State of Illinois
Illinois Student Assistance Commission

Financial Audit
For the Year Ended June 30, 2010

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

State of Illinois
Illinois Student Assistance Commission
Financial Audit
For the Year Ended June 30, 2010

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State of Illinois
Illinois Student Assistance Commission

Agency Officials

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

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Summary

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

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

Summary of Findings

The auditors identified matters involving the Commission's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weakness is described in the accompanying schedule of findings listed in the table of contents as finding 10-1 (Procurement Law and Sound Business Practices Not Followed). The significant deficiencies are described in the accompanying schedule of findings listed in the table of contents as finding 10-2 (Financial Reporting Process), finding 10-3 (Student Loan Payments Not Processed Correctly), finding 10-4 (Noncompliance with Investment Policy) and finding 10-5 (Noncompliance with Write-Off Policy).

The auditors also identified instances of noncompliance and other matters. The instances of noncompliance and other matters are described in the accompanying schedule of findings listed in the table of contents as finding 10-4 (Noncompliance with Investment Policy), 10-5 (Noncompliance with Write-Off Policy) and 10-6 (Debt Covenant Violation).

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on March 8, 2011. Attending were:

Illinois Student Assistance Commission	
Andrew Davis	Executive Director
Shoba Nandhan	Chief Financial Officer
Karen Salas	Interim General Counsel
Anita Geter	Director-Internal Audit
Brian Begrowicz	Deputy Chief Financial Officer
Frank Berauer	Director, Accounting and Finance-IDAPP
Anne Hunter	Assistant Comptroller
McGladrey & Pullen, LLP	
Linda Abernethy	Partner
Rolake Adedara	Director
Office of the Auditor General	
Jon Fox	Audit Manager

The responses to the recommendations were provided by Shoba Nandhan in a letter dated March 11, 2011.

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, 2010, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the Commission are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010, 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.

As further discussed in Note 15, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2010 of $338 million.

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, 2010 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 14, 2011 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information which includes the Budgetary Comparisons Schedule – Major Governmental Fund – General Fund and Notes to Required Supplementary Information, as listed in the table of contents, are not a required part of the basic financial statements but are 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 14, 2011

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
June 30, 2010
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 3,282	$ -	$ 3,282
Cash and cash equivalents	581	64,715	65,296
Receivables			
Intergovernmental	-	38,715	38,715
Accrued interest on investments	-	34	34
Default fee	-	66	66
Other	19	-	19
Securities lending collateral	-	15,406	15,406
Due from other ISAC funds	1	(1)	-
Total current assets - unrestricted	3,883	118,935	122,818
Restricted			
Cash and cash equivalents	-	49,108	49,108
Investments	-	229,436	229,436
Notes receivable	-	391	391
Receivables			
Student loans	-	177,205	177,205
Accrued interest on loans	-	20,595	20,595
Accrued interest on investments	-	968	968
Other, net of allowance of $684	-	5	5
Unamortized bond issuance costs	-	192	192
Total current assets - restricted	-	477,900	477,900
Non-current			
Unrestricted			
Investments	-	971,481	971,481
Notes receivable	5,431	-	5,431
Capital assets, net of accumulated depreciation	12,542	175	12,717
Total non-current assets - unrestricted	17,973	971,656	989,629
Restricted			
Notes receivable	-	16,129	16,129
Student loans receivable, net	-	930,325	930,325
Unamortized bond issuance costs	-	1,270	1,270
Total non-current assets - restricted	-	947,724	947,724
Total assets	$ 21,856	$ 2,516,215	$ 2,538,071

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
June 30, 2010
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 1,211	$ 25,569	$ 26,780
Accrued interest payable	-	1,567	1,567
Tuition payable	-	68,490	68,490
Accreted tuition payable	-	6,510	6,510
Federal special allowance and interest subsidy	-	2,820	2,820
Due to other State funds	4	156	160
Due to State of Illinois component units	2,093	249	2,342
Deferred revenue	18	-	18
Securities lending collateral obligation	-	15,406	15,406
Intergovernmental payable	-	8,335	8,335
Due to U.S. Department of Education	329	-	329
Compensated absences	-	637	637
Installment purchase obligation	1,670	-	1,670
Line of credit	-	360,174	360,174
Revenue bonds payable, net	-	88,350	88,350
Total current liabilities	5,325	578,263	583,588
Non-current			
Tuition payable	-	845,947	845,947
Accreted tuition payable	-	402,083	402,083
Revenue bonds payable, net	-	931,351	931,351
Installment purchase obligation	3,600	-	3,600
Compensated absences	-	2,265	2,265
Total non-current liabilities	3,600	2,181,646	2,185,246
Total liabilities	8,925	2,759,909	2,768,834
Net Assets			
Invested in capital assets, net of related debt	7,272	175	7,447
Restricted	-	93,947	93,947
Unrestricted	5,659	(337,816)	(332,157)
Total net assets	$ 12,931	$ (243,694)	$ (230,763)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2010
(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	$ 431,457	$ -	$ 7,940
Interest	354	-	-
Total governmental activities	431,811	-	7,940
Business-type activities			
Education			
Student loan purchase program	45,471	46,609	(3,315)
Prepaid tuition	86,446	1,470	88,778
Loan guarantee program	243,076	35,155	207,134
Total business-type activities	374,993	83,234	292,597
Total Commission	$ 806,804	$ 83,234	$ 300,537

General revenues and transfers
General revenues
Appropriations from State resources
Lapsed appropriations
Receipts remitted to State Treasury
Investment income
Miscellaneous
Amount of SAMS transfer in
Transfers
Total general revenues and transfers

Change in net assets

Net assets July 1, 2009

Net assets June 30, 2010

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
$ (423,517)	$ -	$ (423,517)
(354)	-	(354)
(423,871)	-	(423,871)
-	(2,177)	(2,177)
-	3,802	3,802
-	(787)	(787)
-	838	838
(423,871)	838	(423,033)
425,082	-	425,082
(326)	-	(326)
(1,905)	-	(1,905)
-	305	305
328	-	328
(86)	-	(86)
1,939	(1,939)	-
425,032	(1,634)	423,398
1,161	(796)	365
11,770	(242,898)	(231,128)
$ 12,931	$ (243,694)	$ (230,763)

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2010
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 3,282	$ -	$ 3,282
Cash and cash equivalents	1	580	581
Other receivables	-	19	19
Due from other ISAC funds	13	-	13
Notes receivable, net of allowance of $49	5,431	-	5,431
Total assets	$ 8,727	$ 599	$ 9,326
Liabilities			
Accounts payable and accrued liabilities	$ 1,189	$ 22	$ 1,211
Due to other ISAC funds	-	12	12
Due to other State funds	-	4	4
Due to State of Illinois component units	2,093	-	2,093
Deferred revenues	-	18	18
Due to U.S. Department of Education	-	329	329
Total liabilities	3,282	385	3,667
Fund Balances			
Reserved for notes receivable	5,431	-	5,431
Unreserved			
General Fund	14	-	14
Special revenue funds	-	214	214
Total fund balances	5,445	214	5,659
Total liabilities and fund balances	$ 8,727	$ 599	$ 9,326

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, 2010
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds		$ 5,659
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	552	
Accumulated depreciation	(9,021)	
Total capital assets		12,542
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		(5,270)
Net assets of governmental activities		$ 12,931

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, 2010
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 7,940	$ 7,940
Other	4	324	328
Total revenues	4	8,264	8,268
Expenditures			
Education			
Scholarships, awards and grants	422,734	8,266	431,000
Debt Service			
Principal	-	1,585	1,585
Interest	-	354	354
Total expenditures	422,734	10,205	432,939
Deficiency of revenues over expenditures	(422,730)	(1,941)	(424,671)
Other sources (uses) of financial resources			
Appropriations from State resources	425,031	51	425,082
Lapsed appropriations	(326)	-	(326)
Receipts remitted to State Treasury	(1,905)	-	(1,905)
Amount of SAMS transfer in	(86)	-	(86)
Transfers in	31	1,939	1,970
Transfers out	-	(31)	(31)
Net other sources (uses) of financial resources	422,745	1,959	424,704
Net change in fund balance	15	18	33
Fund balance, July 1, 2009	5,430	196	5,626
Fund balance, June 30, 2010	$ 5,445	$ 214	$ 5,659

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, 2010
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$ 33
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.	(457)
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.	1,585
Change in net assets of governmental activities	$ 1,161

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Enterprise Funds
June 30, 2010
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Assets				
Current				
Unrestricted				
Cash and cash equivalents	$ 731	$ 14,809	$ 49,175	$ 64,715
Receivables				
Intergovernmental	-	-	38,715	38,715
Accrued interest on investments	-	1	33	34
Default fee	-	-	66	66
Securities lending collateral	-	-	15,406	15,406
Due from other ISAC funds	-	-	3,922	3,922
Total current assets - unrestricted	731	14,810	107,317	122,858
Restricted				
Cash and cash equivalents	49,108	-	-	49,108
Investments	229,436	-	-	229,436
Receivables				
Notes receivable	391	-	-	391
Student loans, net of allowance of $1,599	177,205	-	-	177,205
Accrued interest on loans	20,595	-	-	20,595
Accrued interest on investments	968	-	-	968
Other, net of allowance of $684	5	-	-	5
Due from other ISAC funds	7	-	-	7
Unamortized bond issuance costs	192	-	-	192
Total current assets - restricted	477,907	-	-	477,907
Noncurrent				
Unrestricted				
Investments	-	971,481	-	971,481
Capital assets, net of accumulated depreciation	25	-	150	175
Total noncurrent assets - unrestricted	25	971,481	150	971,656
Restricted				
Receivables				
Notes	16,129	-	-	16,129
Student loans, net of allowance of $8,395	930,325	-	-	930,325
Unamortized bond issuance costs	1,270	-	-	1,270
Total noncurrent assets - restricted	947,724	-	-	947,724
Total assets	$ 1,426,387	$ 986,291	$ 107,467	$ 2,520,145

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
Enterprise Funds
June 30, 2010
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 1,064	$ 947	$ 23,558	$ 25,569
Accrued interest payable	1,567	-	-	1,567
Tuition payable	-	68,490	-	68,490
Accreted tuition payable	-	6,510	-	6,510
Federal special allowance and interest subsidy	2,820	-	-	2,820
Due to other ISAC funds	3,922	-	8	3,930
Due to other State funds	5	-	151	156
Due to State of Illinois component units	151	98	-	249
Securities lending collateral obligation	-	-	15,406	15,406
Intergovernmental payable	-	-	8,335	8,335
Compensated absences	185	15	437	637
Line of credit	360,174	-	-	360,174
Revenue bonds payable, net	88,350	-	-	88,350
Total current liabilities	458,238	76,060	47,895	582,193
Noncurrent				
Tuition payable	-	845,947	-	845,947
Accreted tuition payable	-	402,083	-	402,083
Revenue bonds payable, net	931,351	-	-	931,351
Compensated absences	219	89	1,957	2,265
Total noncurrent liabilities	931,570	1,248,119	1,957	2,181,646
Total liabilities	1,389,808	1,324,179	49,852	2,763,839
Net Assets				
Invested in capital assets	25	-	150	175
Restricted	41,369	-	52,578	93,947
Unrestricted	(4,815)	(337,888)	4,887	(337,816)
Total net assets	36,579	(337,888)	57,615	(243,694)
Total liabilities and net assets	$ 1,426,387	$ 986,291	$ 107,467	$ 2,520,145

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, 2010
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Operating revenues				
Investment income				
Interest - student loans	$ 44,341	$ -	$ -	$ 44,341
Interest - investments	5,237	-	-	5,237
Income - investment securities	3,227	88,599	-	91,826
Interest - other	-	179	-	179
Total investment income	52,805	88,778	-	141,583
Other operating revenues				
Fees	2,268	1,470	-	3,738
Loan processing and issuance fees	-	-	1,527	1,527
Portfolio maintenance fee	-	-	4,193	4,193
Direct consolidation cost	-	-	6,552	6,552
Licenses and fees	-	-	2,991	2,991
Collections on student loans previously reimbursed by the U.S. Department of Education	-	-	19,460	19,460
Other	-	-	432	432
Total other operating revenues	2,268	1,470	35,155	38,893
Total operating revenues	55,073	90,248	35,155	180,476
Operating expenses				
Interest and other student loan expenses				
Interest expense				
Revenue bonds	12,603	-	-	12,603
Amortization of loan premiums and fees	3,475	-	-	3,475
Other student loan fees	2,755	-	-	2,755
Provision for loan losses	8,156	-	-	8,156
Total interest and other student loan expenses	26,989	-	-	26,989

