General Counsel (02/08/07 – Current)	Kim Barker Lee
General Counsel (07/01/06 – 02/07/07)	Karen Salas

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Summary

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

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

Summary of Findings

The auditors identified matters involving the Commission's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 76 - 81 of this report, as finding 07-1, (Financial Reporting – Illinois Prepaid Tuition Program), finding 07-2 (Internal Auditing), finding 07-3 (Financial Reporting – Illinois Designated Account Purchase Program), and finding 07-4 (Material Year-end Financial Statement Adjustment Not Recorded). The auditors also consider findings 07-1, 07-3 and 07-4 to be material weaknesses.

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on February 11, 2008. Attending were:

Illinois Student Assistance Commission	
Thomas Hood	IDAPP Comptroller
Su Ju	IDAPP Assistant Comptroller
John Sinsheimer	Chief Financial Officer
Shoba Nandhan	ISAC Comptroller
McGladrey & Pullen, LLP	
Linda Abernethy	Partner
Rolake Adedara	Manager
Office of the Auditor General	
Jon Fox	Audit Manager

The responses to the recommendations were provided by Shoba Nandhan in a letter dated February 12, 2008.

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission) as of and for the year ended June 30, 2007, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the Commission are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2007, and its changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Commission, as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2008 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information which includes the Budgetary Comparisons Schedule – Major Governmental Fund and Notes to Required Supplementary Information (pages 68 and 69) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 4, 2008

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Year Ended June 30, 2007
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 94	$ -	$ 94
Cash and cash equivalents	39,667	108,690	148,357
Investments	-	70	70
Receivables			
Intergovernmental	26,791	2,467	29,258
Accrued interest on investments	157	137	294
Other	2	98	100
Internal balances - other ISAC funds	(428)	428	-
Due from State of Illinois component units	-	21	21
Total current assets - unrestricted	66,283	111,911	178,194
Restricted			
Cash and cash equivalents	-	74,230	74,230
Investments	-	38,226	38,226
Notes receivable	-	45,655	45,655
Receivables			
Student loans	-	616,846	616,846
Accrued interest on loans	-	81,192	81,192
Accrued interest on investments	-	467	467
Federal special allowance and interest subsidy	-	20,432	20,432
Internal balances - other ISAC funds	(788)	788	-
Unamortized bond issuance costs	-	40	40
Total current assets - restricted	(788)	877,876	877,088
Non-current			
Unrestricted			
Investments	-	986,334	986,334
Internal balances - deferred charges	3,928	(3,928)	-
Notes receivable	4,578	-	4,578
Other assets	-	16	16
Capital assets, net of accumulated depreciation	13,916	266	14,182
Total non-current assets - unrestricted	22,422	982,688	1,005,110
Restricted			
Notes receivable	-	37,354	37,354
Student loans receivable, net	-	2,798,110	2,798,110
Unamortized bond issuance costs	-	1,380	1,380
Total non-current assets - restricted	-	2,836,844	2,836,844
Total assets	$ 87,917	$ 4,809,319	$ 4,897,236

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
June 30, 2007
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 12,208	$ 36,276	$ 48,484
Accrued interest payable	-	10,281	10,281
Tuition payable	-	28,832	28,832
Accreted tuition payable	-	2,170	2,170
Due to other State funds	-	581	581
Due to State of Illinois component units	4	6,653	6,657
Deferred revenue	48,010	-	48,010
Intergovernmental payable	5,621	-	5,621
Due to U.S. Department of Education	3,511	-	3,511
Compensated absences	-	562	562
Installment purchase obligation	1,440	-	1,440
Line of credit	-	195,170	195,170
Revenue bonds payable, net	-	40,481	40,481
Total current liabilities	70,794	321,006	391,800
Non-current			
Tuition payable	-	716,246	716,246
Accreted tuition payable	-	208,953	208,953
Revenue bonds payable, net	-	3,439,093	3,439,093
Installment purchase obligation	8,365	-	8,365
Compensated absences	-	3,065	3,065
Total non-current liabilities	8,365	4,367,357	4,375,722
Total liabilities	79,159	4,688,363	4,767,522
Net Assets			
Invested in capital assets, net of related debt	4,111	266	4,377
Restricted	-	29,694	29,694
Unrestricted	4,647	90,996	95,643
Total net assets	$ 8,758	$ 120,956	$ 129,714

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2007
(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	$ 402,384	$ -	$ 5,142
Loan guarantees	180,554	-	180,554
Interest	569	-	-
Total governmental activities	583,507	-	185,696
Business-type activities			
Education			
Student loan purchase program	303,817	180,392	109,581
Prepaid tuition	61,641	2,259	124,864
Scholarships, awards and grants	53,306	-	-
Loan guarantee program	45,289	44,901	-
Total business-type activities	464,053	227,552	234,445
Total Commission	$ 1,047,560	$ 227,552	$ 420,141

General revenues, transfers and special item
General revenues
Appropriations from State resources
Receipts remitted to State Treasury
Investment income
Miscellaneous
Transfers
Special item
Total general revenues, transfers and special item

Change in net assets

Net assets July 1, 2006

Net assets June 30, 2007

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
$ (397,242)	$ -	$ (397,242)
-	-	-
(569)	-	(569)
(397,811)	-	(397,811)
-	(13,844)	(13,844)
-	65,482	65,482
-	(53,306)	(53,306)
-	(388)	(388)
-	(2,056)	(2,056)
(397,811)	(2,056)	(399,867)
397,650	-	397,650
(405)	-	(405)
-	1,056	1,056
316	-	316
1,944	(1,944)	-
-	(17)	(17)
399,505	(905)	398,600
1,694	(2,961)	(1,267)
7,064	123,917	130,981
$ 8,758	$ 120,956	$ 129,714

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2007
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 94	$ -	$ 94
Cash and cash equivalents	-	39,667	39,667
Intergovernmental receivables	-	26,791	26,791
Accrued interest on investments	-	157	157
Other receivables	-	2	2
Due from other ISAC funds	57	718	775
Due from other ISAC funds - deferred charges	-	3,928	3,928
Notes receivable, net of allowances	4,578	-	4,578
Total assets	$ 4,729	$ 71,263	$ 75,992
Liabilities			
Accounts payable and accrued liabilities	$ 72	$ 12,136	$ 12,208
Due to other ISAC funds	18	1,973	1,991
Due to State of Illinois component units	4	-	4
Deferred revenues	-	48,010	48,010
Intergovernmental payable	-	5,621	5,621
Due to U.S. Department of Education	-	3,511	3,511
Total liabilities	94	71,251	71,345
Fund Balances			
Reserved for loans and notes receivable	4,578	-	4,578
Unreserved			
General Fund	57	-	57
Special revenue funds	-	12	12
Total fund balances	4,635	12	4,647
Total liabilities and fund balances	$ 4,729	$ 71,263	$ 75,992

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets
June 30, 2007
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds		$ 4,647
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	1,157	
Accumulated depreciation	(8,252)	
Total capital assets		13,916
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		(9,805)
Net assets of governmental activities		$ 8,758

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, 2007
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 142,740	$ 142,740
Licenses and fees	-	9,693	9,693
Interest and investment income	-	1,917	1,917
Collections on student loans previously reimbursed by the U.S. Department of Education	-	31,346	31,346
Other	16	300	316
Total revenues	16	185,996	186,012
Expenditures			
Education			
Scholarships, awards and grants	396,536	5,378	401,914
Loan guarantees	-	180,554	180,554
Debt Service			
Principal	-	1,370	1,370
Interest	-	569	569
Total expenditures	396,536	187,871	584,407
Deficiency of revenues over expenditures	(396,520)	(1,875)	(398,395)
Other sources (uses) of financial resources			
Appropriations from State resources	397,489	161	397,650
Receipts remitted to State Treasury	(405)	-	(405)
Transfers in	218	1,939	2,157
Transfers out	-	(213)	(213)
Net other sources (uses) of financial resources	397,302	1,887	399,189
Net change in fund balance	782	12	794
Fund balance, July 1, 2006	3,853	-	3,853
Fund balance, June 30, 2007	$ 4,635	$ 12	$ 4,647

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities
Year Ended June 30, 2007
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$	794
Amounts reported for governmental activities in the Statement of Activities are different due to:		
Governmental funds report capital outlays as expenditures while the Statement of Activities reports depreciation expense to allocate those expenditures over the life of the assets.		(470)
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.		1,370
Change in net assets of governmental activities	$	1,694

