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

Financial Audit
For the Year Ended June 30, 2015

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

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State of Illinois
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Agency Officials

Executive Director	Eric Zarnikow
Chief Financial Officer	Shoba Nandhan
Chief Investment Officer	Kent Custer
General Counsel	Karen Salas

Agency offices are located at:

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

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified an instance of noncompliance or other matters. The instance of noncompliance or other matters is described in the accompanying Schedule of Findings on page 34 of this report as finding 2015-001 (Debt Covenant Violation).

Exit Conference

In correspondence received from Wendy Funk, Director of Accounting and Finance, on December 2, 2015, the Commission elected to waive a formal exit conference. The responses to the recommendations were provided by Erik Zarnikow, Executive Director, Office of the Illinois Designated Account Purchase Program, in correspondence dated December 14, 2015.

RSM

RSM US LLP

Independent Auditor's Report

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

Mr. Miguel del Valle
Acting Chair of the Governing Board
Illinois Student Assistance Commission

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2015, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2, the financial statements present only the Illinois Designated Account Purchase Program, and do not purport to, and do not present fairly the financial position of the State of Illinois or the Illinois Student Assistance Commission as of June 30, 2015, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 10, beginning net position was restated to reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information:
Management has omitted management's discussion and analysis and pension related information for the Illinois Designated Account Purchase Program that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not a required part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information:
Our audit was conducted for the purpose of forming an opinion on the financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois student Assistance Commission. The Supplemental Information, consisting of a Schedule of Notes Outstanding, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Notes Outstanding is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Notes Outstanding is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015 on our consideration of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Designated Account Purchase Program and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Designated Account Purchase Program and its compliance.

RSM US LLP

Schaumburg, Illinois
December 18, 2015

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

Statement of Net Position
June 30, 2015

Assets		
Current assets - unrestricted		
Cash and cash equivalents	$	14,697,805
Investments		4,017,698
Total current assets - unrestricted		18,715,503
Current assets - restricted		
Cash and cash equivalents		19,492,422
Receivables		
Student loans, net of allowance of $8,488,325		67,177,661
Accrued interest - loans		12,757,565
Accrued interest - investments		1,354
Other		14,689
Total current assets - restricted		99,443,691
Noncurrent assets - restricted		
Receivables		
Student loans, net of allowance of $52,142,569		412,662,772
Total noncurrent assets - restricted		412,662,772
Total assets		530,821,966
Deferred outflows of resources		
Pension related amounts		560,885

(Continued)

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

Statement of Net Position (Continued)
June 30, 2015

Liabilities	
Current liabilities	
Accounts payable and accrued expenses	$ 270,248
Accrued interest payable	649,306
Federal special allowance and interest subsidy	1,272,626
Due to other ISAC funds	2,303,045
Due to other State funds	2,200
Compensated absences	5,662
Revolving credit line	183,556,827
Total current liabilities	188,059,914
Noncurrent liabilities	
Compensated absences	50,960
Net pension liability	4,038,424
Notes payable, net	270,396,754
Total noncurrent liabilities	274,486,138
Total liabilities	462,546,052
Deferred Inflows of Resources	
Unamortized deferred amount on refunding	45,141,374
Pension related amounts	4,459,706
Total deferred inflows of resources	49,601,080
Net Position	
Restricted for debt service	11,650,461
Unrestricted	7,585,258
Total net position	$ 19,235,719

See Notes to Financial Statements.

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

Statement of Revenues, Expenses, and Changes in Fund Net Position
Year Ended June 30, 2015

Operating revenues	
Investment income	
Interest - student loans	$ 22,059,122
Interest - investments	6,229
Fees	187,483
Total operating revenues	22,252,834
Operating expenses	
Interest and other student loan expenses	
Interest expense	
Student loan revenue bonds and notes	219,050
Amortization of loan premiums	1,399,259
Other student loan fees	1,752,697
Provision for loan losses	3,182,722
Other operating expenses	
Salaries and employee benefits	537,002
Pension	(788,986)
External loan servicing	2,060,800
Management and professional services	908,074
Other	50,184
Total operating expenses	9,320,802
Operating income	12,932,032
Nonoperating expenses	
Federal special allowance and interest subsidy and excess interest expense (Note 5)	(5,499,954)
Change in fund net position	7,432,078
Net position, July 1, 2014, as restated	11,803,641
Net position, June 30, 2015	$ 19,235,719

See Notes to Financial Statements.