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds (Continued)
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Other operating expenses				
Salaries and employee benefits	$ 6,316	$ 3,348	$ 19,774	$ 29,438
Loan guarantee	-	-	214,905	214,905
External loan servicing	5,493	-	-	5,493
Accreted tuition expenses	-	76,597	-	76,597
Occupancy expense	184	-	-	184
Data processing expenses	128	-	-	128
Investment management fees	-	1,610	-	1,610
Investment advisory fees	-	1,926	-	1,926
Bond issuance and legal fees	82	-	-	82
Management and professional services	3,435	2,965	8,345	14,745
ISAC shared expense	2,685	-	-	2,685
Depreciation	9	-	52	61
Other	150	-	-	150
Total other operating expenses	18,482	86,446	243,076	348,004
Total operating expenses	45,471	86,446	243,076	374,993
Operating income (loss)	9,602	3,802	(207,921)	(194,517)
Non-operating revenues				
Federal government special allowance and interest subsidy	(11,779)	-	-	(11,779)
Federal government	-	-	207,134	207,134
Interest revenue	-	-	305	305
Total non-operating revenues	(11,779)	-	207,439	195,660
Income (loss) before transfers	(2,177)	3,802	(482)	1,143
Transfers out	(750)	(31)	(1,158)	(1,939)
Change in net assets	(2,927)	3,771	(1,640)	(796)
Net assets (deficit), July 1, 2009	39,506	(341,659)	59,255	(242,898)
Net assets (deficit), June 30, 2010	$ 36,579	$ (337,888)	$ 57,615	$ (243,694)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Cash flows from operating activities				
Cash received from fees and other charges	$ -	$ 1,470	$ 107,857	$ 109,327
Cash paid for refund of contracts and tuition payments	-	(10,300)	-	(10,300)
Cash payments to suppliers for goods and services	(12,252)	(2,632)	(1,709)	(16,593)
Cash payments to employees for services	(6,373)	(3,339)	(19,813)	(29,525)
Cash payments for loan guarantees	-	-	(212,020)	(212,020)
Cash receipts from student loans and fees	232,648	-	-	232,648
Cash receipts from prepaid tuition contracts	-	100,008	-	100,008
Cash payments for other operating activities	-	-	(80,493)	(80,493)
Cash payments for student loans	(73,494)	-	-	(73,494)
Cash payments for tuition and accretion	-	(65,129)	-	(65,129)
Net cash provided (used) by operating activities	140,529	20,078	(206,178)	(45,571)
Cash flows from noncapital financing activities				
Principal paid on revenue bonds and other borrowings	(136,600)	-	-	(136,600)
Proceeds from revenue bonds and other borrowings	89,995	-	-	89,995
Interest paid on revenue bonds and other borrowings	(12,249)	-	-	(12,249)
Special allowance and interest subsidy	(11,636)	-	-	(11,636)
Transfers in	-	-	25,050	25,050
Transfers out	(750)	(31)	(26,212)	(26,993)
Federal government grants	-	-	204,901	204,901
Net cash provided (used) by noncapital financing activities	(71,240)	(31)	203,739	132,468
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	-	-	(13)	(13)
Cash flows from investing activities				
Purchase of investment securities	(510,836)	(773,524)	-	(1,284,360)
Proceeds from sales and maturities of investment securities	425,007	684,617	-	1,109,624
Cash returned for securities lending collateral transactions	-	(77,663)	-	(77,663)
Investments sold from securities lending collateral transactions	-	77,663	-	77,663
Interest and dividends on investments	3,479	23,946	303	27,728
Cash paid to investment managers	-	(1,609)	-	(1,609)
Net cash provided (used) by investing activities	(82,350)	(66,570)	303	(148,617)
Net decrease in cash and cash equivalents	(13,061)	(46,523)	(2,149)	(61,733)
Cash and cash equivalents, July 1, 2009	62,900	61,332	51,324	175,556
Cash and cash equivalents, June 30, 2010	$ 49,839	$ 14,809	$ 49,175	$ 113,823

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds (Continued)
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ 9,602	$ 3,802	$(207,921)	$ (194,517)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	9	-	52	61
Investment income	(8,464)	(85,242)	-	(93,706)
Interest expense	12,603	-	-	12,603
Amortization of student loan premiums and fees	3,475	-	-	3,475
Accreted tuition expense	-	76,597	-	76,597
Provision for loan losses	8,156	-	-	8,156
Change in assets and liabilities				
Notes receivable	26,690	-	-	26,690
Student loans receivable	80,875	-	-	80,875
Accounts receivable	-	-	70	70
Intergovernmental receivables	-	-	307	307
Accrued interest - loans and notes	4,416	-	-	4,416
Due from other funds	1,718	-	(695)	1,023
Other receivables	1,805	-	-	1,805
Accounts payable and accrued liabilities	(1,005)	309	6,392	5,696
Intergovernmental payables	-	-	(2,297)	(2,297)
Due to other ISAC funds	-	(88)	(1,819)	(1,907)
Due to other State funds and Component Units	843	85	-	928
Tuition payable	-	24,579	-	24,579
Compensated absences	(194)	36	(267)	(425)
Total adjustments	130,927	16,276	1,743	148,946
Net cash provided (used) by operating activities	$ 140,529	$ 20,078	$(206,178)	$ (45,571)
Supplemental disclosure of noncash transactions:				
Net appreciation in fair value of investments	$ 4,556	$ 146,485	$ -	$ 151,041

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 2010 for the payment of tuition and mandatory fees. The program is primarily funded by the General Revenue Fund appropriation**.**

B. Illinois Veteran Grant

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

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

C. Illinois Incentive for Access Program

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

Note 1. Organization (Continued)

D. Illinois National Guard Grant

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

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

E. Illinois Future Teacher Corps Scholarships

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

F. Illinois Scholars Program

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

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

G. Minority Teachers Scholarship Program

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

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

Note 1. Organization (Continued)

H. Nurse Educator Scholarship Program

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

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

I. Ancillary Award Programs

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

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

J. Robert C. Byrd Honors Scholarship Program

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

K. Federal Family Education Loan Program (FFELP)

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

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

The Federal Student Loan Fund (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 (SLOF). The SLOF is used for ISAC's operating expenses. Resources reported in the SLOF are the State's earned activities and are administered by ISAC.

Note 1. Organization (Continued)

L. Higher Education License Plate Grant Program

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

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

M. *College Illinois!®*

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

N. Illinois Designated Account Purchase Program (IDAPP)

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

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

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

O. Alternative Loan Program

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

Note 2. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

2) Fiscal dependency on the primary government.

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

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

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 non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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 $16,078 (including amortization) is included in student loan purchase program expense in the Statement of Activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Enterprise fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and certain investment earnings, result from non-exchange 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 2010, 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.

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Additionally, the Commission administers the following fund types:

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

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

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

C. Basis of Accounting

The government-wide and enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange 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.

Note 2. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

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

D. Shared Fund Presentation

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

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

Unexpended Appropriation

This "asset" account represents lapse period warrants issued between July and December for fiscal year 2010 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 18-month period from July to December 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.

Amount of SAMS Transfer In

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

Note 2. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

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

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

Unexpended appropriations are available for subsequent expenditures to the extent that encumbrances have been incurred at June 30, provided they are presented for payment during the succeeding six-month 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 investment income 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.

Note 2. Summary of Significant Accounting Policies (Continued)

I. Allowance for Possible Loan Losses

The allowance for possible loan losses is a reserve for estimated credit losses arising from the student loan portfolio. A provision for possible loan losses, which is a charge against operations, is added to bring the allowance to a level that, in management's judgment, is adequate to absorb losses in the portfolio. Management performs a quarterly assessment of the loan portfolio in order to determine the appropriate level of the allowance. The factors in this evaluation include, but are not necessarily limited to, delinquencies over 120 days, loan servicing deficiencies and the amount of unguaranteed reimbursement from the United States Department of Education as discussed in Note 5.

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

J. Interfund Transactions

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

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

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

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

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

K. Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

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

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. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 54,900 contracts held by the fund as of June 30, 2010.

Q. Fund Balances

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

Note 2. Summary of Significant Accounting Policies (Continued)

R. Net Assets

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

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

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

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

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

S. Use of Estimates

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

T. Funding and Actuarial Assumptions

Program funding for the Illinois Prepaid Tuition Program is derived entirely from payments received from contract purchasers and the investment income earned by the Program. The Commission has obtained actuarial assistance in order to establish, maintain and certify assets are sufficient to meet the Program’s obligations. The assets of the Program are to be preserved, invested and expended solely pursuant to and for the purposes of the Program and may not be loaned or otherwise transferred or used by the State of Illinois for any other purpose. In the event the Commission, with the concurrence of the State of Illinois, determines the Program to be financially infeasible, the Commission may discontinue, prospectively, the operation of the Program. Any beneficiary who has been accepted by and is enrolled, or will within five years enroll at an eligible institution, shall be entitled to exercise the complete benefits of his/her contract. All other contract holders shall receive an appropriate refund of all contributions and accrued interest up to the time the program is discontinued.

Note 3. Deposits and Investments

A. Authorized Deposits and Investments

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

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

With regards to the Illinois Designated Account Purchase Program (IDAPP), bond documents such as trust indentures place strict limitations on the type of investments that can be made by IDAPP. These limitations are set by the rating agencies and by the institutions providing third party guarantees, such as bond insurance or bank letters of credit. The limitations vary slightly from issue to issue, but in general they restrict investments to direct obligations of the federal government and government agencies, investment agreements, repurchase agreements, bank certificates of deposit, money market funds and highly rated commercial paper and municipal bonds.

The Public Funds Investment Act (Act) also restricts the investment of funds under the control of IDAPP. These restrictions apply to any funds, which are not restricted by the terms of a bond document. Permitted deposits and investments under the Act include (subject to various restrictions and limitations) direct federal obligations of the United States of America, federal guaranteed obligations, participation interests in federal obligations, federal affiliated institutions, certificates of deposit, time deposits, and other bank deposits which are fully insured by the Federal Deposit Insurance Corporation or similar federal agency or which are fully collateralized, money market funds, repurchase agreements, investment agreements with financial institutions, commercial paper, state or municipal bonds, and bankers' acceptances. IDAPP's Investment Policy, which applies to all investments, is more restrictive than the Act in that investments in money market mutual funds are restricted to those with portfolio holdings of United States obligations including bonds, notes, certificates of indebtedness, treasury bills or other securities, which are guaranteed by the full faith and credit of the United States of America as to principal and interest, and direct United States obligations (bonds, notes, debentures or other similar obligations of the United States of America or its agencies). As of year-end, IDAPP is in violation of its investment policy, which limits investments in money market mutual funds. IDAPP invests in the Federated Prime Cash Obligation Fund, which holds securities which are not guaranteed by the full faith and credit of the United States of America. In December 2010, IDAPP transferred these funds to the Federated Treasury Obligations Fund, causing them to become compliant with the investment policy.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

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.

Funds in the custody of the State Treasurer, or in transit, totaled $12,128 at June 30, 2010. These amounts are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Commission does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report. As of June 30, 2010, locally held deposits were not exposed to custodial credit risk.

C. Investments

All investments held by the Commission as of June 30, 2010, 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 invests its funds in a manner that meets its cash flow needs while conforming to state statutes governing the investment of funds, including, without limitation, the Investment Act and all requirements/limitations of the various bond documents applicable to bonds and other securities issued by ISAC. The portfolio's maturity characteristics at June 30, 2010 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate securities	$ 41,400	2.2
Federal agencies	159,352	3.3
Government securities (U.S. treasury notes and bonds)	28,684	5.3
Money market securities	25,170	0.1
Total	$ 254,606	
Portfolio weighted average maturity		3.0

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.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Credit Risk (Continued)

As of June 30, 2010, IDAPP's investments were subject to credit risk (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government, which are not considered to have credit risk) as follows:

		Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's
Corporate securities	$ 41,400	AAA	Aaa
Federal agencies	159,352	AAA	Aaa
Money market securities	25,170	AAA	Aaa

Custodial Credit Risk

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

The Illinois Designated Account Purchase Program investments total $254,606 and are held by IDAPP's agent, but not in IDAPP's name.