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Enterprise Funds
June 30, 2007
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Fund - Student Loan Operating Fund	Total
Assets				
Current				
Unrestricted				
Cash and cash equivalents	$ 82,186	$ 7,268	$ 19,236	$ 108,690
Investments	70	-	-	70
Receivables				
Intergovernmental	-	-	2,467	2,467
Accrued interest on investments	-	54	83	137
Other	98	-	-	98
Due from other ISAC funds	-	-	28,151	28,151
Due from State of Illinois component units	-	-	21	21
Total current assets - unrestricted	82,354	7,322	49,958	139,634
Restricted				
Cash and cash equivalents	74,230	-	-	74,230
Investments	38,226	-	-	38,226
Notes receivable	45,655	-	-	45,655
Receivables				
Student loans	616,846	-	-	616,846
Accrued interest on loans	81,192	-	-	81,192
Accrued interest on investments	467	-	-	467
Federal special allowance and interest subsidy	20,432	-	-	20,432
Due from other ISAC funds	788	-	-	788
Unamortized bond issuance costs	40	-	-	40
Total current assets - restricted	877,876	-	-	877,876
Noncurrent				
Unrestricted				
Investments	-	986,334	-	986,334
Other assets	16	-	-	16
Capital assets, net of accumulated depreciation	44	-	222	266
Total noncurrent assets - unrestricted	60	986,334	222	986,616
Restricted				
Notes receivable	37,354	-	-	37,354
Student loans receivable, net	2,798,110	-	-	2,798,110
Unamortized bond issuance costs	1,380	-	-	1,380
Total noncurrent assets - restricted	2,836,844	-	-	2,836,844
Total assets	$ 3,797,134	$ 993,656	$ 50,180	$ 4,840,970

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
Enterprise Funds
June 30, 2007
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Fund - Student Loan Operating Fund	Total
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 14,943	$ 983	$ 20,350	$ 36,276
Accrued interest payable	10,281	-	-	10,281
Tuition payable	-	28,832	-	28,832
Accreted tuition payable	-	2,170	-	2,170
Due to other ISAC funds	27,020	-	703	27,723
Due to other State funds	-	58	523	581
Due to State of Illinois Component Units	-	-	6,653	6,653
Compensated absences	117	30	415	562
Line of credit	195,170	-	-	195,170
Revenue bonds payable, net	40,481	-	-	40,481
Total current liabilities	288,012	32,073	28,644	348,729
Noncurrent				
Tuition payable	-	716,246	-	716,246
Accreted tuition payable	-	208,953	-	208,953
Due to other ISAC funds - deferred revenues	-	-	3,928	3,928
Revenue bonds payable, net	3,439,093	-	-	3,439,093
Compensated absences	604	62	2,399	3,065
Total noncurrent liabilities	3,439,697	925,261	6,327	4,371,285
Total liabilities	3,727,709	957,334	34,971	4,720,014
Net Assets				
Invested in capital assets, net of related debt	44	-	222	266
Restricted	29,694	-	-	29,694
Unrestricted	39,687	36,322	14,987	90,996
Total net assets	69,425	36,322	15,209	120,956
Total liabilities and net assets	$ 3,797,134	$ 993,656	$ 50,180	$ 4,840,970

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, 2007
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Fund - Student Loan Operating Fund	Total
Operating revenues				
Investment income				
Interest - student loans	$ 180,392	$ -	$ -	$ 180,392
Interest - investments	11,822	-	-	11,822
Income - investment securities	-	124,331	-	124,331
Interest - other	-	533	-	533
Total investment income	192,214	124,864	-	317,078
Other operating revenues				
Application and other fees	-	2,259	-	2,259
Loan processing and issuance fees	-	-	4,576	4,576
Portfolio maintenance fee	-	-	7,046	7,046
Collection retention	-	-	7,716	7,716
Direct consolidation cost	-	-	2,765	2,765
Default aversion fee	-	-	5,901	5,901
Repurchase/Rehabilitation/Consolidation retention fees and interest	-	-	16,540	16,540
Other	-	-	357	357
Total other operating revenues	-	2,259	44,901	47,160
Total operating revenues	192,214	127,123	44,901	364,238
Operating expenses				
Interest and other student loan expenses				
Interest expense				
Revenue bonds	213,091	-	-	213,091
Amortization of loan premiums and fees	22,213	-	-	22,213
Other student loan fees	11,614	-	-	11,614
Provision for loan losses	6,554	-	-	6,554
Total interest and other student loan expenses	253,472	-	-	253,472

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds (Continued)
Year Ended June 30, 2007
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Fund - Student Loan Operating Fund	Total
Other operating expenses				
Salaries and employee benefits	$ 10,824	$ 736	$ 23,374	$ 34,934
External loan servicing	25,412	-	-	25,412
Accreted tuition expenses	-	54,684	-	54,684
Line of credit fees	816	-	-	816
Occupancy expense	886	-	-	886
Marketing expenses	1,891	-	-	1,891
Investment management fees	-	3,042	-	3,042
Bond issuance and legal fees	40	-	-	40
Management and professional services	9,140	3,179	12,106	24,425
MAP and MAP Plus grants	-	-	53,306	53,306
Default Fee	-	-	9,693	9,693
Depreciation	35	-	116	151
Other	1,301	-	-	1,301
Total other operating expenses	50,345	61,641	98,595	210,581
Total operating expenses	303,817	61,641	98,595	464,053
Operating income (loss)	(111,603)	65,482	(53,694)	(99,815)
Non-operating revenues				
Federal government special allowance and interest subsidy	97,759	-	-	97,759
Interest revenue	-	-	1,056	1,056
Total non-operating revenues	97,759	-	1,056	98,815
Income (loss) before special item and transfers	(13,844)	65,482	(52,638)	(1,000)
Special item	(17)	-	-	(17)
Transfers in	-	-	55,530	55,530
Transfers out	(56,298)	(25)	(1,151)	(57,474)
Change in net assets	(70,159)	65,457	1,741	(2,961)
Net assets, July 1, 2006	139,584	(29,135)	13,468	123,917
Net assets, June 30, 2007	$ 69,425	$ 36,322	$ 15,209	$ 120,956

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows -
Enterprise Funds
Year Ended June 30, 2007
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Fund - Student Loan Operating Fund	Total
Cash flows from operating activities				
Cash received from fees and other charges	$ -	$ 2,259	$ 40,607	$ 42,866
Cash paid for refund of contracts and tuition payments	-	(6,191)	-	(6,191)
Cash payments to suppliers for goods and services	(41,896)	(3,050)	(17,245)	(62,191)
Cash payments to employees for services	(10,922)	(729)	(23,473)	(35,124)
Cash receipts from student loans	1,114,639	-	-	1,114,639
Cash receipts from prepaid tuition contracts	-	119,795	-	119,795
Cash payments for student loans	(1,271,437)	-	-	(1,271,437)
Cash payments for management and professional fees	-	-	(29,915)	(29,915)
Cash payments for tuition and accretion	-	(28,337)	-	(28,337)
Proceeds from sale of student loan portfolio	670,786	-	-	670,786
Expenses from sale of student loan portfolio	(1,446)	-	-	(1,446)
Net cash provided (used) by operating activities	459,724	83,747	(30,026)	513,445
Cash flows from noncapital financing activities				
Principal payments related to early extinguishment of debt	(690,180)	-	-	(690,180)
Expenses related to early extinguishment of debt	(3,465)	-	-	(3,465)
Proceeds from sale of revenue bonds and other borrowing	195,170	-	-	195,170
Principal paid on revenue bonds and other borrowing	(40,135)	-	-	(40,135)
Interest paid on revenue bonds and other borrowing	(211,010)	-	-	(211,010)
Operating grants - special allowance and interest subsidy	108,317	-	-	108,317
Transfers in	-	-	28,530	28,530
Transfers out	(29,298)	(25)	(1,150)	(30,473)
Net cash provided (used) by noncapital financing activities	(670,601)	(25)	27,380	(643,246)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(14)	-	(23)	(37)
Cash flows from investing activities				
Purchase of investment securities	(47,596)	(416,384)	-	(463,980)
Proceeds from sales and maturities of investment securities	30,629	311,061	-	341,690
Interest and dividends on investments	10,949	21,165	1,060	33,174
Cash paid to investment managers	-	(3,042)	-	(3,042)
Net cash provided (used) by investing activities	(6,018)	(87,200)	1,060	(92,158)
Net decrease in cash and cash equivalents	(216,909)	(3,478)	(1,609)	(221,996)
Cash and cash equivalents, July 1, 2006	373,325	10,746	20,845	404,916
Cash and cash equivalents, June 30, 2007	$ 156,416	$ 7,268	$ 19,236	$ 182,920

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows -
Enterprise Funds (Continued)
Year Ended June 30, 2007
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Fund - Student Loan Operating Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ (111,603)	$ 65,482	$ (53,694)	$ (99,815)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	35	-	116	151
Interest - investments	(11,822)	(124,864)	-	(136,686)
Interest expense	213,091	-	-	213,091
Amortization of student loan premiums and fees	22,213	-	-	22,213
Accreted tuition expense	-	54,684	-	54,684
Provisions for loan losses	6,554	-	-	6,554
Investment management fee	-	3,042	-	3,042
Change in assets and liabilities				
Notes receivable	(1,015)	-	-	(1,015)
Student loans receivable	365,807	-	-	365,807
Intergovernmental receivables	-	-	(206)	(206)
Accrued interest - loans and notes	(25,147)	-	-	(25,147)
Due from other funds	359	-	612	971
Other receivables	(98)	-	-	(98)
Other noncurrent assets	(16)	-	-	(16)
Accounts payable and accrued liabilities	1,651	136	19,733	21,520
Due to other funds	(187)	(7)	3,511	3,317
Tuition payable	-	85,268	-	85,268
Compensated absences	(98)	6	(98)	(190)
Total adjustments	571,327	18,265	23,668	613,260
Net cash provided (used) by operating activities	$ 459,724	$ 83,747	$ (30,026)	$ 513,445
Supplemental disclosure of noncash transactions:				
Net appreciation (depreciation) in fair value of investments	$ (460)	$ 103,709	$ -	$ 103,249

See Notes to Financial Statements.