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

Statement of Cash Flows
Year Ended June 30, 2015

Cash flows from operating activities	
Cash payments to suppliers for goods and services	$ (3,076,950)
Cash payments to employees for services	(728,817)
Cash receipts from other operating activities (student loans and fees)	98,937,020
Cash payments for other operating activities (student loans)	(4,111,560)
Net cash provided by operating activities	91,019,693
Cash flows from noncapital financing activities	
Principal paid on revenue bonds and other borrowings	(82,434,000)
Interest paid on revenue bonds and other borrowings	(4,175,204)
Federal special allowance and interest subsidy	(5,749,359)
Net cash used for noncapital financing activities	(92,358,563)
Cash flows from investing activities	
Interest received from investment securities	5,090
Purchase of investment securities	(4,017,547)
Proceeds from sale and maturities of investment securities	4,009,000
Net cash used for investing activities	(3,457)
Net decrease in cash and cash equivalents	(1,342,327)
Cash and cash equivalents, July 1, 2014	35,532,554
Cash and cash equivalents, June 30, 2015	$ 34,190,227
Reported as:	
Current - unrestricted	$ 14,697,805
Current - restricted	19,492,422
	$ 34,190,227

(Continued)

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

Statement of Cash Flows (Continued)
Year Ended June 30, 2015

Reconciliation of operating income to net cash provided by operating activities		
Operating income	$	12,932,032
Adjustments to reconcile operating income to net cash provided by operating activities		
Interest - investments		(6,229)
Interest expense		219,050
Provision for loan losses		3,182,722
Amortization of student loan premiums		1,399,259
Change in assets, liabilities and deferred outflows/inflows of resources		
Accounts receivable		
Student loans		74,792,693
Accrued interest - loans and notes		(381,463)
Other receivables		1,707
Due to other funds		1,229
Accounts payable and accrued expenses		(68,951)
Due to other ISAC funds		(71,555)
Compensated absences		(14,711)
Change in net pension liability		(5,118,128)
Change in deferred outflows of resources - Pension		(307,668)
Change in deferred inflows of resources - Pension		4,459,706
Net cash provided by operating activities	$	91,019,693
Supplemental disclosure of noncash transactions		
Net appreciation (depreciation) in fair value of investments	$	(6)

See Notes to Financial Statements.

Notes to Financial Statements

Note 1. Description of Program/Fund

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

The Illinois Designated Account Purchase Program (IDAPP), a program of ISAC, was created through an Act of the State of Illinois (State) General Assembly to increase participation of eligible lenders in ISAC's Student Loan Programs by purchasing guaranteed student loans from lenders in order to reduce the lenders' collection and administrative costs. IDAPP is also a servicer of student loans. Designation of the governing authority is determined by the Governor of the State. The State also maintains overall accountability for IDAPP's fiscal matters. Activities of IDAPP are subject to the authority of the Office of the Governor, the State's Chief Executive Officer, and other departments of the executive branch of government (such as the Department of Central Management Services and the State Comptroller's Office) as defined by the General Assembly.

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

Note 2. Summary of Significant Accounting Policies

The financial statements of IDAPP as administered by ISAC have been prepared in accordance with generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB), related to proprietary funds. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

A. Reporting Entity

IDAPP is not legally separate from the State, it is included in the financial statements of the State as a proprietary fund. The State’s Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller’s Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

Note 2. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

The financial statements present only IDAPP as administered by the State and ISAC, and do not purport to, and do not, present fairly the financial position of the State or ISAC as of June 30, 2015, and changes in their financial position and cash flows, where applicable, for the year then ended in conformity with GAAP.

B. Basis of Presentation

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

Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Due to the nature of IDAPP activities, income from investments, student loan activity, and interest expense are considered operating activities in the Statement of Revenues, Expenses, and Changes in Fund Net Position. Nonoperating revenues result from non-exchange transactions (e.g. grants (subsidy payments)), gains and losses from the sale of loan portfolios and ancillary activities.

C. Basis of Accounting

IDAPP is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

D. Revenue Recognition

Revenues from fees are recognized when earned. Uncollected interest income on student loans is accrued as revenue at June 30, 2015.

E. Cash and Cash Equivalents

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

F. Investments

IDAPP presents investments in its Statement of Net Position at fair value other than 2a7 pools which are reported at amortized cost which approximates fair value. The net appreciation or depreciation in the fair value of investments since the prior fiscal year (or purchase date for fiscal year 2015 purchases) is included as investment income in the Statement of Revenues, Expenses, and Changes in Fund Net Position.

Note 2. Summary of Significant Accounting Policies (Continued)

G. Student Loans Receivable/Premiums

As a secondary lender, when IDAPP purchases loans from another lender, IDAPP may pay a premium on those loans. Premiums over $50,000 (in the aggregate) are capitalized and amortized on a straight-line basis over the average remaining useful lives of the student loans. Premiums under $50,000 (in the aggregate) are expensed.