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

Concentration of Credit Risk

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

As of June 30, 2010, the following investments (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) exceed 5% or more of IDAPP's total investment portfolio:

Investment	Fair Value	Percentage of Portfolio
Federal Farm Credit Bank	$ 67,462	26.50%
Federal Home Loan Bank	51,115	20.08%
Federal Home Loan Mortgage Corporation	40,775	16.01%
Corporate Bonds	12,795	5.03%

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Foreign Currency Risk

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

Illinois Prepaid Tuition Program

ISAC has retained State Street Global Advisors, LSV Asset Management, Galliard Capital, Income Research Management, RhumbLine Advisors, Pugh Capital, C.S. McKee Investment, Piedmont Investment, Security Capital Research, Alinda Infrastructure, Portfolio Advisors, JP Morgan AIRRO, Morgan Stanley, Balestra Capital, Neuberger Berman, Pinnacle Natural Resource, Reynoso Asset, and DDJ Distressed Fund as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. Approximately $75,000 of additional contract payments received has been invested as of the end of the fiscal year June 30, 2010. The program has contracted with Marquette Associates to evaluate the investment performance of the Program on a quarterly basis. Use of funds invested on behalf of the Illinois Prepaid Tuition Program by the investment managers is restricted to the payout of tuition and fee benefits for program beneficiaries.

As of June 30, 2010, 25% of the funds were invested in Domestic Equities, 28% in Domestic Fixed Income, 9% in International Equities, 1% in Infrastructure Funds, 14% in Hedge Funds, 7% in Private Equity Funds, 14% in Real Estate, and 2% as Cash and Equivalents. Investments of the Program, other than alternative investments and real estate, are recorded at fair value based on quoted market prices.

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities - (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Investments – fair values as determined by the Program in conjunction with its investment managers and investment advisors; (5) Alternative Investments (Private Equity, Hedge Funds and Infrastructure Funds) – fair values as determined by the Program in conjunction with its investment managers and investment advisors.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2010 are presented below at fair value by investment type and by investment manager (or Custodian).

Investment Managers
Asset Allocation
June 30, 2010

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Short Term	U.S. Bank (Custodian)	$ 2,374	0.24%
Fixed Income-Core	C.S. Mckee	67,913	6.89%
Fixed Income-Core	Piedmont	31,478	3.19%
Fixed Income-Core	Pugh Capital	39,820	4.04%
Fixed Income-Intermediate	Galliard Capital	63,161	6.40%
Fixed Income-Intermediate	Income Research Management	60,759	6.16%
TIPS Account	N/A	7,975	0.81%
Total Fixed Income Portfolio		**273,480**	**27.73%**
Real Estate-Debt	SCM Capital Term Income	34,191	3.47%
Real Estate-Debt/Equity	SCM Capital Stable Income	56,931	5.77%
Real Estate-Preferred	SCM Capital Preferred Growth	41,611	4.22%
Total Real Estate		**132,733**	**13.46%**
Large-Cap Core Equity	SSgA S&P 500 Index	99,112	10.05%
Large-Cap Core Equity	LSV Asset Management	6	0.00%
All-Cap Core Equity	Rhumb Line Advisors	146,160	14.82%
Total Domestic Equity		**245,278**	**24.87%**
International Core Equity	SSgA MSCI EAFE	43,519	4.41%
International Core Equity	LSV Asset Management	49,143	4.98%
Total International Equity		**92,662**	**9.39%**
Infrastructure	Alinda Capital II	9,527	0.97%
Total Infrastructure		**9,527**	**0.97%**
Hedge FoFs	Balestra Spectrum II	56,418	5.72%
Hedge FoFs	NB Diversified Arbitrage	25,339	2.57%
Hedge FoFs	Pinnacle Natural Resources	50,771	5.15%
Hedge Fund-Market Neutral	Reynoso	9,889	1.00%
Total Hedge Fund		**142,417**	**14.44%**
Private Equity FoFs Secondary	Morgan Stanley Secondary Fund	4,045	0.41%
Private Equity FoFs Secondary	Portfolio Advisors Secondary Fund	4,225	0.43%
Private Equity Distressed	DDJ Distressed Fund	49,898	5.06%
Private Equity Buy-Out	J.P. Morgan AIRRO Fund	10,034	1.01%
Total Private Equity		**68,202**	**6.91%**

(Continued)

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Investment Managers
Asset Allocation
June 30, 2010

Asset Class	Investment Manager	Fair Value	Actual Allocation
Illiquid Securities Liquidating Trust	U.S. Bank (Custodian)	3,429	0.35%
Total Illiquid Securities Liquidating Trust		**3,429**	**0.35%**
Cash and Equivalents	NA	3,753	0.38%
Investment Cash Equivalents		**3,753**	**0.38%**
Total Investments		**971,481**	**98.50%**
Cash and Equivalents	N/A	14,809	1.50%
Total Cash Equivalents		**14,809**	**1.50%**
TOTAL PORTFOLIO		**$ 986,290**	**100%**

The Program's investment in real estate represents convertible debt, senior unsecured debt securities, and preferred and common equity securities. Investment strategies of private equity funds include, but are not limited to, foreign infrastructure and related resources investments, secondary funds of funds and distressed debt and special situations.

The Program's investments in infrastructure represent investments used to seek capital appreciation and current income by acquiring, holding, financing, refinancing and disposing of infrastructure investment and related assets. Infrastructure assets include various public works such as a water utility, inland barge terminals and a gas pipeline system.

The Program's investments in hedge funds include, but are not limited to, hedge funds of funds employing a broad range of arbitrage investments strategies, global commodities, and a market-neutral fund.

Investment Commitments

Private equity and infrastructure investment portfolios consist of passive interests in limited partnerships. The Program had outstanding commitments of approximately $72,000 to private equity partnerships and $41,000 to infrastructure funds as of June 30, 2010.

Investment Management Fees

The Program has contracted with Board-approved investment managers to make investment decisions based on investment objectives given to them by the Program investment consultant. The investment managers serve as investors for and investment advisors to the Program. The Program pays an investment management fee to each investment manager for investment management and advisory services. The investment management fee is based upon contractual agreement provisions. Investment management fees and investment advisory fees totaled $1,610 and $1,926 for the year ended June 30, 2010.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Investment Management Fees (Continued)

Management fees paid to private equity, infrastructure, hedge and real estate funds are calculated based upon the terms of each individual fund agreement and are reported in income from investment securities on the Statement of Revenues, Expenses, and Changes in Net Assets.

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 (excludes real estate portfolio) require that the average duration of the manager's portfolio not vary more than +/- 50% of the duration of the Barclays Intermediate Government/Credit Index and the Barclays Aggregate Index, respectively (see schedule of investments on previous page). As of June 30, 2010, all portfolios are within the guidelines permitted by the investment policy. The duration of the portfolios, by Manager, for the fixed income securities, compared to the benchmark index(s) is as follows:

Fixed Income Portfolio Manager	Portfolio Average Duration	BarCap Aggregate Index	BarCap Int. Government/ Credit Index
Galliard Capital	3.4 Years	N/A	3.9 Years
Income Research Management	3.7 Years	N/A	3.9 Years
C.S. McKee	3.8 Years	4.3 Years	N/A
Piedmont	4.0 Years	4.3 Years	N/A
Pugh Capital	4.3 Years	4.3 Years	N/A

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Interest Rate Risk (Continued)

Portfolio Weighted Average Maturity

Investment Type		Fair Value	Weighted Average Maturity (in Years)
U.S. treasury notes	$	20,487	5.2
U.S. treasury bonds		35,145	10.9
Federal agencies bonds and notes		35,713	10.4
U.S. agency asset-backed securities		7,095	3.2
Municipal debt		7,319	26.8
Corporate debt securities		162,358	3.6
Corporate asset-backed securities		7,956	3.4
Other debt securities		1,425	4.1
Corporate mortgage-backed securities		11,831	24.5
Mortgage backed securities:			
Pass through (fixed rate, adjustable rate)		30,579	25.7
Collateralized mortgage obligations		12,913	7.6
Delegated underwriting and servicing bonds and surety bonds		12,034	5.4
Money market mutual funds		9,128	0.1
Equity in public treasurer's investment pool (Illinois Funds)		1,908	0.1
Total Fair Value	**$**	**355,891**	
Portfolio weighted average maturity			**8.3**

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, 2010, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

Credit Ratings (Excludes Multiple-Rated Securities)
June 30, 2010

	Total Fair Value	Credit Rating		
		Moody's	Standard & Poor's	Fitch
Other debt securities	$ 1,425	Aaa	AAA	AAA
Mortgage-backed securities	24,947	Aaa	AAA	AAA
Money market mutual funds	9,128	Aaa	AAA	NR
Illinois Funds	1,908	NR	AAA	NR

NR= Not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

The following tables indicate credit ratings as of June 30, 2010, for debt security investments that received multiple ratings.

Credit Ratings (Corporate Debt Securities)
June 30, 2010

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 4,090
	Corporate debt securities	Aa	16,545
	Corporate debt securities	A	37,861
	Corporate debt securities	Baa	49,365
	Corporate debt securities	Ba	21,094
	Corporate debt securities	NR	32,911
	Corporate debt securities	WR	492
			162,358
Standard and Poor's:	Corporate debt securities	AAA	3,844
	Corporate debt securities	AA	13,158
	Corporate debt securities	A	42,625
	Corporate debt securities	BBB	51,312
	Corporate debt securities	BB	24,087
	Corporate debt securities	NR	27,332
			162,358
Fitch:	Corporate debt securities	AAA	2,386
	Corporate debt securities	AA	11,105
	Corporate debt securities	A	36,353
	Corporate debt securities	BBB	29,289
	Corporate debt securities	BB	27,481
	Corporate debt securities	NR	55,744
			162,358

* NR - not rated, WR - withdrawn rating

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Corporate Asset-Backed Securities and Municipal Debt)
June 30, 2010

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate asset-backed securities	Aaa	$ 7,956
			7,956
Standard and Poor's:	Corporate asset-backed securities	AAA	6,590
	Corporate asset-backed securities	AA	376
	Corporate asset-backed securities	NR	990
			7,956
Fitch:	Corporate asset-backed securities	AAA	5,043
	Corporate asset-backed securities	NR	2,913
			7,956
Moody's:	Municipal Debt	Aaa	2,169
	Municipal Debt	Aa	3,587
	Municipal Debt	A	886
	Municipal Debt	Baa	207
	Municipal Debt	NR	470
			7,319
Standard and Poor's:	Municipal Debt	AAA	2,187
	Municipal Debt	AA	2,821
	Municipal Debt	A	1,092
	Municipal Debt	NR	1,219
			7,319
Fitch:	Municipal Debt	AAA	438
	Municipal Debt	AA	1,748
	Municipal Debt	A	886
	Municipal Debt	NR	2,729
	Municipal Debt	WR	1,518
			7,319

* NR - not rated, WR - withdrawn rating

(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 Mortgage-Backed Securities and MBS-Pass Through)
June 30, 2010

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	CMBS	Aaa	$ 8,735
	CMBS	NR	3,096
			11,831
Standard and Poor's:	CMBS	AAA	9,347
	CMBS	AA	747
	CMBS	A	217
	CMBS	NR	1,520
			11,831
Fitch:	CMBS	AAA	8,341
	CMBS	NR	3,490
			11,831
Moody's:	MBS-Pass Through	Aaa	29,501
	MBS-Pass Through	Aa	391
	MBS-Pass Through	A	102
	MBS-Pass Through	Caa	585
			30,579
Standard and Poor's:	MBS-Pass Through	AAA	28,203
	MBS-Pass Through	AA	148
	MBS-Pass Through	CCC	586
	MBS-Pass Through	NR	1,642
			30,579
Fitch:	MBS-Pass Through	AAA	23,510
	MBS-Pass Through	NR	6,792
	MBS-Pass Through	WR	277
			30,579

* NR - not rated, WR - withdrawn rating

(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 (Federal Agencies Bonds and Notes and U.S. Agency Asset Backed)
June 30, 2010

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Fed Agencies Bonds and Notes	Aaa	$ 35,713
			35,713
Standard and Poor's:	Fed Agencies Bonds and Notes	AAA	35,713
			35,713
Fitch:	Fed Agencies Bonds and Notes	AAA	33,309
	Fed Agencies Bonds and Notes	NR	2,404
			35,713
Moody's:	U.S. Agency Asset Backed	Aaa	7,033
	U.S. Agency Asset Backed	Baa	62
			7,095
Standard and Poor's:	U.S. Agency Asset Backed	AAA	$ 7,033
		NR	62
			7,095
Fitch:	U.S. Agency Asset Backed	AAA	7,095
			7,095

* NR - not rated, WR - withdrawn rating

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Securities Lending

As of June 30, 2010, the Program had exited from its securities lending program. The value of the remaining illiquid trust at U.S. Bank was $3,429. U.S. Bank also held a corporate bond valued at $2,374 which was formerly held in the securities liquidating trust. The Plan paid $9,676 to exit the securities lending program. At year-end, the Illinois Prepaid Tuition Program has no credit risk exposure to borrowers.

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, 2010, the Program exited its securities lending program. The counterparty continues to hold investments of $5,803 in the Program’s name. These investments are subject to custodial credit risk.

Concentration of Credit Risk

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

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

There were no investments in any single issuer (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) that exceeded 5% or more of the total investment portfolio as of June 30, 2010.