Note 1. Organization

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

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

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

A. Monetary Award Program (MAP)

This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provides up to $4,968 in fiscal year 2007 for the payment of tuition and mandatory fees. The program is primarily funded by the General Revenue Fund appropriation.

B. Monetary Award Program Plus (MAP Plus)

The MAP Plus provides grants of up to $500 for Illinois residents who do not receive a MAP grant and whose families' adjusted gross incomes [as reported on the 2006-07 Free Application for Federal Student Aid (FAFSA)] are less than $200,000. Recipients must be enrolled on at least a half-time basis, as sophomores, juniors or seniors at MAP-approved Illinois colleges. The program is funded by appropriation authorized from the Student Loan Operating Fund. It is to be noted that when created in June 2006, the MAP Plus Program was authorized only for the 2006-07 academic year.

C. Illinois Veteran Grant

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

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

Note 1. Organization (Continued)

D. Illinois Incentive for Access Program

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

E. Illinois National Guard Grant

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

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

F. Illinois Future Teachers Corps Scholarships

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

G. Illinois Scholars Program

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

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

H. Minority Teachers Scholarship Program

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

Note 1. Organization (Continued)

H. Minority Teachers Scholarship Program (Continued)

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

I. Nurse Educator Scholarship Program

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

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

J. Ancillary Award Programs

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

- Bonus Incentive Grant
- Grant Program for Dependents of Correctional Officers
- Grant Program for Dependents of Police or Fire Officers
- Illinois Special Education Teacher Tuition Waiver Program
- Student to Student Program of Matching Grants
- Teacher/Child Care Loan Forgiveness Program
- I TEACH Program
- Merit Recognition Scholarships

K. 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.

Note 1. Organization (Continued)

L. Federal Family Education Loan Program (FFELP)

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

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

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

M. Higher Education License Plate Grant Program

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

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

N. *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!*

Note 1. Organization (Continued)

O. 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.

P. Alternative Loan Program

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

Note 2. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

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

2) Fiscal dependency on the primary government.

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

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

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 $235,304 (including amortization) is included in student loans expense in the Statement of Activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

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

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

For fiscal year 2007, the Commission did not receive appropriations through the General Fund - Educational Assistance Account. This account is a shared account and its activity (if any) attributed to the operations of the Commission is combined with the General Revenue Account for report presentation purposes. Any monies received by this fund are held in the State Treasury.

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

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

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

Additionally, the Commission administers the following fund types:

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

C. Basis of Accounting

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

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

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.

Note 2. Summary of Significant Accounting Policies (Continued)

D. Shared Fund Presentation

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

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

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 Policies (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 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 Policies (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 Policies (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. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., Social Security and Medicare tax).

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

O. Bond Premiums, Discounts, and Issuance Costs

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

P. Revenue Bonds and Demand Revenue Bonds Payable

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

Q. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 49,814 contracts held by the fund as of June 30, 2007.

Note 2. Summary of Significant Accounting Policies (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.

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

Note 3. Deposits and Investments

A. Authorized Deposits and Investments

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

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

The Illinois Designated Account Purchase Program (IDAPP) administers the investment of funds from the various student loan revenue bond issues of the Illinois Student Assistance Commission, in accordance with the Commission's enabling Act. Bond documents such as Trust Indentures or Liquidity Agreements place strict limitations on the type of investments that can be made by IDAPP. These limitations are set by the rating agencies and by the institutions providing third party guarantees, such as bond insurance or bank letters of credit. The limitations vary slightly from issue to issue, but in general they restrict investments to direct obligations of the federal government and government agencies, investment agreements, repurchase agreements, bank certificates of deposit, money market funds and highly rated commercial paper and municipal bonds. The Public Funds Investment Act (30 ILCS 235/2) also restricts the investment of funds under the control of IDAPP. These restrictions apply to any funds, which are not restricted by the terms of a bond document. Investments made by IDAPP are also subject to oversight by the Trustee for each bond issue.

Note 3. Deposits and Investments (Continued)

A. Authorized Deposits and Investments (Continued)

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

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

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. The Commission has no policy that would further limit the requirements under State law. As of June 30, 2007, the Commission's locally held deposits were not exposed to custodial credit risk.

Deposits in the custody of the State Treasurer, or in transit, totaled $65,206 at June 30, 2007. 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, 2007 pertain to the Illinois Designated Account Purchase Program (IDAPP), and the Illinois Prepaid Tuition Program (*College Illinois!*) fund, both of which are major enterprise funds.

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 .18% 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, 2007 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
GNMA Securities	$ 70	7.630
Other U.S. Agency Obligations (FNMA, FHLB, FHLMC)	38,226	0.390
U.S. Government Money Market Funds	136,260	0.093
Total	$ 174,556	
Portfolio weighted average maturity		0.161

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, 2007, IDAPP's investments were subject to credit risk as follows:

		Rating	
Investment Type	Fair Value	Standard & Poors	Moody's
U.S. Government Agencies(FNMA, FHLMC, FHLB)	$ 38,226	AAA	Aaa
U.S. Government Money Market Funds	136,260	AAA	Aaa

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the 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 $38,226 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.

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, 2007, 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)	$ 11,272	29%
Federal Home Loan Mortgage Co. (FHLMC)	11,963	31%
Federal National Mortgage Association (FNMA)	14,991	39%

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, 2007 are presented below at fair value by investment type and by investment manager.

Investment Managers
Asset Allocation
June 30, 2007

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Core	J P Morgan	$ 120,072	12.08%
Fixed Income-Intermediate	Galliard Capital	81,547	8.21%
Fixed Income-Intermediate	Income Research	81,771	8.23%
Fixed Income-Core	SSgA Passive Bonds	56,585	5.69%
Total Fixed Income Portfolio		339,975	34.22%
Large-Cap Core Equity	SSgA S&P 500 Index	149,422	15.04%
Large-Cap Value Equity	LSV Asset Management	82,725	8.33%
Large-Cap Value Equity	SSgA	83,352	8.39%
Large-Cap Growth Equity	William Blair & Company	43,205	4.35%
Large-Cap Growth Equity	Holland Capital	41,446	4.17%
Large-Cap Growth Equity	New Amsterdam Partners	42,121	4.24%
Small-Cap Core Equity	Nicholas Applegate	52,385	5.27%
Small-Cap Core Equity	Denver Investment Advisors	48,336	4.86%
Small-Cap Value Equity	Rhumb Line Advisors	24,076	2.42%
Small-Cap Value Equity	Kenwood Capital	23,009	2.32%
Total Domestic Equity		590,077	59.39%
International Equity	LSV Asset Management	56,282	5.66%
Total International Equity		56,282	5.66%
Total Investments		986,334	99.27%
Cash and Equivalents	N/A	7,268	0.73%
Total Cash Equivalents		7,268	0.73%
TOTAL PORTFOLIO		$ 993,602	100%

(All dollar amounts are expressed in thousands)

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	4.2 years	4.7 years	N/A
Galliard Capital	3.6 years	N/A	3.7 years
Income Research Management	3.5 years	N/A	3.7 years
SSgA	4.8 years	4.7 years	N/A

As of June 30, 2007, 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	$	43,374	6.4
U.S. treasury bonds		22,351	4.5
U.S. treasury strips		11,684	9.0
U.S. agency obligations		62,491	6.1
Municipal debt		10,052	4.0
Corporate debt securities		54,661	5.9
Money market mutual funds		8,267	0.0
Corporate asset-backed securities		19,732	8.3
Foreign debt securities		797	7.0
Corporate mortgage backed securities		25,938	3.2
Mortgage backed securities			
Pass through (fixed rate, adjustable rate)		9,953	4.1
Collateralized mortgage obligations		3,964	5.5
Delegated underwriting and servicing bonds and surety bonds		9,368	4.3
Debt security mutual fund		758	0.0
Passive bond index fund		56,585	7.2
Total Fair Value	$	339,975	
Portfolio weighted average maturity			5.8

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk

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

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

The following table indicates credit ratings as of June 30, 2007, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

Credit Ratings (Excludes Corporate Securities)
June 30, 2007

		Credit Rating		
	Total Fair Value	Moody's	Standard & Poor's	Fitch
U.S. agency obligations	$ 62,491	Aaa	AAA	AAA
Money market mutual funds	8,267	Aaa	AAA	AAA
Debt security mutual fund	758	NR	NR	NR
Passive bond index fund	56,585	NR	NR	NR
Mortgage backed securities	23,285	Aaa	AAA	AAA

NR = not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

The following tables indicate credit ratings as of June 30, 2007, for debt security investments that received multiple ratings.

Credit Ratings (Corporate Debt Securities)
June 30, 2007

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 3,859
	Corporate debt securities	Aa	16,348
	Corporate debt securities	A	20,172
	Corporate debt securities	Baa	13,857
	Corporate debt securities	NR	425
			54,661
Standard and Poors:	Corporate debt securities	AAA	2,257
	Corporate debt securities	AA	14,638
	Corporate debt securities	A	23,866
	Corporate debt securities	BBB	12,930
	Corporate debt securities	NR	970
			54,661
Fitch:	Corporate debt securities	AAA	226
	Corporate debt securities	AA	16,828
	Corporate debt securities	A	21,420
	Corporate debt securities	BBB	10,381
	Corporate debt securities	NR	5,806
			54,661

* NR – not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Corporate Asset-Backed and Mortgage-Backed Securities)
June 30, 2007

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate asset-backed securities	Aaa	18,517
	Corporate asset-backed securities	NR	1,215
			19,732
Standard and Poors:	Corporate asset-backed securities	AAA	18,629
	Corporate asset-backed securities	NR	1,103
			19,732
Fitch:	Corporate asset-backed securities	AAA	17,695
	Corporate asset-backed securities	NR	2,037
			19,732
Moody's:	Corporate mortgage-backed securities	AAA	22,461
	Corporate mortgage-backed securities	NR	3,477
			25,938
Standard and Poors:	Corporate mortgage-backed securities	AAA	24,659
	Corporate mortgage-backed securities	NR	1,279
			25,938
Fitch:	Corporate mortgage-backed securities	AAA	22,913
	Corporate mortgage-backed securities	NR	3,025
			25,938

* NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Municipal Debt)
June 30, 2007

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Municipal Debt	AAA	7,463
	Municipal Debt	AA	1,230
	Municipal Debt	A	960
	Municipal Debt	NR	399
			10,052
Standard and Poors:	Municipal Debt	AAA	3,834
	Municipal Debt	AA	2,268
	Municipal Debt	A	509
	Municipal Debt	NR	3,441
			10,052
Fitch:	Municipal Debt	AAA	3,779
	Municipal Debt	AA	725
	Municipal Debt	NR	5,548
			10,052

* NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Foreign Debt)
June 30, 2007

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Foreign Debt	A	182
	Foreign Debt	Aa	109
	Foreign Debt	Baa	506
			797
Standard and Poors:	Foreign Debt	A	291
	Foreign Debt	BBB	506
			797
Fitch:	Foreign Debt	A	72
	Foreign Debt	AA	109
	Foreign Debt	BBB	388
	Foreign Debt	NR	228
			797

* NR - not rated

Custodial Credit Risk

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

As of June 30, 2007, all investments were held by the Illinois Prepaid Tuition Program's agent in the Illinois Prepaid Tuition Program's name.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (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.

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

There were no individual securities (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) that exceeded 5% or more of the total investment portfolio as of June 30, 2007.

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, 2007, 6% is invested in international equities; however, none of these investments are denominated in foreign currencies.

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 $83,000 as of June 30, 2007.

Note 5. Student Loans Receivable

IDAPP's student loans receivable balance is comprised of two types of student loans: loans that are originated or purchased as part of the Federal Family Education Loan Program (FFELP) and loans that are originated as part of IDAPP's Alternative Loan Program. All FFELP loans originated or purchased by IDAPP are guaranteed at 98% by certain Guarantors in accordance with the Higher Education Act (100% for loans disbursed before October 1, 1993) and are reinsured by the United States Department of Education (ED). Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by ED. Alternative Loans are credit based and a provision for loan loss is set aside for the full amount of the loan when a loan becomes 120 days delinquent. The total amount of Alternative Loans outstanding approximated $480,545 at June 30, 2007.

ED has issued detailed loan servicing requirements, which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. Management has identified loan-servicing deficiencies that may result in loans that will not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $11,962 as of June 30, 2007 that includes the amount collected from borrowers as an insurance fee for the Alternative Loans.

In addition, the net student loans receivable at June 30, 2007 of $3,414,955 includes $12,031 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, 2007.

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 2007 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. US Bank & Trust of Minneapolis acts as Bond Trustee for Taxable Variable Rate Demand Student Loan Revenue Bonds Series D. The Bank of New York 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.

Note 5. Student Loans Receivable (Continued)

Federal Student Loan Fund

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

The cash balance in this fund as of June 30, 2007 as reported by ISAC was $39,232. The accrual basis deferred revenue, which includes $26,791 of claims in process, was $47,962. 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 $3,414,956 at June 30, 2007 is subject to the adequacy of the annual appropriation from the Illinois Student Assistance Commission Federal Student Loan Fund and the reserve funds of the other Guarantors to pay defaulted loan claims. However, based on past loan default experience, management believes that material losses will not be incurred.

Note 6. Federal Special Allowance and Interest Subsidy

The Federal government pays IDAPP an interest subsidy on certain student loans during the time that the student is enrolled in an eligible educational institution or qualifies for deferment status. The federal interest receivable at June 30, 2007 was approximately $11,200 and related revenue was approximately $45,100 for the year ended June 30, 2007.

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, 2007 were approximately $9,200 and related revenue was approximately $52,600 for the year ended June 30, 2007.

(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, 2007 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	$ 52	$ -	$ -	Due from Accounts Receivable Fund for share of collections.
	5	-	-	Due from Student Loan Operating Fund for share of defaulted collections.
	57	-	-	
Illinois Designated Account	770	-	-	Due from Federal Student Loan Fund for default claims receivable.
Purchase Program	18	-	-	Due from General Revenue Fund for expenses related to the Teacher Loan Forgiveness Program.
	788	-	-	
Nonmajor Governmental - Federal Student Loan	251	-	-	Due from Student Loan Operating Fund for Direct Consolidation fees.
	122	-	-	Due from Student Loan Operating Fund for claim fees due to borrower default.
	1	-	-	Due from Student Loan Operating Fund for interest on delay due to 48 Hour rule.
	36	-	-	Due from Student Loan Operating Fund for cost of collection due to collection agencies.
	288	-	-	Due from Student Loan Operating Fund for Default Fees.
	3,928	-	-	Due from Student Loan Operating Fund representing a portion of the default aversion fee that will be returned due to students defaulting.
	20	-	-	Due from IDAPP for lender refunds for default claims paid.
	4,646	-	-	
Nonmajor Proprietary - Student Loan Operating	1,138	-	-	Due from Federal Student Loan Fund for share of student defaulted loan collections and default aversion fee.
	13	-	-	Due from Federal Student Loan Fund for non-reinsurable loan collection.
	27,000	-	-	Due from IDAPP for proceeds of loan sale.
	-	-	21	Due from State universities for overpayments of grants.
	28,151	-	21	
	$ 33,642	$ -	$ 21	

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity (Continued)

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

The following balances at June 30, 2007 represent amounts due to other ISAC and State of Illinois funds.

Fund	Due to Primary Government Funds: ISAC	Due to Primary Government Funds: Other State	Due to Component Units	Description/Purpose
General Revenue	$ -	$ -	$ 4	Due to State universities for scholarship and MAP grants.
	18	-	-	Due to IDAPP for expenses related to the Teacher Loan Forgiveness Program.
	18	-	4	
Illinois Designated Account Purchase Program	20	-	-	Due to Federal Student Loan Fund for lender refunds for default claims paid.
	27,000	-	-	Due to Student Loan Operating Fund for proceeds of loan sale.
	27,020	-	-	
Nonmajor Governmental - Federal Student Loan	1,138	-	-	Due to Student Loan Operating Fund for share of student defaulted loan collections.
	13	-	-	Due to Student Loan Operating Fund for non-reinsurable loan collection.
	770	-	-	Due to IDAPP for default claims payable.
ISAC Accounts Receivable	52	-	-	Due to the General Revenue Fund for its share of collections.
	1,973	-	-	
Nonmajor Proprietary - Student Loan Operating	251	-	-	Due to Federal Student Loan Fund for Direct Consolidation fees.
	-	523	-	Due to Central Management Services for EDP, communications, garage and Auditor General for audit of federal programs.
	122	-	-	Due to Federal Student Loan Fund for claim fees due to borrower default.
	3,928			Due to Federal Student Loan Fund for default aversion fee due to students returning to a "default" status.
	1	-	-	Due to Federal Student Loan Fund for interest on delay due to 48 Hour rule.
	36	-	-	Due to Federal Student Loan Fund for cost of collection due to collection agencies.
	288	-	-	Due to Federal Student Loan Fund for Default Fees.
	5	-	-	Due to General Revenue Fund for share of defaulted collections.
	-	-	6,653	Due to State universities for overpayments of grants.
Illinois Prepaid Tuition Program	-	58	-	Due to Auditor General for cost of audit.
	4,631	581	6,653	
	$ 33,642	$ 581	$ 6,657	

(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, 2007 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General Revenue	$ 218	Transfer from Student Loan Operating Fund and ISAC Accounts Receivable Fund for share of receivable collections.
Nonmajor Governmental-ISAC COP Debt Service	1,939	Transfer from the Student Loan Operating Fund, IDAPP and the General Fund for lease payments.
Nonmajor Proprietary-Student Loan Operating	55,530	Transfer from IDAPP for loan sale proceeds.
	$ 57,687	