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Foreign Currency Risk (Continued)

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, 2010, 9% is invested in international equities; however, none of these investments are denominated in foreign currencies. Certain alternative investments hold investments located outside of the United States. Fluctuations in foreign exchange rates between the U.S. dollar and other currencies could have an effect on the amounts realized in U.S. dollars involving these investments.

Security Lending - Student Loan Operating Fund and Federal Student Loan Fund

Cash and cash equivalents in the Commission's non-major proprietary funds namely the Federal Student Loan Fund and the Student Loan Operations Fund consist of deposits held in the State Treasury. The Illinois Office of the Treasurer invests the deposits held and allocates investment income to the two funds on a monthly basis.

Under the authority of the Treasurer's published investment policy that was developed in accordance with State statute, the State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement

During fiscal year 2010, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investment made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. For the portion related to the Commission's non-major proprietary funds, namely the Federal Student Loan Fund and the Student Loan Operating Fund, securities lending collateral was invested in repurchase agreements and the value of securities on loan for the State Treasurer as of June 30, 2010 were $15,406 and $15,406, respectively. Securities on loan are reported at market value with the exception of U.S. Treasury Bills and U.S. Agency Discount notes which are reported at amortized cost.

Note 4. Notes Receivable

In the past, IDAPP has made 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 have been 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 $16,520 as of June 30, 2010. All such loans were purchased by IDAPP in early FY11. The breakdown between current and non-current Notes Receivable on the balance sheet at June 30, 2010 is based upon an estimate of anticipated payments to be received in fiscal year 2011 and subsequent fiscal years.

Note 5. Student Loans Receivable

IDAPP's student loans receivable balance is comprised of two types of student loans: loans that are originated or purchased as part of the Federal Family Education Loan Program (FFELP) and loans that are originated as part of IDAPP's Alternative Loan Program. All FFELP loans originated or purchased by IDAPP prior to October 1, 1993 are guaranteed at 100% by Guarantors in accordance with the Higher Education Act. For loans disbursed between October 1, 1993 and prior to July 1, 2006 the loans are guaranteed at 98%. Loans disbursed after July 1, 2006 are guaranteed at 97%. All guaranteed loans are reinsured by the United States Department of Education (ED). Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by ED. Alternative Loans are credit-based and a provision for loan loss is set aside for the full amount of the loan when a loan becomes 120 days delinquent. The total amount of Alternative Loans outstanding was $312,101 at June 30, 2010.

ED has issued detailed loan servicing requirements, which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. Management has identified loan-servicing deficiencies, which may result in loans that will not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $9,994 as of June 30, 2010, which includes the amount collected from borrowers as an insurance fee for the Alternative Loans.

In addition, the net student loans receivable at June 30, 2010 of $1,107,530 includes $2,943 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, 2010.

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 2010 are premiums and other acquisition fees paid on the origination and purchase of certain student loans. These premiums and other acquisition fees are being amortized over the average life of the related loans. Premiums and other acquisition fees totaling less than $50 paid to a particular party during a fiscal year are expensed. Other acquisition fees typically represent lender fees and insurance fees and are also being amortized over the average life of the related loans.

(All dollar amounts are expressed in thousands)

Note 5. Student Loans Receivable (Continued)

Federal Student Loan Fund

During fiscal year 2010, IDAPP sold $79,106 of loans to the Department of Education under the Department's loan purchase (PUT) program. Reflected in the FY10 financial statements is $2,268 of fees received from the DOE. The fee is comprised of $792 of Lender Fee reimbursement and $1,476 of loan Purchase Fees.

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, 2010 as reported by ISAC was $43,694. Restricted net assets, which include $37,551 of claims in process, was $52,578. If the federal reinsurance percentage applied to guarantors was temporarily reduced from 95% to either 85% or 75% (for loans disbursed after October 1, 1998) due to excessive default claims and if the State's pledge of full faith and credit were found to be ineffective, then the full collectibility of the non-federal reinsurance amount (i.e. 5% to 25%) of the IDAPP's net student loans receivable of $1,107,530 at June 30, 2010 is subject to the adequacy of the annual appropriation from the Illinois Student Assistance Commission Federal Student Loan Fund and the reserve funds of the other Guarantors to pay defaulted loan claims. However, based on past loan default experience, management believes that material losses will not be incurred.

Note 6. Federal Special Allowance and Interest Subsidy

The Federal government pays IDAPP or IDAPP owes the federal government an interest subsidy on certain student loans during the time that the student is enrolled in an eligible educational institution or qualifies for deferment status. The federal interest payable at June 30, 2010 was $2,820.

IDAPP is also eligible to receive special allowance payments from the federal government that are paid to adjust for the low yield on student loans in comparison to other investment sources. In addition IDAPP owes the federal government excess interest on the portfolio.

Federal Interest Benefits	$	7,335
Special Allowance Payments		211
Excess Interest		(19,325)
Net Amount Paid to DOE	$	(11,779)

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity

A. Balances Due To/From Other Funds

The balances at June 30, 2010 represent amounts due from/to other ISAC and State of Illinois funds and component units as follows:

Fund	Due from Primary Government Funds ISAC	Due from Primary Government Funds Other State	Due from Component Units	Description/Purpose
General Revenue	$ 12	$ -	$ -	Due from Accounts Receivable Fund for share of collections.
	1	-	-	Due from Student Loan Operating Fund for share of
	13	-	-	defaulted collections.
Illinois Designated Account Purchase Program	7	-	-	Due from Federal Student Loan Fund for default claims receivable.
Nonmajor Proprietary - Student Loan Operating	3,922	-	-	Due from IDAPP for shared services.
	$ 3,942	$ -	$ -	

Fund	Due to Primary Government Funds ISAC	Due to Primary Government Funds Other State	Due to Component Units	Description/Purpose
General Revenue	$ -	$ -	$ 2,093	Due to State universities for scholarship and MAP grants.
Illinois Designated Account Purchase Program	3,922	-	-	Due to Student Loan Operating Fund for shared services.
	-	5	-	Due to Auditor General for audit of loan purchase trust fund.
	-	-	151	Due to State universities for student loan premiums.
	3,922	5	151	
Nonmajor Governmental - ISAC Accounts Receivable	12	-	-	Due to the General Revenue Fund for its share of collections.
Nonmajor Proprietary - Federal Student Loan	7	-	-	Due to IDAPP for default claims payable.
College Access Challenge Grant	-	4	-	Due to Central Management Services for communications.
Student Loan Operating	-	151	-	Due to Central Management Services for EDP, communications, garage and Auditor General for audit of federal programs.
	1	-	-	Due to General Revenue Fund for share of defaulted collections.
Illinois Prepaid Tuition Program	-	-	98	Due to State universities for payment of tuition contracts.
	8	155	98	
	$ 3,942	$ 160	$ 2,342	

(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, 2010 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General Revenue	$ 31	Transfer from Student Loan Operating Fund and ISAC Accounts Receivable Fund for share of receivable collections. Tranfers for mandatory sweep from the University Grant Fund.
Nonmajor Governmental-ISAC COP Debt Service	1,939	Transfer from the Student Loan Operating Fund, IDAPP, and College Illinois! for lease payments.
	$ 1,970	

Interfund transfers out for the year ended June 30, 2010 were as follows:

Fund	Transfers Out To Other ISAC Funds	Description/Purpose
IDAPP	$ 750	Transfer to the Debt Service Fund for lease payments.
Illinois Prepaid Tuition Program	31	Transfer to the Debt Service Fund for lease payments.
Nonmajor Governmental - ISAC Accounts Receivable	24	Transfer to General Revenue Account for share of receivable collections.
University Grant	7	Transfer for mandatory sweep by Governor's Office of Management and Budget to the General Revenue Fund.
Nonmajor Proprietary - Student Loan Operating	1,158	Transfer to ISAC COP Debt Service Fund for lease payments and General Revenue Fund for default collections.
	$ 1,970	

(All dollar amounts are expressed in thousands)

Note 8. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions and Adjustments	Balance June 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	614	-	(62)	552
Total capital assets being depreciated	18,925	-	(62)	18,863
Less accumulated depreciation:				
Buildings	(8,013)	(457)	-	(8,470)
Equipment	(613)	-	62	(551)
Total accumulated depreciation	(8,626)	(457)	62	(9,021)
Total capital assets being depreciated, net	10,299	(457)	-	9,842
Governmental activities capital assets, net	$ 12,999	$ (457)	$ -	$ 12,542
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 544	$ -	$ -	$ 544
Less accumulated depreciation:				
Equipment	(510)	(9)	-	(519)
Total capital assets being depreciated, net	34	(9)	-	25
Nonmajor Enterprise Funds:				
Capital assets being depreciated:				
Equipment and automobiles	1,001	13	55	1,069
Less accumulated depreciation:				
Equipment and automobiles	(812)	(52)	(55)	(919)
Total capital assets being depreciated, net	189	(39)	-	150
Business-type activities capital assets, net	$ 223	$ (48)	$ -	$ 175

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2010 amounted to $457. Of that amount, 100% was charged to the Scholarships, awards and grants function.

Note 9. Long-Term Obligations Payable

A. Revenue Bonds Payable and Pledged Revenues

On July 29, 2002, ISAC adopted a general resolution and adopted supplemental resolutions on July 29, 2002, September 19, 2003, April 2, 2004, and June 24, 2005 authorizing the issuance of Student Loan Revenue Bonds, Series I and II, 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.

The general resolution bonds are auction rate certificates and are taxable. The variable interest rate for the debt is reset every 28 days, based on the one-month LIBOR rate. Starting in August 2007, the bond markets experienced severe disruption. As a result, an auction held on February 13, 2008 for $70 million of bonds issued under the 2002 Resolution failed to attract enough bidders. All subsequent auctions also failed and continue to do so. A “failed auction” results in the bonds being priced at the “maximum auction rate” which, as defined in the Resolution, can be no more than the lesser of the rolling twelve-month 90 day U.S. Treasury rate plus 1.2% (for “AAA” rated bonds), 1.5% (for “A” rated bonds), 1.75% (for bonds rated below the lowest category of “A”) and one-month LIBOR plus 1.5%. The average maximum rate at June 30, 2010 was 1.85%. Auctions of bonds continue during this period with the difference between the maximum rate and that rate set by the market (should a rate be determined and should it be higher than the maximum rate), classified as “Carryover Interest.”

Carryover interest is payable under certain conditions as defined in the Resolution and its supporting documents. After analysis of these documents by legal counsel, management has concluded that it is improbable that these conditions will be met. As a result, management believes that the carryover interest will not become due and payable.

IDAPP has pledged future student loan revenues, net of specified operating expenses, to repay the outstanding $884,400 (principal) in student loan revenue bonds as described above. Proceeds from the bonds provided financing for the student loans. The bonds are payable solely from principal and interest revenues under the related student loans and are payable through the final maturity of the bonds in 2045. Annual principal and interest payments on the bonds are expected to require approximately 97 percent of these student loan revenues. The total principal and interest remaining to be paid on the bonds is approximately $1,440,000. Interest paid for the current year was approximately $7,900 and total related student loan principal and interest received were approximately $54,700 and $10,500, respectively.

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

On August 12, 2009 ISAC entered into a Bond Purchase Agreement with a group of Illinois Credit Unions to sell Taxable Student Loan Revenue Bonds (Series 2009A, Series 2009B, and Series 2009C). Funds from the bond sales were used to support FFELP student loans for the 2009/2010 school year. On August 12, 2009 ISAC sold the first in the series of bonds and received $44,175. The Series 2008B bonds were sold for $44,175 on December 15, 2009. The Series 2009C bonds were not sold due to a lack of demand. Interest on the bonds is set at “AA” Financial Commercial Paper Rate plus 80 basis points (1.24% at June 30, 2010). The principal of $88,350 and interest of $784 was paid-off on August 10, 2010.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

A. Revenue Bonds Payable and Pledged Revenues (Continued)

IDAPP has pledged future student loan revenues, net of specified operating expenses, to repay the outstanding $138,350 (principal) in student loan revenue bonds, series 2009 (all issues). Proceeds from the bonds provided financing for the student loans. The bonds are payable solely from principal and interest revenues under the related student loans and are payable through the final maturity of the bonds in 2014. Annual principal and interest payments on the bonds are expected to require approximately 95.9% percent of these student loan revenues. The total principal and interest remaining to be paid on the bonds is approximately $145,400. Interest paid for the current year was approximately $1,457 and total related student loan principal and interest received were approximately $3,300 and $600 respectively.

B. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2010, were as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Amounts Due Within One Year
Governmental activities:					
Other long-term obligations:					
Installment purchase obligations	$ 6,855	$ -	$ (1,585)	$ 5,270	$ 1,670
Business-type activities:					
Illinois Designated Account Purchase Program :					
Revenue bonds payable	$ 1,030,500	$ 88,350	$ (96,100)	$ 1,022,750	$ 88,350
Unamortized discounts	(3,200)	-	151	(3,049)	-
Other long-term obligations:					
Compensated absences	599	230	(425)	404	185
Total Illinois Designated Account Purchase Program	1,027,899	88,580	(96,374)	1,020,105	88,535
Illinois Prepaid Tuition Program :					
Compensated absences	68	104	(68)	104	15
Tuition payable	884,485	100,008	(70,056)	914,437	68,490
Accreted tuition payable	337,369	76,597	(5,373)	408,593	6,510
Total Illinois Prepaid Tuition Program	1,221,922	176,709	(75,497)	1,323,134	75,015
Nonmajor Enterprise Fund:					
Compensated Absences	2,661	1,632	(1,899)	2,394	437
Total business-type activities	$ 2,252,482	$ 266,921	$ (173,770)	$ 2,345,633	$ 163,987

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

C. Future Maturities of Revenue Bonds

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

Year Ending June 30	Principal	Interest	Total
2011	$ 88,350	$ 18,702	$ 107,052
2012	-	17,919	17,919
2013	-	17,919	17,919
2014	50,000	17,919	67,919
2015	-	16,344	16,344
2016-2020	-	81,719	81,719
2021-2025	-	81,719	81,719
2026-2030	-	81,719	81,719
2031-2035	-	81,719	81,719
2036-2040	-	81,719	81,719
2041-2045	884,400	65,300	949,700
	1,022,750	$ 562,698	$ 1,585,448
Less:			
Unamortized bond discounts	(3,049)		
Net long-term principal outstanding	$ 1,019,701		

A majority of IDAPP's outstanding revenue bonds are comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the current interest rate of 1.85% 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)

D. Tuition Payable

Tuition payable activity for the year ended June 30, 2010, is as follows:

Balance as of July 1, 2009	$ 884,485
Add:	
Contributions	100,008
Less:	
Return of contributions	(10,300)
Tuition payments	(59,756)
Balance as of June 30, 2010	$ 914,437
Reported as:	
Current	$ 68,490
Noncurrent	845,947
	$ 914,437

E. 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 2010 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.68% and is based on the average increase in tuition for Illinois colleges.

Average tuition payable balance over the year	$ 891,367
Estimate of 8.68% increase of tuition payable	$ 77,371
Present value	$ 76,597
Beginning balance accreted tuition payable as of July 1, 2009	$ 337,369
Accretion expense	76,597
Accretion payments	(5,373)
Ending balance accreted tuition payable as of June 30, 2010	$ 408,593
Reported as:	
Current	$ 6,510
Noncurrent	402,083
	$ 408,593

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

E. 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.

F. 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, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 1,670	$ 273	$ 1,943
2012	1,755	188	1,943
2013	1,845	97	1,942
	$ 5,270	$ 558	$ 5,828

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

On July 27, 2007, ISAC entered into a Three-Year Asset Backed Revolving Credit Facility (the "Facility") in a maximum amount outstanding at any one time of $500,000 through an affiliate of Citibank (the "Lender") pursuant to which ISAC has borrowed funds for the purpose of purchasing certain student loans. Advances made under the Facility are secured by a portfolio of student loans, which loans were largely financed with proceeds of the advances (the "Collateral"). Amounts due under the Facility constitute limited obligations of ISAC, payable solely and only from the Collateral and the revenues derived therefrom. The costs of borrowing under the Program will not exceed Citibank's commercial paper rate. The rate at June 30, 2010 was .35375%. On July 27, 2010, the final maturity date under the Facility, approximately $355,000 remaining outstanding under the Facility became due and payable. Due in part to conditions currently existing in the credit markets, ISAC has been unable to refinance this debt and is currently in payment default under the Facility. ISAC has reached an agreement with the Lender pursuant to which, subject to certain conditions, the Lenders will refrain from exercising their rights to require payment in full of amounts due under the Facility until July 27, 2011 or such later date as may be negotiated.

(All dollar amounts are expressed in thousands)

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

Under the terms of the agreement all revenues generated by the underlying student loan portfolio are transferred to a trust. The trust pays all expenses related to the debt service and student loan servicing costs (capped at 65 basis points of the outstanding average balance in the portfolio). During fiscal year 2010 there was $32,501 in principal and $9,614 in interest collected. The total amount transferred to the trust was $40,514. During the same period the trust paid $2,963 for interest expense and other professional fees and $2,988 for servicing fees.

On December 22, 2008 ISAC/IDAPP executed a $7,000 credit and security agreement with ShoreBank. The revolving credit line was used for the purchase or origination of student loans under the Capstone program established in 2007. The credit line currently has a 5% interest rate and matures on December 22, 2010. The agreement was amended on November 12, 2009 and the amount reduced to $4,717.

	Balance, July 1, 2009	Additions	Deletions	Balance, June 30, 2010	Amounts Due Within One Year
Citibank	$ 395,957	$ -	$ (40,500)	$ 355,457	$ 355,457
ShoreBank	2,990	1,727	-	4,717	4,717
	$ 398,947	$ 1,727	$ (40,500)	$ 360,174	$ 360,174

In addition, IDAPP believes that it is in breach of the Coverage Condition ratio for the Citibank revolving credit line. Since the Coverage condition cannot be satisfied within two business days, this would qualify as an Event of Termination under which Citibank would be eligible for remedies under the indenture. The agreement with the lender discussed in paragraphs 1 and 2 of Note 10 also extends to the breach of the coverage condition ratio.

As a result of the Citibank breach, the ShoreBank Credit and Security Agreement was considered to be in default. ShoreBank granted IDAPP a deferment of exercising its rights in connection with such default until July 31, 2010. On August 20, 2010 ShoreBank was taken over by the FDIC. The Credit and Security Agreement was assigned to the new Urban Partnership Bank. The forbearance letter from Citibank was forwarded to ShoreBank for their credit committee consideration. An extension of the deferment was requested until the maturity of the credit line. As of March 14, 2011, IDAPP has not heard on the status of the deferment.

Note 11. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Commission's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2010.

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

Note 12. Pension Plan

Substantially all of the Commission's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2010 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010. 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 2010, 2009 and 2008, the employer contribution rate was 28.4%, 21.0% and 16.6%, respectively. For fiscal years 2010, 2009 and 2008, the required and actual contribution was $5,665, $4,467 and $3,743, respectively.

Note 13. Post-Employment Benefits

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

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

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements, including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois 62763-3838.

Note 14. Termination Benefits

During the fiscal year ended June 30, 2010, the Illinois Student Assistance Commission (ISAC) engaged in a workforce reduction. Applicable accounting standards require that a liability and expense for involuntary termination benefits (such as severance benefits) be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees and the amounts can be reasonably determined. In relation to the workforce reduction, ISAC has accrued approximately $374 in severance benefits, representing 60 days of salary continuation for 91 affected employees. This amount was paid to the employees subsequent to the year ended June 30, 2010 and is included with accounts payable and accrued expenses on the Statement of Net Assets.

Note 15. Fund Deficits

A. Deficit in Fund Net Assets

As of June 30, 2010, the Illinois Prepaid Tuition Program Fund has a deficit in net assets of $338,000. The actuarial soundness of the Program and management's plans to eliminate the deficit over time, are discussed in the paragraphs that follow.

B. Actuarial Report on Soundness - Unaudited

The estimated actuarially determined deficit for College Illinois!®, the State's section 529 prepaid tuition program, as of June 30, 2010 is $340,875.

In terms of the program's actuarially determined deficit, actual investment performance is only one influencing factor. Expected future investment performance is another factor, as is the level of actual tuition and fee increases at Illinois public universities, new contracts for each future enrollment period, as well as future expectations for tuition and fee increases at those institutions.

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

Tuition and fee increase assumptions were reevaluated for FY2011 and beyond. Each year when setting plan prices, the Commission reviews the assumptions that influence the actuarial deficit. The program opened on November 1, 2009 for its first year-round enrollment in the program's history. Contract prices have been recommended at a level that will provide revenue from contract sales sufficient not only to fund future contract obligations and current administrative costs, but also to improve the actuarial soundness of the program. Management believes that this provision of building a stabilization premium into contract prices provides a buffer against uncertainty associated with the annual volatility of college cost increases and performance of program investments.

Investment performance lagged the assumed return for FY2009 due to the extreme market conditions experienced during that year. Additionally, the actuarial deficit has been significantly impacted by the negative investment performance recorded during FY2009. To address these unusual conditions, the Commission approved changes to the program's investment policy in June 2008. Those changes are designed to reduce the volatility in returns and to enhance performance over time.

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

(All dollar amounts are expressed in thousands)

Note 15. Fund Deficits (Continued)

B. Actuarial Report on Soundness – Unaudited (Continued)

In September 2009, ISAC's Commissioners approved new prices for 2009-2010 which reflect ISAC's ongoing efforts to expand the *College Illinois!*® program to more people at more price points. In the fall of 2008, *College Illinois* ® introduced SmartChoice Pricing. Under SmartChoice Pricing, purchasers have, for the first time, the option of purchasing semesters at Community Colleges (Choice 1), at public universities and colleges within the State of Illinois excluding the University of Illinois at Urbana-Champaign (Choice 2), and finally, semesters at any public university and college, including the University of Illinois at Urbana-Champaign (Choice 3). This differential pricing expands the market for *College Illinois!*® contracts to a wider range of household incomes.

Management assumes that 3,500 contracts will be sold during 2010-2011 enrollment period. Starting with 2010-2011 enrollment, the program expands to partner with several brokerage firms and believes that this should greatly increase the long-term sales outlook for the program.

Other significant assumptions include an investment rate of return on a gross basis, of 9.25% in 2011, and 8.75% per annum thereafter. Investment expense is estimated to be 35 basis points. Weighted average tuition increases range from 6.5% per annum to 8.5% per annum, based on the type of contract.

The Actuary's Report on Soundness as of June 30, 2010 indicates that the program's cash flow is expected to remain positive through the fiscal year that ends in 2012 without reflecting expected proceeds from contracts sold after June 30, 2010 and the program's assets are projected to cover expected benefit payments through fiscal year 2020. The report also highlights a continuing business scenario based on current point estimate and future contract sales projected by the Commission. Based on this scenario, the soundness of the program would improve over time.

	Actuarial Evaluation
Market value of current assets*	$ 986,428
Unamortized investment gains and losses	190,397
Actuarial present value of future payments expected to be made by contract purchasers	173,526
Subtotal	1,350,351
Actuarial present value of future payments expected to be made by the program	1,691,226
Actuarial deficit as of June 30, 2010	$ (340,875)

* Based on unaudited financial statements provided by Commission management.

Note 16. 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 $138 in 2010. There are no future minimum rental commitments for non-cancelable operating leases to be satisfied by future Commission appropriations.

Note 17. Commitments and Contingencies

IDAPP has entered into a number of contracts with lenders, to act as IDAPP's agents and facilitate the purchase of Federal Family Education Loan Program (FFELP) student loans for IDAPP. This program ended during fiscal year 2009. IDAPP is committed to disbursing the funds for the FFELP loans purchased by these lenders. The total amount of loans purchased by IDAPP with all lenders in FY2010 was approximately $24,900. The remaining obligation under these purchase agreements is estimated to be approximately $16,500.

The Commission is a defendant in a lawsuit with a claimed loss of approximately $13,500. Commission management believes the lawsuit is without merit and intends to vigorously defend the Commission in the lawsuit. It is the opinion of the Commission's legal counsel that the likelihood that a material net liability will be established against ISAC in the cases described above is remote. Commission management does not believe the lawsuit will have a material effect on financial results.

Note 18. New Governmental Accounting Standards

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

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

Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The Illinois Prepaid Tuition Program is required to implement the provisions of this Statement for the year ending June 30, 2011.

Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance contained in pre-November 1989 FASB and AICPA Pronouncements*, was established to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Commission is required to implement this Statement for the year ending June 30, 2013.

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

Note 19. Subsequent Events

A. Department of Education Loan Purchase Program - IDAPP

The provisions of the 2009A, B & C Taxable Student Loan Revenue Bonds Indenture required IDAPP to sell the loans held under this Indenture to the Department of Education (DOE) pursuant to IDAPP's Master Loan Sale Agreement with the DOE. As a result of this agreement, IDAPP sold $46,137 of loans to the DOE. The proceeds of the Loan Purchase Program (PUT) and the existing cash in the Trust at the time of sale were used to pay-off the principal of $88,350 and interest of $784 on August 10, 2010.

Note 19. Subsequent Events (Continued)

B. Revenue Bonds Refinanced - IDAPP

On October 27, 2010 ISAC issued $604,000 of Floating Rate Notes. The Notes were issued in three tranches with different maturities and interest rates. The tranches are $181,000 maturing April 25, 2017 with a rate of 3-Month LIBOR plus 0.48%, $269,000 maturing April 25, 2022 with a rate of 3-Month LIBOR plus 1.05% and $154,000 maturing July 25, 2045 with a rate of 3-Month LIBOR plus 0.90%. The proceeds of the Notes and the existing cash in the existing UBS trust were used to redeem principal amounts of $782,050 of the senior and $67,900 of the subordinate bonds, respectively, plus $269 of accrued interest (2002 Resolution Revenue Bonds). There are $34,450 of 2002 Resolution auction rate bonds that remain outstanding in the UBS trust, $32,350 senior bonds and $2,100 subordinate bonds.

C. Federal Family Education Loan Program (FFELP) Discontinued

As a result of the SAFRA Act, which was part of the Health Care and Education Reconciliation Act, no further loans will be made under the FFELP program beginning July 1, 2010.

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Budgetary Comparisons Schedule - Major Governmental Fund - General Fund
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	Budgeted Amounts		Actual	Actual Amounts	Variance from
	Original	**Final**	**Amount**	**GAAP Basis**	**Final Budget**
Revenues (inflows)					
Appropriations from State resources and other revenues					
General Revenue Account	$ 425,031	$ 425,031	$ 423,815	$ 423,815	$ (1,216)
Education Assistance Account	-	-	(1,097)	(1,097)	(1,097)
Combined totals	425,031	425,031	422,718	422,718	(2,313)
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General Revenue Account	425,031	425,031	423,831	423,831	1,200
Education Assistance Account	-	-	(1,097)	(1,097)	1,097
Combined totals	425,031	425,031	422,734	422,734	2,297
Excess (deficiecy) of revenues over expenditures	-	-	(16)	(16)	(16)
Other sources of financial resources					
Transfers in/General Revenue Account	-	-	31	31	31
Net change in fund balance	$ -	$ -	15	15	$ 15
Fund balance, July 1, 2009			5,430	5,430	
Fund balance, June 30, 2010			$ 5,445	$ 5,445	

See Notes to Required Supplementary Information.

State of Illinois
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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	$ 423,815
Total revenues on the GAAP basis	$ 423,815

State of Illinois
Illinois Student Assistance Commission

Combining Schedule of Accounts
General Fund
June 30, 2010
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Assets			
Unexpended appropriations	$ 3,282	$ -	$ 3,282
Cash and cash equivalents	1	-	1
Due from other ISAC funds	13	-	13
Notes receivable, net of allowance of $49	5,431	-	5,431
Total assets	$ 8,727	$ -	$ 8,727
Liabilities			
Accounts payable and accrued liabilities	$ 1,189	$ -	$ 1,189
Due to State of Illinois component units	2,093	-	2,093
Total liabilities	3,282	-	3,282
Fund Balances			
Reserved for notes receivable	5,431	-	5,431
Unreserved			
General Fund	14	-	14
Total fund balances	5,445	-	5,445
Total liabilities and fund balances	$ 8,727	$ -	$ 8,727

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Revenues			
Other	$ 4	$ -	$ 4
Expenditures			
Education			
Scholarships, awards and grants	423,831	(1,097)	422,734
Excess (deficiency) of revenues over expenditures	(423,827)	1,097	(422,730)
Other sources (uses) of financial resources			
Appropriations from State resources	425,031	-	425,031
Lapsed appropriations	(326)	-	(326)
Receipts remitted to State Treasury	(808)	(1,097)	(1,905)
Amount of SAMS transfer in	(86)	-	(86)
Transfers in	31	-	31
Net other sources (uses) of financial resources	423,842	(1,097)	422,745
Net change in fund balance	15	-	15
Fund balance, July 1, 2009	5,430	-	5,430
Fund balance, June 30, 2010	$ 5,445	$ -	$ 5,445

State of Illinois
Illinois Student Assistance Commission

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable	College Access Challenge Grant
Assets				
Cash and cash equivalents	$ -	$ 344	$ 15	$ 10
Receivables				
Other	-	3	-	16
Total assets	$ -	$ 347	$ 15	$ 26
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 22
Due to other ISAC funds	-	-	12	-
Due to other State funds	-	-	-	4
Deferred revenue	-	18	-	-
Due to U.S. Department of Education				
Other	-	329	-	-
Total liabilities	-	347	12	26
Fund balances				
Unreserved	-	-	3	-
Total liabilities and fund balances	$ -	$ 347	$ 15	$ 26

Future Teacher Corp (Special Revenue Funds)	University Grant (Special Revenue Funds)	Contract and Grant (Special Revenue Funds)	Optometric Education (Special Revenue Funds)	Total (Special Revenue Funds)	Debt Service Fund I S A C COP	Total Nonmajor Governmental Funds
$ 142	$ 69	$ -	$ -	$ 580	$ -	$ 580
-	-	-	-	19	-	19
$ 142	$ 69	$ -	$ -	$ 599	$ -	$ 599
$ -	$ -	$ -	$ -	$ 22	$ -	$ 22
-	-	-	-	12	-	12
-	-	-	-	4	-	4
-	-	-	-	18	-	18
-	-	-	-	329	-	329
-	-	-	-	385	-	385
142	69	-	-	214	-	214
$ 142	$ 69	$ -	$ -	$ 599	$ -	$ 599

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable	College Access Challenge Grant
Revenues				
Federal government	$ 3,863	$ 1,955	$ -	$ 2,122
Licenses, fees, and other	-	-	28	-
Total revenues	3,863	1,955	28	2,122
Expenditures				
Education				
Scholarships, awards and grants	3,863	1,955	16	2,122
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	3,863	1,955	16	2,122
Excess (deficiency) of revenues over expenditures	-	-	12	-
Other sources (uses) of financial resources				
Appropriations from State resources	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	(24)	-
Net other sources (uses) of financial resources	-	-	(24)	-
Net change in fund balance	-	-	(12)	-
Fund balance, July 1, 2009	-	-	15	-
Fund balance, June 30, 2010	$ -	$ -	$ 3	$ -

Special Revenue Funds: Future Teacher Corp	University Grant	Contract and Grant	Optometric Education	Total	Debt Service Fund: I S A C COP	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ 7,940	$ -	$ 7,940
38	66	192	-	324	-	324
38	66	192	-	8,264	-	8,264
-	67	192	51	8,266	-	8,266
-	-	-	-	-	1,585	1,585
-	-	-	-	-	354	354
-	67	192	51	8,266	1,939	10,205
38	(1)	-	(51)	(2)	(1,939)	(1,941)
-	-	-	51	51	-	51
-	-	-	-	-	1,939	1,939
-	(7)	-	-	(31)	-	(31)
-	(7)	-	51	20	1,939	1,959
38	(8)	-	-	18	-	18
104	77	-	-	196	-	196
$ 142	$ 69	$ -	$ -	$ 214	$ -	$ 214

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2010
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Assets				
Current				
Cash and cash equivalents	$ 5,481	$ 43,694	$ -	$ 49,175
Receivables				
Intergovernmental	1,164	37,551	-	38,715
Accrued interest on investments	5	28	-	33
Default fee	-	66	-	66
Security lending collateral	2,229	13,177	-	15,406
Due from other ISAC funds	3,922	-	-	3,922
Due from Federal Student Loan fund	1,193	-	(1,193)	-
Due from Student Loan Operating fund	-	285	(285)	-
Total current assets	13,994	94,801	(1,478)	107,317
Noncurrent				
Capital assets, net of accumulated depreciation	150	-	-	150
Due from Student Loan Operating fund - Deferred charges	-	3,203	(3,203)	-
Total noncurrent assets	150	3,203	(3,203)	150
Total assets	$ 14,144	$ 98,004	$ (4,681)	$107,467
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 844	$ 22,714	$ -	$ 23,558
Due to Federal Student Loan fund	285	-	(285)	-
Due to Student Loan Operating fund	-	1,193	(1,193)	-
Due to other ISAC funds	1	7	-	8
Due to other State funds	151	-	-	151
Security lending collateral obligation	2,229	13,177	-	15,406
Intergovernmental payable	-	8,335	-	8,335
Compensated absences	437	-	-	437
Total current liabilities	3,947	45,426	(1,478)	47,895
Noncurrent				
Due to Federal Student Loan fund - deferred revenue	3,203	-	(3,203)	-
Compensated absences	1,957	-	-	1,957
Total noncurrent liabilities	5,160	-	(3,203)	1,957
Total liabilities	9,107	45,426	(4,681)	49,852

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds (Continued)
June 30, 2010
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Net Assets				
Invested in capital assets	$ 150	$ -	$ -	$ 150
Restricted	-	52,578	-	52,578
Unrestricted	4,887	-	-	4,887
Total net assets	5,037	52,578	-	57,615
Total liabilities and net assets	$ 14,144	$ 98,004	$ (4,681)	$ 107,467

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses and Changes in Net Assets -
Nonmajor Enterprise Funds
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Operating revenues			
Loan processing and issuance fees	$ 1,527	$ -	$ 1,527
Portfolio maintenance fee	4,193	-	4,193
Direct consolidation fees	6,552	-	6,552
Licenses and fees	-	2,991	2,991
Collections on student loans previously reimbursed by the U.S. Department of Education	-	19,460	19,460
Other	432	-	432
Total operating revenues	12,704	22,451	35,155
Operating expenses			
Salaries and employee benefits	19,774	-	19,774
Loan guarantee	-	214,905	214,905
Management and professional services	8,345	-	8,345
Depreciation	52	-	52
Total operating expenses	28,171	214,905	243,076
Operating loss	(15,467)	(192,454)	(207,921)
Non-operating revenues			
Federal government	-	207,134	207,134
Interest revenue	43	262	305
	43	207,396	207,439
Income (loss) before transfers	(15,424)	14,942	(482)
Transfers out to other ISAC funds	(1,158)	-	(1,158)
Transfers for:			
Default fees	(872)	872	-
Collection retention fees	5,919	(5,919)	-
Repurchases/Rehabilitations/Consolidation Retention fees	13,933	(13,933)	-
Direct Consolidation fee refund	(2,978)	2,978	-
Default aversion fees	2,022	(2,022)	-
Net transfers	16,866	(18,024)	(1,158)
Change in net assets	1,442	(3,082)	(1,640)
Net assets, July 1, 2009	3,595	55,660	59,255
Net assets, June 30, 2010	$ 5,037	$ 52,578	$ 57,615

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ 11,086	$ 96,771	$ 107,857
Cash payments to suppliers for goods and services	(1,709)	-	(1,709)
Cash payments to employees for services	(19,813)	-	(19,813)
Cash payments for loan guarantees	-	(212,020)	(212,020)
Cash payments for other operating activities	(5,845)	(74,648)	(80,493)
Net cash used by operating activities	(16,281)	(189,897)	(206,178)
Cash flows from noncapital financing activities			
Federal government grants	-	204,901	204,901
Transfers in	21,401	3,649	25,050
Transfers out	(4,811)	(21,401)	(26,212)
Net cash provided by noncapital financing activities	16,590	187,149	203,739
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(13)	-	(13)
Cash flows from investing activities			
Interest and dividends on investments	42	261	303
Net increase (decrease) in cash and cash equivalents	338	(2,487)	(2,149)
Cash and cash equivalents, July 1, 2009	5,143	46,181	51,324
Cash and cash equivalents, June 30, 2010	$ 5,481	$ 43,694	$ 49,175

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds (Continued)
Year Ended June 30, 2010
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	$ (15,467)	$ (192,454)	$ (207,921)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	52	-	52
Change in assets and liabilities			
Accounts receivable	-	70	70
Intergovernmental receivables	307	-	307
Due from other funds	(711)	16	(695)
Accounts payable and accrued liabilities	(86)	6,478	6,392
Intergovernmental payables	-	(2,297)	(2,297)
Due to other funds	(109)	(1,710)	(1,819)
Compensated absences	(267)	-	(267)
Total adjustments	(814)	2,557	1,743
Net cash used by operating activities	$ (16,281)	$ (189,897)	$ (206,178)

McGladrey

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, 2010, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in finding 10-1 in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 10-2, 10-3, 10-4 and 10-5 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as findings 10-1, 10-4, 10-5 and 10-6.

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, and the Commission Board and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 14, 2011

Current Findings – *Government Auditing Standards*

Finding 10-1 Procurement Law and Sound Business Practices Not Followed

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) did not comply with the competitive procurement requirements of the Illinois Procurement Code and did not follow sound business practices in its selection of a vendor to provide investment due diligence services. Further, the services performed by the vendor did not match the services specified in the contract.