Interfund transfers out for the year ended June 30, 2007 were as follows:

Fund	Transfers Out To Other ISAC Funds	Description/Purpose
IDAPP	$ 768	Transfer to ISAC COP Debt Service Fund for lease payments
	55,530	Transfer to Student Loan Operating Fund for loan sale proceeds
IL Prepaid Tuition Program	25	Transfer to ISAC COP Debt Service Fund for lease payments
Nonmajor Governmental - ISAC Accounts Receivable	213	Transfer to General Revenue Account for share of receivable collections.
Nonmajor Proprietary - Student Loan Operating	1,146	Transfer to ISAC COP Debt Service Fund for lease payments
	5	Transfer to General Revenue Account for share of receivable collections.
	$ 57,687	

(All dollar amounts are expressed in thousands)

Note 8. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	1,225	-	(68)	1,157
Total capital assets being depreciated	19,536	-	(68)	19,468
Less accumulated depreciation:				
Buildings	(6,638)	(458)	-	(7,096)
Equipment	(1,212)	(12)	68	(1,156)
Total accumulated depreciation	(7,850)	(470)	68	(8,252)
Total capital assets being depreciated, net	11,686	(470)	-	11,216
Govermental activities capital assets, net	$ 14,386	$ (470)	$ -	$ 13,916
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 500	$ 14	$ -	$ 514
Less accumulated depreciation:				
Equipment	(435)	(35)	-	(470)
Total capital assets being depreciated, net	65	(21)	-	44
Nonmajor Enterprise Funds:				
Capital assets being depreciated:				
Equipment and automobiles	864	23	-	887
Less accumulated depreciation:				
Equipment and automobiles	(549)	(116)	-	(665)
Total capital assets being depreciated, net	315	(93)	-	222
Business-type activities capital assets, net	$ 380	$ (114)	$ -	$ 266

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2007 amounted to $470. Of that amount, 100% was charged to the Scholarships, awards and grants function.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable

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

Revenue Bonds and Notes*			Demand Revenue Bonds*				
Resolution Issues		Amount Outstanding	Resolution Issues		Amount Outstanding		Total
A(1)	$	936,674	B(1)	$	49,858		
A(2)		868,243	B(2)		15,100		
A(3)		1,427,100	B(3)		40,928		
			B(4)		42,181		
			B(5)		99,490		
	$	3,232,017		$	247,557	$	3,479,574

* Reported net of unamortized discounts.

A. Revenue Bonds and Notes Payable

1. 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.

2. 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.

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

Note 9. Long-Term Obligations Payable (Continued)

A. Revenue Bonds and Notes Payable (Continued)

All of the above General Resolution Bonds are auction rate certificates. 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, 2007 was 3.95%. The variable interest rate for taxable debt at June 30, 2007 was 5.37%.

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, has a final maturity of September 1, 2023.

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

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 $41,100 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 $42,400 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.

Note 9. Long-Term Obligations Payable (Continued)

B. Demand Revenue Bonds Payable (Continued)

The Variable Rate Demand Student Loan Revenue Bonds Series D, 1996B, 1997A, 1997B, 1998A, 1998B, 1999A and 1999B totaling approximately $248,600 are currently in a Weekly Rate Mode with the interest rate changing weekly as determined by the Remarketing Agent and are secured by letters of credit or bond insurance (see Note 9.C). These bonds may be converted to a Fixed Interest Rate Mode at the option of the Bond Trustee. The bonds may be redeemed prior to the conversion date (as defined) at the principal amount plus accrued interest to the date of redemption. The variable interest rate for tax-exempt debt is reset weekly based on market conditions. The variable interest rate for taxable debt is reset weekly based on market conditions. As of June 30, 2007, interest rates were 3.80% for tax-exempt debt and 5.35% 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.

C. Demand Revenue Bonds Payable – Other Terms and Agreements

IDAPP had $247,557 in demand bonds payable (net of unamortized discount) as of June 30, 2007. 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 a bondholder gives such a notice, 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 totaling $41,100, as current liabilities (Series 1997A and B bonds) because the takeout agreement expires during fiscal year 2008. 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 8.25% as of June 30, 2007. The take-out agreement expires February 28, 2009.

Note 9. Long-Term Obligations Payable (Continued)

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

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, 2007, IDAPP had not drawn any funds under its existing letter of credit agreements.

Series 1996A and 1996B Bonds

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

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 8.25% as of June 30, 2007. 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, 2007, 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 expired on February 25, 2008. The entire amount of $41,100 has been shown as a current liability as of June 30, 2007.

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 6.07% as of June 30, 2007. The take-out agreement expired on February 25, 2008. In July 2007, IDAPP retired the remaining debt subject to the take-out agreement, refer to Note 19.

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, 2007, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Note 9. Long-Term Obligations Payable (Continued)

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

Series 1998A and 1998B Bonds

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

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 8.25% as of June 30, 2007. The take-out agreement expires on April 1, 2010.

IDAPP is required to pay Bank of America a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take-out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2007, IDAPP had not drawn any funds under its existing liquidity facility agreements.

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 9.25% as of June 30, 2007. 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, 2007, IDAPP had not drawn any funds under its existing liquidity facility agreements.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

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

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
2008	$ 28,571	$ 3,298	$ 8,629	$ 996	$ 41,100	$ 2,250
2009	21,429	800	6,471	272	-	-
Total	$ 50,000	$ 4,098	$ 15,100	$ 1,268	$ 41,100	$ 2,250

	Series 1998A and 1998B		Series 1999A and 1999B	
Year	Principal	Interest	Principal	Interest
2008	$ -	$ 3,554	$ -	$ 9,402
2009	-	3,544	-	9,376
2010	-	3,544	20,000	8,327
2011	8,480	3,342	20,000	6,452
2012	8,480	2,641	20,000	4,705
2013-2016	25,440	3,910	40,000	3,527
Total	$ 42,400	$ 20,535	$ 100,000	$ 41,789

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

D. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2007 were as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
Governmental activities:					
Other long-term obligations:					
Installment purchase obligations	$ 11,175	$ -	$ (1,370)	$ 9,805	$ 1,440
Business-type activities:					
Illinois Designated Account Purchase Program :					
Revenue bonds payable	$ 4,222,515	$ -	$ (730,315)	$ 3,492,200	$ 41,100
Unamortized discounts	(16,506)	-	3,880	(12,626)	(619)
Other long-term obligations:					
Compensated absences	819	501	(599)	721	117
Total Illinois Designated Account Purchase Program	4,206,828	501	(727,034)	3,480,295	40,598
Illinois Prepaid Tuition Program :					
Compensated absences	86	39	(33)	92	30
Tuition payable	657,826	119,795	(32,543)	745,078	28,832
Accreted tuition payable	158,423	54,684	(1,984)	211,123	2,170
Total Illinois Prepaid Tuition Program	816,335	174,518	(34,560)	956,293	31,032
Nonmajor Enterprise Fund:					
Compensated Absences	2,912	1,993	(2,091)	2,814	415
Total business-type activities	$ 5,026,075	$ 177,012	$ (763,685)	$ 4,439,402	$ 72,045

E. 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, 2007. 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.

In July and August, 2007, IDAPP retired all remaining debt subject to the bond covenant noncompliance, refer to Note 19.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

F. 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
2008	$ 41,100	$ 184,875	$ 225,975
2009	1,700	183,639	185,339
2010	-	183,628	183,628
2011	82,650	182,304	264,954
2012	-	179,654	179,654
2013-2017	75,100	883,230	958,330
2018-2022	-	878,119	878,119
2023-2027	50,000	867,865	917,865
2028-2032	105,000	851,588	956,588
2033-2037	1,087,100	700,918	1,788,018
2038-2042	900,000	422,587	1,322,587
2043-2045	1,149,550	119,019	1,268,569
	3,492,200	$ 5,637,426	$ 9,129,626
Less:			
Demand revenue bonds	41,100		
Long-term principal outstanding	3,451,100		
Less:			
Unamortized bond discounts	(12,006)		
Net long-term principal outstanding	$ 3,439,094		

Approximately 99% of IDAPP's debt outstanding is comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the current interest rate of 3.95% on tax-exempt variable rate demand note debt, 5.37% on tax-exempt auction rate debt, 3.8% on taxable variable rate demand note debt and 5.32% on taxable auction rate debt. Actual interest paid in future years could be materially different.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

G. Tuition Payable

Tuition payable activity for the year ended June 30, 2007 is as follows:

Balance as of July 1, 2006	$ 657,826
Add:	
Contributions	119,795
Less:	
Return of contributions	(6,191)
Tuition payments	(26,352)
Balance as of June 30, 2007	$ 745,078
Reported as:	
Current	$ 28,832
Noncurrent	716,246
	$ 745,078

H. 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 2007 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.12% and is based on the average increase in tuition for Illinois colleges.