The Commission awarded a contract for investment due diligence services without following established procurement law, administrative rules or sound business practices. We noted the following exceptions discussed further below:

1. The Request for Proposal (RFP) issued to procure the Services was not specific to investment due diligence services, but rather was for financial advisory services pertaining to issuing or restructuring debt;
2. Only one of ten "prequalified vendors" provided pricing for the investment due diligence services and there was no effort to obtain quotes from any of the other successful respondents when it was determined that investment due diligence services were needed;
3. The performance of the work commenced prior to obtaining a signed contract;
4. The Commission could not provide documentation showing the vendor's "due diligence" services were provided as required by the contract;
5. The fee arrangements with the selected vendor did not ensure objectivity in the performance of the work which was the subject of the contract; and
6. Management focused on only one private equity investment alternative.

Competitive Price Procurement Circumvented in the RFP Process (Exceptions #1 and #2)
On January 4, 2008, the Commission (through Central Management Services) issued an RFP titled "**To Provide Financial Advisory Services to the Illinois Student Assistance Commission #IDAPP200710**". Within the RFP, Page 8, Section **4.1."Need For Services"** it stated **"**The Illinois Student Assistance Commission (ISAC) is requesting proposals for financial advisory services to ISAC in connection with (i) structuring and placing new debt, (ii) restructuring its current debt structure and (iii) swaps or other derivative transactions. ISAC will enter into contracts with several financial advisory firms and (iv) general financial advice in connection with improving ISAC's operational and financial functions. During the term of the contract, as ISAC has a need for financial advisory services, ISAC shall issue invitation for bids (IFB)." Responses to the RFP were due January 18, 2008.

Using this RFP, 10 vendors were prequalified to perform the services specified in the RFP. Upon review of the complete RFP, the auditors concluded the RFP was primarily issued to assist the Commission with services pertaining to the issuance/restructuring of debt. The auditors reviewed the proposal provided by the vendor awarded investment due diligence services under this RFP. The proposal was complete and clearly demonstrated the vendor's capabilities and experience in assisting governmental entities with debt issuance related matters, however the vendor did not present qualifications in the proposal pertaining to investment advisory services or investment due diligence services. The price proposal, however, did contain the following additional unsolicited fee quote that was not included in the RFP fee proposal form:

"Other Services: Financial Advisor, investment banking and analysis services related to investment of 529 prepaid tuition plan assets in illiquid assets and/or private placement in new asset categories charges: 1.25 to 2% of invested assets."

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-1 Procurement Law and Sound Business Practices Not Followed (Continued)

According to the Illinois Administrative Code (44 Ill. Adm. Code 1.2035.h) RFP's shall include the following information:

A) the type of services required;
B) a description of the work involved;
C) an estimate of when and for how long the services will be required;
D) the type of contract to be used;
E) a date by which proposals for the performance of the services shall be submitted;
F) a statement of the minimum information that the proposal shall contain, which may, by way of example, include:
 i) the name of the offeror, the location of the offeror's principal place of business and, if different, the place of performance of the proposed contract;
 ii) if deemed relevant by the Procurement Officer, the age of the offeror's business and average number of employees over a previous period of time, as specified in the Request for Proposals;
 iii) the abilities, qualifications, and experience of all persons who would be assigned to provide the required services;
 iv) a listing of other contracts under which services similar in scope, size, or discipline to the required services were performed or undertaken within a previous period of time, as specified in the Request for Proposals;
 v) a plan, giving as much detail as is practical, explaining how the services will be performed;
G) price (to be submitted in a separate envelope in the proposal package and not mentioned elsewhere in the proposal package); and
H) the factors to be used in the evaluation and selection process and their relative importance.

The Illinois Procurement Code (30 ILCS 500/35-30 and 35-35) requires that all professional and artistic services greater than $20,000 shall be awarded using competitive request for proposal.

Based on the RFP issued, there was no clear basis for awarding a contract for investment due diligence services in a fair and competitive manner that allowed all interested parties the opportunity to participate in the procurement opportunity. Based on the fact that none of the other 9 successful (prequalified) respondents provided pricing for investment due diligence services, it is clear that the RFP was not sufficiently clear that those types of services were being solicited. There is no evidence that any of the 9 respondents were asked to provide pricing for due diligence services after the proposals were received and scored.

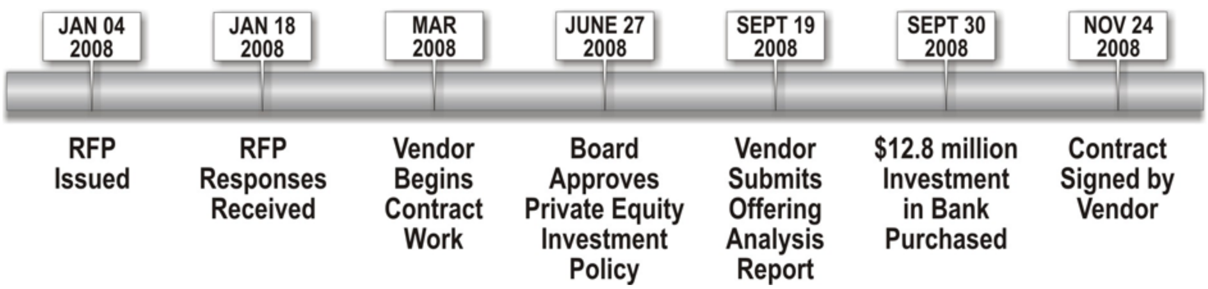
There may have been numerous vendors who specialize in these types of investment services who did not reply to the request for proposal because it was predominantly requesting bond issuance services. By circumventing the competitive procurement process the Commission may have paid higher fees than it otherwise might have obtained through a truly competitive process.

According to Commission management, the Commission believes that the RFP process complied with the Illinois Procurement Code and permitted selection of a vendor from the qualified list of financial advisors to perform the services requested. Additionally, the Commission examined the responses of the winning vendors for financial advisory services and selected the qualified vendor that provided a response and a price for these specific services.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-1 Procurement Law and Sound Business Practices Not Followed (Continued)

<u>Contract Not Reduced to Writing and Performance of Contract Requirements not Adequately Documented (Exceptions #3 and #4)</u>
The Vendor's investment due diligence services were limited to one recommended transaction – a private equity investment in a specific bank. According to Commission management, the Vendor began performing its due diligence work on the viability of the recommended private equity investment in the Bank around March 2008. This was prior to the Board approving changes to the investment policy on June 27, 2008 that would allow for direct private equity investments. The Vendor issued its final Offering Analysis report on September 19, 2008. The investment in the Bank was actually made on September 30, 2008. The terms of the contract with the vendor provided for services to be performed between November 24, 2008 and March 31, 2009. The contract was not signed until November 24, 2008. Thus all the work required by the contract was completed and the private equity investment was purchased prior to the date and terms of the contract beginning November 24, 2008.



The Commission lacked documentation showing that the vendor performed the same services as specified by the contract. The contract called for the vendor to "Conduct thorough due diligence of the proposed investment". Due diligence generally requires the independent verification of material facts, and in this case, Bank management representations. In the "Sources of Information Used in Our Analysis" section of the Offering Analysis, provided as the final work product of the Vendor, it states "All information concerning the Bank was provided by (Bank) management. All information received has been accepted by (the Vendor) to be accurate with no further investigation". The auditors requested but were not provided any evidence that the Vendor independently verified management's representations.

Statewide Accounting Management Systems (SAMS) Procedure 15.10.40 and sound business practices require contracts be reviewed and signed prior to the inception of the contract and prior to services being rendered to be binding and enforceable and to protect the interest of the parties involved. Sound business practices would also require the Commission to ensure that the provisions of the contract were performed prior to the payment for services.

Failure to review and sign contracts before the beginning of the contract period increases the risk of liability to the State. Failure to obtain documentation ensuring the contractor performed the due diligence provisions of the contract may have diluted the value of the contract performance received by the Commission.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-1 Procurement Law and Sound Business Practices Not Followed (Continued)

According to Commission management, the contract was not executed prior to the commencement of work because of unclear communication and an incorrect assumption that contracts were entered into with all vendors prequalified to provide financial advisory services. Commission management stated the vendor, in conjunction with the Commission's outside attorneys, reviewed financial records and reports, conducted site visits and interviews, reviewed reports of federal regulators and other corporate records and documents prior to preparing their report.

Vendor Fee Arrangement Not Objective and Alternative Investments Not Considered (Exceptions #5 and #6)

The terms of the agreement with the Vendor performing the due diligence services stated the Vendor would receive as payment for services, 1.25% to 2% of the invested amount. The fee paid was 2% of the amount invested, or $255,600. The vendor was asked to provide due diligence services leading to a conclusion as to the viability of one specific private equity investment. Management did not solicit from this vendor or any other vendor information on the viability of other alternate investment choices.

By paying the vendor on a commission or a contingent fee basis, the Commission may have created an incentive for the vendor to recommend the private equity investment. Specifically, there was no contractual means for the vendor to be paid under the signed contract if the investment was not made. The vendor recommended the investment in the Bank in its report issued September 19, 2008, which preceded the contract execution. The Commission did not consider other private equity investment choices for this asset allocation category.

We noted the Offering Analysis prepared by the Vendor included an analysis of the Capital Adequacy, the Asset Quality, Management, Earnings and Liquidity of the potential investment in the Bank. This type of rating is called a CAMEL rating in the report. We noted that in each category of the analysis report there were potential red flags as to the soundness of the investment.

Despite the red flags noted the vendor recommended the investment in the Bank and the Commission purchased the $12.78 million investment on September 30, 2008. By the end of fiscal year 2010, the Commission determined the entire $12.78 million value of the investment was worthless when the Bank was taken over by the FDIC.

Best practices require that vendors contracted to provide their opinion on investment purchase decisions not be compensated on a basis that is contingent upon the opinion rendered. It generally would be considered to be a prudent business practice for management to consider a variety of alternative private equity investments to allow for greater opportunity to make sound investment choices.

According to Commission management, the Commission believed the fee arrangement was appropriate and consistent with the Vendor's price proposal and contingent fee proposals from other qualified vendors in response to the RFP that were based upon the principal amount of securities offered. Commission management stated the decision to consider only the one Bank investment was a business decision. (Finding Code No. 10-1)

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-1 Procurement Law and Sound Business Practices Not Followed (Continued)

Recommendation:

We recommend the following:

- The Commission should comply with the Procurement Code and Administrative Rule in procuring professional and artistic services.

- The Commission should establish policies whereby RFP's are thoroughly reviewed before issuance to ensure that all aspects of the needed services are thoroughly described in the document. If the Commission determines at a later time that a necessary service was not fully described in the original RFP, the Commission should issue an addendum if the deadline for submission has not yet expired. If the deadline has expired, the Commission should issue a new RFP for the omitted service.

- If one RFP is being issued to solicit vendors for multiple and/or varying services, the pricing portion of the RFP should provide a detailed schedule or table specifying the manner in which pricing should be provided for the different types of services requested. Bidders should be required to use this standardized template to ensure comparable results are received.

- The Commission should process and approve all contracts in writing before the beginning of the contract period or commencement of any services.

- The Commission should ensure that the provisions of contracts are performed and documented before paying vendors for services.

- The Commission should revisit contingent fee based compensation methods when contracting for opinions on investment purchase decisions that may influence the objectivity or the perception of objectivity of the opinion rendered.

- The Commission should consider taking into account other alternate investments choices when making investment decisions.

Commission Response

We accept the recommendation.

While appropriate procurement procedures were followed, ISAC's future RFPs will have more precise descriptions of services to be solicited with clearer pricing requirements. Moreover, we have changed our procedures for RFPs that result in a large number of qualified bidders in order to ensure that services begin only after the contract is signed. We have reinforced our procedures that require review and sign-off of contract deliverables before vendor payments are processed. We will review contingent-fee compensation and consider taking into account different investment choices when making investment decisions.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-2 Financial Reporting Process

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not provide the auditors with complete and accurate financial statements on a timely basis. Also, the Illinois Designated Account Purchase Program (IDAPP) does not have sufficient control over financial reporting.

During the audit entrance conference on May 11, 2010, a deadline for submission of IDAPP's draft financial statements was determined and agreed to by the auditors and IDAPP management. The deadline for delivery of the complete draft financial statements to the auditors for fiscal year 2010 was October 1, 2010. An initial draft was provided to the auditors on September 30, 2010, which was incomplete and had not been fully reviewed by the Commission and all parties involved with the preparation and approval of the financial statements. Changes and adjustments to the initial draft occurred as late as November 15, 2010, 46 days after the agreed upon deadline, when several reclassifications and other changes were made affecting the financial statements and note disclosures.