Average tuition payable balance over the year	$ 680,255
Estimate of 8.12% increase of tuition payable	$ 55,237
Present value	$ 54,684
Beginning balance accreted tuition payable as of July 1, 2006	$ 158,423
Accretion expense	54,684
Accretion payments	(1,984)
Ending balance accreted tuition payable as of June 30, 2007	$ 211,123
Reported as:	
Current	$ 2,170
Noncurrent	208,953
	$ 211,123

Note 9. Long-Term Obligations Payable (Continued)

(All dollar amounts are expressed in thousands)

H. Accreted Tuition Payable (Continued)

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

I. Installment Purchase Obligations

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

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

Future commitments under the installment purchase contract as of June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 1,440	$ 500	$ 1,940
2009	1,510	430	1,940
2010	1,585	354	1,939
2011	1,670	273	1,943
2012	1,755	188	1,943
2013	1,845	97	1,942
	$ 9,805	$ 1,842	$ 11,647

Note 10. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Commission's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2007.

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

Note 11. Pension Plan

Substantially all of the Commission's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2007 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Commission pays employer contributions based upon an actuarially determined percentage of their payrolls. For fiscal years 2007, 2006 and 2005, the employer contribution rate was 11.5%, 7.8% and 16.1%, respectively. For fiscal years 2007, 2006 and 2005, the required and actual contribution was $2,780, $1,949 and $3,860, respectively.

Note 12. Post-Employment Benefits

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

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2007. Post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental, and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis.

Note 13. Fund Deficits

College Illinois!, the State's section 529 prepaid tuition program, has taken action to reduce and ultimately eliminate its $84 million current actuarially determined deficit over time. (Notably, the current actuarial deficit is $63 million less than the $147 actuarial deficit reported on June 30, 2006.) The Illinois Student Assistance Commission (ISAC), administrator of the *College Illinois!* program, has added a premium to contract prices during each of the six enrollment periods, 2001-02 through 2006-07 to partially amortize the current actuarial deficit, and the Commission could perpetuate these or similar actions in subsequent years, if necessary, 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 <u>future</u> enrollment period, as well as <u>future</u> expectations for tuition and fee 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 11% for FY 2008 and 7.75% long-term. Beginning with FY 2008, the assumption regarding future contract sales is lowered from 5,000 to 4,500 per year. The principal factor contributing to the overall decrease in the actuarial deficit from FY2006 to FY2007 is that the program's long-range investment performance assumption was recently revised to 8.25% in FY 2008, 8.5% in FY 2009, 8.75% in FY 2010 and 9.0% in FY 2011 and each subsequent year.

Each year when setting plan prices, the Commission reviews the assumptions that influence the actuarial deficit. Since 2002, recognizing that the State's budget has provided minimal increases for the state's institutions of higher education and tuition and fee increases have as a result been higher than anticipated, the assumption concerning tuition increases has been adjusted higher on a temporary basis. Also in 2002, the Commission reduced the program's long-term investment return assumption temporarily, in recognition that the economy was recovering more slowly than expected due to external shocks that have adversely affected financial markets during the past several years. In FY2007, it was decided to return to the original long-term investment performance assumption of 8% based on the economic trends at that time. The most recent change to the investment return assumptions is a result of investment policy modifications approved by the Commission in fiscal year 2007 that introduced several new asset classes to the program's investment portfolio.

Implementation of the Truth-in-Tuition law (in 2004) has impacted and will continue to impact future tuition increases for classes of new students entering the State's public universities. Another significant fact that only became evident after the law was implemented, was that while tuition rates charged to students who remain enrolled for continuous academic years must remain level, public universities typically continue to increase fees annually for all students, not just new enrollees.

(All dollar amounts are expressed in thousands)

Note 13. Fund Deficits (Continued)

Beginning with FY2006, fee increase assumptions separate from tuition increase assumptions were developed. For FY2006 these assumptions were 8% for one year and 6% long-term. For FY2007, the fee increase assumptions were raised to 10% and 8% long-term. Those assumptions were recently reconsidered and based on the current State budget situation and the recent history of fee increases at the public universities, fees are assumed to increase 11.00% in FY2008 and then 7.5% per year thereafter. 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 as well.

	Actuarial Evaluation (Unaudited)
Net assets, before tuition/accretion payable	$ 992,522
Actuarial present value of future payments expected to be made by contract purchasers	187,396
Subtotal	1,179,918
Actuarial present value of future payments expected to be made by the program	1,264,132
Actuarial deficit as of June 30, 2007	$ (84,214)

Note 14. Operating Leases

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

Expenses for all operating leases amounted to $145 in 2007.

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

Note 15. Commitments and Contingencies

The Internal Revenue Code requires that an issuer of tax-exempt bonds rebate to the United States any excess investment earnings made with the gross proceeds of an issue over the amount which would have been earned had such proceeds been invested at a rate equal to the yield on the issue. Accordingly, IDAPP has accrued $230 as of June 30, 2007 for amounts potentially due to the government and has treated this as a reduction to investment income.

Note 15. Commitments and Contingencies (Continued)

IDAPP has entered into a number of contracts with lenders, to act as IDAPP's agents and facilitate the purchase of Federal Family Education Loan Program (FFELP) student loans for IDAPP. FFELP loans are guaranteed by the Federal Department of Education. IDAPP is committed to disbursing the funds for the FFELP loans purchased by these lenders. The total amount of the purchase commitment is not specified in the individual contracts. IDAPP's obligation under these purchase agreements is estimated to range from $0.3 to $37 million. The total amount of loans purchased by IDAPP with all lenders in FY2007 was approximately $150 million.

Letters-of-credit and liquidity facilities in the amount of $252,955 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, 2007.

The Commission receives grants from the federal government, which are subject to review and audit by federal grantor agencies. At June 30, 2007, 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. Management believes that any major changes in regulations based on discussions between NCHELP and the Department of Education will be applied prospectively.

The Commission is a defendant in a lawsuit. It is the opinion of the Commission's legal counsel that the potential outcome of the lawsuit cannot be determined at this time and that the potential loss ranges up to $13 million. Commission management believes the lawsuit is without merit and intends to vigorously defend the Commission against the lawsuit. Commission management does not believe the lawsuit will have a material effect on financial results.

(All dollar amounts are expressed in thousands)

Note 16. New Governmental Accounting Standards

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

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

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

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

Note 17. Short-Term Revolving Credit Line

On June 22, 2006 ISAC/IDAPP executed a $500,000 short-term revolving credit agreement with Bank of America, N.A. The revolving credit line was used to purchase eligible student loans (guaranteed or insured or is an eligible loan under the Higher Education Act), and was due to expire on June 21, 2007. The line was extended to October 21, 2007. US Bank is the Trustee for this credit line. Changes in the revolving credit line are as follows:

Balance, July 1, 2006	Additions	Deletions	Balance, June 30, 2007
$ -	$ 195,170	$ -	$ 195,170

The terms of the credit line are as follows:

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

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

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

(All dollar amounts are expressed in thousands)

Note 17. Short-Term Revolving Credit Line (Continued)

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

As of June 30, 2007 there was $195,170 outstanding under this line. This amount was retired (paid) August 29, 2007.

Note 18. Special Items

A. Sale of Student Loans

On January 26, 2007 the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of $662.5 million for $670.8 million. The loans receivable constituted 11 % of IDAPP's total student loan portfolio as of the date of the sale.

The gross premium from the sale of $37,086 less the expenses related to the sale of $1,446, and the corresponding write-off of unamortized premiums, origination and default fees of $28,828 are reported as special items in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

$26.5 million of the proceeds from the sale were transferred to ISAC's Student Loan Operating Fund to fund the expenditures associated with the MAP Plus scholarships.

B. Early Extinguishment of Debt

ISAC also retired $690,180 in revenue bonds associated with the student loan portfolio, which was sold in January 2007. Expenses related to the early extinguishment of $3,465, and write-offs of unamortized bond discounts of $3,364 are reported as special items in the Statement of Revenues, Expenses and Changes in Net Assets.

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

Special Item		
Sale of student loan portfolio		
Premium from sale of loans	$	37,086
Expenses related to sale of loans		(1,446)
Gain from loan sale, net of direct expenses		35,640
Write-off of capitalized premiums, origination, and default fees		(28,828)
Net gain from sale of student loans		6,812
Early extinguishment of debt		
Expenses related to retirement of bonds		(3,465)
Write-off of unamortized discounts for bonds retired		(3,364)
Net loss related to early extinguishment of debt		(6,829)
Net special item	$	(17)

Note 19. Subsequent Events

On July 31, 2007 the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of $1.41 billion for $1.46 billion. The loans receivable constituted 41% of IDAPP's total student loan portfolio as of the date of the sale. ISAC retired approximately $2.1 billion in revenue bonds associated with the portfolio that was sold. $27 million of the remaining proceeds from the sale were transferred to the Student Loan Operating Fund to fund expenditures associated with the Monetary Award Program scholarship of the State of Illinois.

On August 31, 2007 the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of $1.09 billion for $1.12 billion. The loans receivable constituted 52% of IDAPP's total student loan portfolio as of the date of the sale. ISAC retired approximately $515 million in revenue bonds associated with the portfolio that was sold. The remaining proceeds from the loan sale were used to fund new Illinois based student loans.