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

- Transfers in and out were out of balance, requiring an adjusting entry in the amount of $750,000 to the general ledger. In accordance with fund accounting, transfers between funds and departments within the entity should net to zero.

- Severance accruals relating to benefits for terminated employees were not recorded in the draft financial statements. Upon review of the agency's severance policy, it was determined that an adjusting journal entry in the amount of $137,000 was needed to properly record severance accrual at the end of the fiscal year. In accordance with GASB Statement No. 47 *Accounting for Termination Benefits*, a liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

- Student loan premiums recorded in the general ledger did not agree to individual supporting schedules provided to the auditors, resulting in an adjusting entry of $265,000 to the general ledger accounts. In accordance with good internal control, all balance sheet accounts should be reconciled to subsidiary ledgers or other supporting information on a regular basis, including at year-end. Differences should be investigated and adjustments recorded as necessary.

- An adjustment to write off uncollectible amounts relating to notes receivable from an external service provider, in the amount of $683,000 was not made timely and required an adjustment at year-end. IDAPP was in violation of its policy requiring the Loan Accounting department to write off uncollectible balances within 3 business days of receiving the completed and approved write-off form. (See finding 10-5)

- Weighted average maturities (WAM) of investments were calculated incorrectly. As a result, the related interest rate risk disclosure schedule was inaccurate for three of the four types of securities reported. In accordance with good internal control, each schedule on the financial statement should be reviewed and reconciled to underlying supporting information. Differences should be investigated and corrections made prior to providing financial statements to auditors.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-2 Financial Reporting Process (Continued)

- Pledged revenue disclosures were not reported for the 2009 series debt issuances in the draft financial statements. In accordance with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* "For each period in which the secured debt remains outstanding, pledging governments should disclose, in the notes to financial statements, information about specific revenues pledged." The most significant items that should be reported include the approximate amount of the pledge, the specific revenues that are pledged, the term of the commitment, pledged revenues during the reporting period compared to the principal and interest requirements for the same period and the approximate portion of the specific revenue stream that has been pledged.

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

According to IDAPP management, changes subsequent to the initial delivery of the draft financial statements were the result of the ongoing review of the financials by the Commission and the Illinois Office of the Comptroller. The Commission made all efforts and was in constant communication with the Illinois Office of the Comptroller and the auditors prior to the end of the fiscal year to ensure that the year-end process was timely and accurate.

Submitting incomplete and inaccurate draft financial statements delays completion of the audit process and the timely release of IDAPP's and the Commission's financial reports to users. Also, insufficient and/or ineffective controls over financial reporting could lead to significant reporting inaccuracies in the financial statements and notes to the financial statements. (Finding Nos. 10-2, 09-3, 08-5)

Recommendation

We recommend the Commission improve controls over financial reporting to ensure accurate presentation and disclosure of IDAPP's annual financial statements. The Commission should take a comprehensive look at the entire financial reporting process and make changes needed to timely release financial reports to users and to auditors.

Commission Response

We accept the recommendation.

IDAPP is reviewing all of its policies and procedures regarding the close process and the preparation of the financial statements. Quality control checks will be put in place to ensure the submission of accurate financial statements.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-3 Student Loan Payments Not Processed Correctly

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not properly apply student loan payments to principal and interest.

The Illinois Designated Account Purchase Program (IDAPP) utilizes several external service organizations to manage and monitor its student loan portfolio. During our testing of student loan payments, we noted that for four out of twelve (33%) payments sampled for one of the service organizations, there were errors in the application of the payments between principal and interest.

IDAPP management acknowledged it was aware of a system problem relating to the processing of payments at this service provider. Subsequent to IDAPP's fiscal year ended June 30, 2010, the service provider performed a retrospective calculation for each loan possibly affected by this situation. In addition, IDAPP has hired an independent third party entity to review this retrospective calculation for propriety. Based on the review performed by the service provider, misapplied payments as of June 30, 2010 totaled approximately $291,000, resulting in an understatement of IDAPP's student loan receivable balance by the same amount. This amount was deemed immaterial and was not recorded at year end.

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. A good internal control environment includes checks and balances to ensure accounting transactions are recorded accurately. This extends to those transactions processed by third parties such as service organizations.

According to IDAPP management, this situation occurred due to the way the computer program used by the service organization handled forbearances, deferments and the related capitalized interest.

The service provider in question manages approximately $312 million of IDAPP's student loan portfolio as of June 30, 2010. This represents 28% of the student loan receivable balance of $1,107 million at fiscal year end 2010. Misapplication of student loan payments between interest and principal could result in IDAPP's student loan receivable and operating revenue being misstated. Additionally, misapplication of payments could lead to certain borrowers "paying off their loan" when a balance actually remains, or over-paying the remaining loan balance. Although individual payments misapplied during the year ended June 30, 2010 appear to be insignificant, these amounts can accumulate throughout the years to a more significant amount. (Finding Code No. 10-3)

Recommendation

We recommend IDAPP management closely monitor each service organization used to manage its student loan portfolio. Reviews of the service organization's processes and controls should be performed on a periodic basis. This should include a review of the service organization's "Report on controls placed in operation and tests of operating effectiveness", prepared and issued by independent auditors, in accordance with the Statement on Auditing Standards No. 70. Any noted variances in application of borrower repayments should be investigated and corrected in a timely manner.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-3 Student Loan Payments Not Processed Correctly (Continued)

Commission Response

We accept the recommendation.

The Commission was aware of the system problem relating to the processing of payments at this service provider. Commission believes that these adjustments to borrower balances are insignificant and immaterial. The Commission has hired an independent consultant and is working with the service provider to ensure the integrity of the borrower balances. Any questions raised by borrowers regarding their balance are investigated and corrected in a timely basis.

Please also note that IDAPP has a process where it reviews the SAS 70 reports of all the outside service providers and follows up on any findings that are deemed material weaknesses. The service provider's report for the period of July 1, 2009 through August 15, 2010 was reviewed by IDAPP and IT management in September 2010 with no material weaknesses noted.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-4 Noncompliance with Investment Policy

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) invested in a money market mutual fund with holdings in securities not permitted by its investment policy.

As of June 30, 2010, the Illinois Designated Account Purchase Program (IDAPP) had invested $13.4 million in a Fund, which invests in corporate debt securities that were not guaranteed by the full faith and credit of the United States of America as required by the investment policy. This investment was approximately 5% of IDAPP's total investment balance as of the fiscal year end 2010.

Section 5.5 of IDAPP's current investment policy only allows investments in money market mutual funds with portfolio holdings of United States obligations including bonds, notes, certificates of indebtedness, treasury bills or other securities, which are guaranteed by the full faith and credit of the United States of America as to principal and interest, and direct United States obligations (bonds, notes, debentures or other similar obligations of the United States of America or its agencies).

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that funds held outside the State Treasury are managed, used and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. Good internal controls include checks and balances to ensure policies established by the Board are followed and adhered to.

According to IDAPP management, the Series 2002, 2003, 2004 and 2005 Bond Indenture which guides permitted investments of the related Bond Indenture Trust allow that investments may be made in money market funds rated Aa2 or higher by Moody's and, if rated by Fitch, rated AA- or higher, provided, however, that such rating, if any, shall be AA/F1+ or higher for any money market fund which has the ability to maintain a stable one-dollar net asset value per share and whose shares are freely transferable on a daily basis. IDAPP management was following the guidelines of allowable investments specified in the bond documents, but not the current IDAPP investment policy.

This money market mutual fund invests in non-governmental securities which are more volatile than United States obligations and direct United States obligations. By investing in the money market mutual fund, IDAPP has failed to comply with its investment policy and has exposed its investments to a higher risk of loss than agreed to by its Board. (Finding Code No.10-4)

Recommendation

We recommend IDAPP improve controls over investments to ensure that it is in compliance with its investment policies. Further IDAPP should reinvest the money invested in the money market fund in violation of its investment policy to an allowable investment vehicle.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-4 Noncompliance with Investment Policy (Continued)

Commission Response

We accept the recommendation.

The non-compliant investment was sold and the funds moved into a compliant investment on December 16, 2010.

The investment was first purchased in March 2009 and was compliant with the investment policy. Over the course of the year, the fund shifted its investments to some non-governmental securities.

The investments held by the various trusts will be reviewed by the investment committee on a quarterly basis to assure compliance with the investment policy. Investments not in compliance will be sold and the funds moved into other investments.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-5 Noncompliance with Write-Off Policy

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) was not in compliance with its non-cash write-off policy regarding the student loan receivable balances.

During our analysis of the Illinois Designated Account Purchase Program's (IDAPP) student loan receivable balance, we noted that IDAPP's current write-off policy requires the Operations Director and the Director of Accounting and Operations to review and approve write-offs on IDAPP owned alternative student loan balances. Alternative student loans are credit-based loans originated by IDAPP that are not guaranteed by the Federal Family Education Loan Program. We noted that one out of the six selections reviewed (17%) did not contain proper approval. In addition, IDAPP is in violation of its current write-off policy requiring the Loan Accounting department to write-off the balance within 3 business days of receiving the completed and approved write-off form. Four out of the six selections (67%) were not written-off within 3 business days, as required by the policy. They were written off in timeframes ranging from 10 and 45 days.

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

According to IDAPP management, the write-offs processed without approval were an error. Timeliness of the write-offs was the result of reductions in the workforce occurring within IDAPP and changes in IDAPP's management structure.

Without proper approval for the write-off of IDAPP's student loans receivables, loans may be written off in error when collection of receivable amounts may still be viable. Unauthorized write-offs of student loans increases the risk of fraud. In addition, not posting the write-off within the reasonable time period of 3 days could result in interest being inaccurately accrued on outstanding balances. Although individual write-off amounts were immaterial (an average of $250), these amounts could accumulate throughout the year to a more significant amount. (Finding Code No. 10-5)

Recommendation

We recommend that IDAPP improve its controls to ensure that IDAPP accounting staff complies with current policy and procedures in place regarding the authorization and timing of the write-offs of student loan receivables.

Commission Response

We accept the recommendation.

IDAPP is reviewing all of its policies and procedures regarding the write-off of student loans. The policies and procedures will take into account the outsourcing of the loan servicing operations and the current number of employees.

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-6 Debt Covenant Violation

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

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

During our audit of the agency's June 30, 2010 financial statements, we noted that the IDAPP continued to be in violation of the same covenant noted above. However, we noted that IDAPP had improved internal controls related to reporting requirements of the various indentures. IDAPP has a master checklist that incorporates all reporting requirements of the various indentures. The checklist is monitored and maintained on a monthly basis. All of the reporting requirements are reviewed and signed-off by management.

As a result of the violation, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the event of default and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. Management believes the bank would have little incentive to call the line of credit and begin servicing the student loans itself, particularly because IDAPP has made all of its required payments in a timely fashion. The balance of the line of credit with the bank was $355,456,827 at June 30, 2010. According to ISAC management, the bank has agreed to refrain from exercising their rights under the Agreement until July 27, 2011.

The debt covenant violation with the bank also triggered a default in one of the covenants in the loan agreement with another bank. This bank granted IDAPP a deferment from exercising its rights in connection with such default until July 31, 2010. Shortly thereafter, the bank was taken over by the FDIC. Since that time, IDAPP has been pursuing an agreement with the new institution for an extension on the July 31, 2010 deferment date. This issue has not yet been resolved. The balance in the line of credit with this bank was $4,717,675 at June 30, 2010.

According to IDAPP management, the cause of the Coverage Condition breach was due to the level of forbearances exceeding the limit. This was due to the policy of treating student borrowers who had both loans guaranteed by the Federal Family Education Loan Program (FFELP) and other loans not guaranteed by FFELP as if all its loans were guaranteed by FFELP.

Failure to comply with debt covenants could result in the debt becoming due and payable in advance of scheduled retirement dates. As a result of the violation, both banks may have certain remedies under the terms of the loan agreements, principal of which would be the right to call the loans and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code Nos. 10-6, 09-1)

Current Findings – *Government Auditing Standards* (Continued)

Finding 10-6 Debt Covenant Violation (Continued)

Recommendation

We recommend that IDAPP continue to monitor these loan covenant violations and continue seeking remedies from the lenders involved.

Commission Response

We accept the recommendation.

IDAPP will continue to monitor these loan covenants. Commission management has been in constant communication with both parties and is working with them to resolve the violations and to refinance the facilities.

Prior Finding Not Repeated

A. Unapplied Cash

During our fiscal year 2009 audit, we noted the Illinois Designated Account Purchase Program (IDAPP) did not apply cash collections (student loan payments) in a timely manner. (Finding Code No. 09-2)

During our fiscal year 2010 audit, our sample testing indicated that all remittances are being processed timely by the applicable service organizations.