Effective October 1, 2007 the Federal Government passed the College Cost Reduction and Access Act (CCRAA). The CCRAA resulted in significant reductions to the Illinois Student Assistance Commission's (ISAC) revenue streams. As a result, in November 2007, ISAC implemented a plan of restructuring. The restructuring plan will focus on making student loans primarily to Illinois students, and students attending Illinois schools. As a result of the restructuring, approximately 67 budgeted positions, including 17 vacancies, were eliminated. Employees laid off were compensated according to State Universities Civil Service System rules and Federal regulations. Lump sum amounts paid for compensated absences for sick and vacation are accrued in the Statement of Revenues, Expenses and Changes in Fund Net Assets as current liabilities.

After the bond retirement discussed above ($2.6 billion total), all remaining IDAPP outstanding bonds are auction rate certificates issued under a General Resolution adopted on July 29, 2002 which was supplemented and amended for additional bond issues (such document as amended and supplemented is hereinafter referred to as the "2002 Resolution"). Starting in August 2007 and continuing through February 2008, the bond markets experienced severe disruption. As a result, an auction held on February 13, 2008 for $70 million of bonds issued under the 2002 Resolution failed to attract enough bidders. While the market remains unpredictable, management believes that it is highly likely that subsequent auctions on the remaining $815 million of outstanding bonds under the Resolution will fail as well. A "failed auction" results in the bonds being priced at the "maximum rate" which, as defined in the 2002 Resolution, can be no more than LIBOR plus 1.5%. Auctions of bonds continue during this period of failed auctions; with the difference between the maximum rate and that rate set by the market (should it be higher than the maximum rate), classified as "Carryover Interest." Carryover interest is payable under certain conditions as defined in the 2002 Resolution and its supporting documents. After analysis of these documents by legal counsel, management has concluded that it is improbable that these conditions will be met. As a result, management believes that the carryover interest will not become due and payable.

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Budgetary Comparisons Schedule - Major Governmental Funds - General Fund
Year Ended June 30, 2007
(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	$ 400,970	$ 400,970	$ 397,100	$ -	$ 397,100
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General Revenue Account	400,970	400,970	396,536	-	396,536
Excess of revenues over expenditures	-	-	564	-	564
Other sources of financial resources					
Transfers in/General Revenue Account	-	-	218	-	218
Net change in fund balance	-	-	782	-	782
Fund balance, July 1, 2006	-	-	3,853	-	3,853
Fund balance, June 30, 2007	$ -	$ -	$ 4,635	$ -	$ 4,635

See Notes to Required Supplementary Information

State of Illinois
Illinois Student Assistance Commission

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

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

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

Actual revenue amounts on the budgetary basis	$ 397,100
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	$ 397,100

State of Illinois
Illinois Student Assistance Commission

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007
(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	$ 39,232	$ 6	$ 332	$ 67
Receivables				
Intergovernmental	26,791	-	-	-
Accrued interest on investments	157	-	-	-
Other	-	-	2	-
Due from other ISAC funds	718	-	-	-
Due from other ISAC funds - deferred charges	3,928	-	-	-
Total assets	$ 70,826	$ 6	$ 334	$ 67
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ 12,131	$ -	$ -	$ 3
Due to other ISAC funds	1,921	-	-	52
Deferred revenue	47,962	6	14	-
Intergovernmental payable	5,621	-	-	-
Due to U.S. Department of Education				
Reserve recall and advance	3,191	-	-	-
Other	-	-	320	-
Total liabilities	70,826	6	334	55
Fund balances				
Unreserved	-	-	-	12
Total liabilities and fund balances	$ 70,826	$ 6	$ 334	$ 67

Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
Future Teacher Corps	University Grant	Contract and Grant	Optometric Education	Total	I S A C COP	
$ -	$ -	$ 30	$ -	$ 39,667	$ -	$ 39,667
-	-	-	-	26,791	-	26,791
-	-	-	-	157	-	157
-	-	-	-	2	-	2
-	-	-	-	718	-	718
-	-	-	-	3,928	-	3,928
$ -	$ -	$ 30	$ -	$ 71,263	$ -	$ 71,263
$ -	$ -	$ 2	$ -	$ 12,136	$ -	$ 12,136
-	-	-	-	1,973	-	1,973
-	-	28	-	48,010	-	48,010
-	-	-	-	5,621	-	5,621
-	-	-	-	3,191	-	3,191
-	-	-	-	320	-	320
-	-	30	-	71,251	-	71,251
-	-	-	-	12	-	12
$ -	$ -	$ 30	$ -	$ 71,263	$ -	$ 71,263

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2007
(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	$ 137,598	$ 3,626	$ 1,516	$ -
Licenses and fees	9,693	-	-	-
Interest and other investment income	1,917	-	-	-
Collections on student loans previously reimbursed by the U.S. Department of Education	31,346	-	-	-
Other	-	-	-	281
Total revenues	180,554	3,626	1,516	281
Expenditures				
Education				
Scholarships, awards and grants	-	3,626	1,516	56
Loan guarantee	180,554	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	180,554	3,626	1,516	56
Excess (deficiency) of revenues over expenditures	-	-	-	225
Other sources (uses) of financial resources				
Appropriations from State resources	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	(213)
Net other sources (uses) of financial resources	-	-	-	(213)
Net change in fund balance	-	-	-	12
Fund balance, July 1, 2006	-	-	-	-
Fund balance, June 30, 2007	$ -	$ -	$ -	$ 12

Special Revenue Funds					Debt Service Fund	
Future Teacher Corps	University Grant	Contract and Grant	Optometric Education	Total	I S A C COP	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ 142,740	$ -	$ 142,740
-	-	-	-	9,693	-	9,693
-	-	-	-	1,917	-	1,917
-	-	-	-	31,346	-	31,346
-	-	19	-	300	-	300
-	-	19	-	185,996	-	185,996
48	53	19	60	5,378	-	5,378
-	-	-	-	180,554	-	180,554
-	-	-	-	-	1,370	1,370
-	-	-	-	-	569	569
48	53	19	60	185,932	1,939	187,871
(48)	(53)	-	(60)	64	(1,939)	(1,875)
48	53	-	60	161	-	161
-	-	-	-	-	1,939	1,939
-	-	-	-	(213)	-	(213)
48	53	-	60	(52)	1,939	1,887
-	-	-	-	12	-	12
-	-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ 12	$ -	$ 12

McGladrey & Pullen
Certified Public Accountants

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

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2007, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (findings 07-1 through 07-4).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 07-1, 07-3 and 07-4 to be material weaknesses.

Compliance and Other Matters

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

We are currently conducting a State compliance examination of the Commission as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 4, 2008

Current Findings – *Government Auditing Standards*

07-1 Financial Reporting – Illinois Prepaid Tuition Program

The Illinois Student Assistance Commission (Commission) does not have sufficient controls over the financial reporting process.

During our review of the draft financial statements of the Illinois Prepaid Tuition Program (the Program), the disclosures related to the multiple ratings of securities as required by the Governmental Accounting Standards Statement No. 40, *Deposit and Investment Risk Disclosures* were not properly calculated by the Commission. These disclosures were subsequently corrected and are properly disclosed on the final financial statements. The Program's investments subject to these disclosures totaled approximately $994 million.

The Commission stated that they rely on their contractual investment advisor to prepare this information.

Good internal controls should be designed and operated to allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements in the financial statements and the related disclosures.

Deficiencies in internal control allowed errors in calculating deposit and investment risk disclosures to go undetected by management in the normal course of performing their assigned functions. As a result of the revisions that were necessary to the draft financial statements, completion of the financial audit was delayed beyond the originally agreed upon completion date and could result in delays for the completion of the statewide financial statements. (Finding Code No. 07-1).

Recommendation

We recommend internal controls over financial reporting be strengthened. Individuals preparing financial statements should cross-check all amounts and disclosures to ensure they are in compliance with the applicable governmental accounting standards.

Commission Response

Agree. The Commission will implement quality control procedures to ensure that all note disclosures are reviewed to ensure that they are calculated correctly in accordance with applicable governmental accounting standards.

Current Findings – *Government Auditing Standards (Continued)*

07-2 Internal Auditing

The Illinois Student Assistance Commission (Commission) failed to perform internal audits of its major systems of internal accounting and administrative controls within the last two years.

Based on our examination of the Commission's internal audit program, we noted that the Commission did not audit 4 of its 12 (33%) major systems of internal accounting and administrative controls within the last two years. Specifically, the Commission failed to audit the following (last FY audited):

1. Revenues, Cash Receipt & Payment Posting (FY 2005)
2. US Department of Education - Reporting & Due Diligence:
    a. General (FY 2004)
    b. Default Prevention (FY 2004)
    c. Default Collection (FY 2004)

Good business practice requires that significant internal controls be periodically evaluated and assessed to determine that the controls are sufficient and operating effectively.

Per Commission management, the internal auditor position has been vacant since 2005. Although the Commission was able to complete some internal audits by using an outside public accounting firm, they were not able to complete all required audits.

Significant areas of internal control must be reviewed and evaluated regularly to maintain an effective internal control system. When internal audits are not completed timely and in accordance with an approved audit plan, the Commission may fail to detect weaknesses in its internal control in a timely manner. (Finding Code No. 07-2, 06-3).

Recommendation

We recommend the Commission complete an internal audit of all major systems of internal accounting and administrative control within a two-year period of time.

Commission Response

Agree. The Commission has contracted with an external public accounting firm to complete the internal audits on a timely basis. An internal audit plan has been put in place. The Commission is confident that by the end of FY 2008 audits of all major systems will be completed timely on a two-year cycle.

Current Findings – *Government Auditing Standards (Continued)*

07-3 Financial Reporting – Illinois Designated Account Purchase Program

The Illinois Student Assistance Commission (Commission) does not have sufficient controls over the financial reporting process.

Numerous errors/adjustments were identified during the audit of the Illinois Designated Account Purchase Program (IDAPP) and review of underlying records. Some of the more significant adjustments/errors were as follows:

- The financial statements provided to the auditors required several corrections and revisions. Presentation of certain financial statement items was not accurate and several disclosures were missing and required the following revisions:
  - ✓ Unamortized bond issuance costs totaling approximately $1.4 million were inappropriately classified as unrestricted instead of restricted.
  - ✓ Approximately $0.7 million in accrued interest expense was included in the amount reported as accounts payable.
  - ✓ Restricted net assets were understated by approximately $1.1 million, and unrestricted net assets were overstated by the same amount.
  - ✓ Supplementary schedules of outstanding debt did not agree to the financial statements or footnotes. Debt relating to demand bonds ($41 million), reported as a current liability in the financial statements, was shown a non-current in the supplementary schedules. In addition, Series 1999 ($100 million) was omitted from the schedule of bonds outstanding in the original draft.
  - ✓ Disclosures required by GASB Statement 40 pertaining to money market accounts (approximately $77 million - reported as cash equivalents) were not included in the footnotes. These disclosures pertained to weighted average maturity of the accounts and the credit ratings.

- The Commission under-recorded its arbitrage rebate liability by approximately $3,133,000. The auditor's proposed adjustment was determined to be more than inconsequential but was not material to the fair presentation of the financial statements and therefore was not recorded in the final financial statements.

- Account reconciliations for notes receivable from several universities were not done for a period of 3 months. The amounts confirmed by the respective institutions did not agree to the amount recorded in the general ledger. This auditor's proposed adjustment for approximately $192,000 was determined to be more than inconsequential but was not material to the fair presentation of the financial statements and therefore was not recorded in the final financial statements.

- The Commission did not obtain the correct interest rates on its variable rate debt on a timely basis. This resulted in an inaccurate presentation of the schedule of bonds outstanding included in the financial statements. Total interest over the remaining life of the debt was originally understated by approximately $5.6 million. This was corrected on the final financial statements.

Current Findings – *Government Auditing Standards (Continued)*

07-3 Financial Reporting – Illinois Designated Account Purchase Program (Continued)

Per discussion with Commission management, IDAPP went through a major re-organization of personnel, including senior level management and also underwent a major restructuring of its student loan portfolio. This contributed to delays and inaccuracies in the preparation and reporting of financial statements.

Good internal controls should be designed and operated to allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements in the financial statements and the related disclosures.

Deficiencies in internal control allowed numerous errors in preparing the financial statements and related disclosures to go undetected by management in the normal course of performing their assigned functions. These inaccuracies resulted in significant delays in completing the audit and issuing the financial statements. (Finding Code No. 07-3)

Recommendation

We recommend that the Commission improve controls over financial reporting to ensure accurate presentation and disclosure in its financial statements. Specifically we recommend that:

- All significant accounts should be reconciled on a regular basis, preferably monthly, to the underlying documentation. The account reconciliations should be reviewed by a second Commission employee to ensure that supporting documentation agrees to the general ledger and trial balance.
- Calculations and disclosures pertaining to the Commission's variable rate debt should be based on the rates in effect as of the fiscal year end.
- All significant estimates, such as the arbitrage rebate liability, used in determining financial statement account balances and disclosures should be reviewed by management to ensure the estimates are based on reliable data and that the significant assumptions used in calculating the estimate are reasonable.

Commission Response

Agree. The Commission will ensure that processes and procedures are put in place to improve internal controls and prevent delays and inaccuracies in the financial reporting process. The Commission will implement quality control procedures to ensure that monthly reconciliations are reviewed on a timely basis.

Current Findings – *Government Auditing Standards (Continued)*

Finding 07-4 Material Year-end Financial Statement Adjustment Not Recorded

The Illinois Student Assistance Commission (Commission) did not record a material year-end adjustment to its financial statements.

The Commission earns default aversion fees (DAF) from the Department of Education for assisting borrowers from defaulting on their loans. Based on regulations, the DAF earned is transferred to the Student Loan Operating Fund from the Federal Student Loan Fund. However, these fees have to be repaid to the Federal Student Loan Fund if the borrower subsequently defaults on the loan within one year. The Commission estimates the amount of DAF expected to be returned to the Federal Student Loan Fund and records this amount as a liability in the Student Loan Operating Fund, and as an asset in the Federal Student Loan Fund.

In FY 2006 the Commission set up a team to analyze, on an ongoing basis, the DAF earned and the amounts which had to be returned when the borrower subsequently defaulted. Based on the analysis, the percentage of amounts returned decreased by approximately 33%. This translated to an overstatement in the Student Loan Operating Fund Liability of approximately $3.7 million at June 30, 2007, with a correlating overstatement in the Federal Student Loan Fund asset account. Although the Commission performed a detailed analysis supporting the estimated amount of DAF earned, the adjustment to decrease the liability in the Student Loan Operating Fund and to decrease the corresponding asset in the Federal Student Loan Fund were not recorded in the fiscal year 2007 financial statements. The financial statements were subsequently adjusted by the Commission.

Generally accepted accounting standards require the Commission to make adjustments to year-end account balances for known material changes in accounting estimates to prevent material misstatement of the financial statements.

Per Commission management, in fiscal year 2006, the Commission set up a team to analyze on an ongoing basis the DAF earned and the claim fees, which have to be returned when the borrower subsequently defaults within one year. Based on the analysis, beginning October of 2005 (the beginning of the federal fiscal year 2006) this percentage has been decreased to 40% from 60%. The Commission also realized that the amount of deferred liability in the Student Loan Operating Fund and deferred charges receivable in the Federal Student Loan Fund were overstated because of the 60% accrual in the prior years. This was a change in the estimate of liability owed to the Federal Student Loan Fund. The Commission had to decide when and how much of an adjustment to make and they decided to be conservative and do it at Federal Fiscal Year (FFY) end as it decreased the fund balance in the federal fund and increased the fund balance in the state fund. The Commission believed that this adjustment had more implications on a federal fiscal year basis as it lowers the fund balance available in the Federal Fund. The Commission therefore made the adjustment as of September 30, 2007 in time for the annual federal fiscal year 2007 report on a federal fiscal year basis.

Current Findings – *Government Auditing Standards (Continued)*

Finding 07-4 Material Year-end Financial Statement Adjustment Not Recorded (Continued)

Failure to record material adjustments to account balances due to changes in accounting estimates could result in a material misstatement of the financial statements. (Finding Code No. 07-4).

Recommendation

We recommend the Commission assess the impact of all significant accounting estimates as a part of its year-end review and preparation of the financial statements.

Commission Response

The Commission agrees with the recommendation.

The Commission anticipated major restructuring and changes in regulations in the FFEL industry, which would impact the accrual amount of default aversion fee. As of June 30, the Commission was not in a position to have an accurate estimate of the amount to be adjusted. Therefore the Commission waited until October 2007 when the College Cost Reduction and Access Act was passed and recorded the adjustment at the end of the Federal fiscal year as of September 30, 2007.

Also, since this adjustment resulted in a material increase to the unrestricted fund balance available in the Student Loan Operating Fund the Commission believed in being conservative and did not want to show a material increase in fund balance without ensuring the accuracy of the adjustment.

The Commission will continue to assess all its accounting estimates on an ongoing basis and make adjustments when necessary at year-end.

Prior Findings Not Repeated – *Government Auditing Standards*

Finding 07-5 Non-Compliance with Bond Indentures

During our prior audit, we noted the Illinois Designated Account Purchase Program (IDAPP) did not comply with several bond indentures that require IDAPP to deliver audited financial statements to the Trustees no later than 120 days after year-end (October 28th). (Finding Code No. 06-1, 05-2, 03-8, 01-3)

The bond issues which required audited financial statements prior to October 28th of each year have been retired as of the date of this report.

Finding 07-6 Posting of General Journal Entries to the General Ledger

During fiscal year 2006, the Illinois Designated Account Purchase Program (IDAPP) did not adequately review and approve general journal entries prior to posting them to the general ledger. (Finding Code No. 06-2)

Based on our sample testing in fiscal year 2007, general journal entries are being reviewed and approved prior to posting.