H. Allowance for Loan Losses

The allowance for loan losses is an estimate of credit losses arising from the student loan portfolio. A provision for loan losses, which is reported as an operating expense, is added to bring the allowance to a level that, in management's judgment, is adequate to absorb estimated losses in the portfolio. Management performs a monthly 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 4.

Management believes that the allowance for 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.

I. Interfund Transactions

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

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

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

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

J. Capital Assets

Capital assets, which include equipment, are reported at cost. Capital assets are depreciated using the straight-line method over a period of five years. IDAPP capitalizes all equipment that has a cost or value greater than or equal to $5,000. All capital assets are fully depreciated as of June 30, 2015.

Note 2. Summary of Significant Accounting Policies (Continued)

K. Restricted Assets

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

L. Compensated Absences

The liability for compensated absences consists of unpaid, accumulated vacation and sick leave balances for IDAPP employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

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

M. Debt Premiums, Discounts and Deferred Amounts on Refunding

Notes payable are stated at face value net of discounts. These amounts are deferred and amortized over the life of the debt using the straight-line method, which approximates the effective interest rate method. Deferred amounts on refunding represent a gain on refunding recognized with the issuance of the LIBOR Floating Rate Notes (see Note 8a) and are reported as a deferred inflow of resources in the financial statements. These amounts are amortized on a weighted basis over the life of the remaining two tranches. Amortization expense is reported as a component of interest expense in the financial statements.

N. Pensions

In accordance with IDAPP's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the proprietary fund financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

Note 2. Summary of Significant Accounting Policies (Continued)

N. Pensions (Continued)

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and expenses associated with IDAPP's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

O. Adoption of New Accounting Pronouncements

Effective for the year ending June 30, 2015, IDAPP adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The implementation of this Statement significantly impacted IDAPP's financial statements and footnote disclosures with the recognition of a net pension liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and pension expense on the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position. Information regarding IDAPP's participation in SERS is disclosed in Note 10.

Effective for the year ending June 30, 2015, IDAPP adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68,* which addresses an issue regarding the application of the transition provisions of GASB Statement No. 68. The statement clarifies the accounting for contributions to a defined benefit pension plan after the measurement date of a government's beginning net pension liability. The provisions of this statement were incorporated with the implementation of GASB Statement No. 68.

P. Net Position

Net investment in capital assets - this consists of capital assets, net of accumulated depreciation, less the outstanding balances, if any, of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted - result when constraints placed on net position use are either externally imposed by creditors or imposed by law through constitutional provisions or enabling legislation.

Unrestricted - consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Based on bond indentures, all IDAPP assets, except for assets relating to operations, are restricted for the benefit of bondholders until the bonds are retired. IDAPP first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Note 2. Summary of Significant Accounting Policies (Continued)

Q. Use of Estimates

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

Note 3. Deposits and Investments

A. Permitted Deposits and Investments

Bond documents such as trust indentures place strict limitations on the types of investments that can be made by IDAPP. 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 debt 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).

B. Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, IDAPP'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. IDAPP has no policy that would further limit the requirements under the law. At June 30, 2015, IDAPP had no amounts that were uninsured and uncollateralized.

The State Treasurer is the custodian of the State's cash and cash equivalents for IDAPP maintained in the State Treasury. IDAPP independently manages cash and cash equivalents maintained outside the State Treasury. Amounts in the custody of the State Treasurer totaled $2,379 at June 30, 2015. These funds 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). Details on the nature of these deposits and investments, and the risks, are available within the State's Comprehensive Annual Financial Report.

Note 3. Deposits and Investments (Continued)

C. Investments

Interest Rate Risk

IDAPP invests its funds in a manner that meets its cash flow needs while conforming to state statutes governing the investment of funds, including without limitation the Investment Act and all requirements/limitations of the various documents applicable to bonds and other securities issued by ISAC. The portfolio's maturity characteristics at June 30, 2015 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Government Securities (U.S. Treasury Bills/Notes)	$ 4,017,698	0.5

Credit Risk

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

As of June 30, 2015, 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	Carrying Value	Standard & Poor's	Moody's
Money Market Funds	$ 20,607,310	AAAm	Aaa-mf

Custodial Credit Risk

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

The investment policy authorizes IDAPP to utilize a third party custodian (Trustee) to safe-keep the assets of the fund and to provide reports on a monthly basis to all necessary parties. The custodian is responsible for sweeping all interest and dividend payments and any other un-invested cash into a short-term government money market fund. IDAPP has no investments subject to custodial credit risk at June 30, 2015.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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, 2015, there were no investments that exceed 5% or more of IDAPP's total investment portfolio.

Foreign Currency Risk

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

Note 4. Student Loans Receivable

IDAPP's student loans receivable balance is comprised of two types of student loans: loans that were 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. The FFEL Program was eliminated as of June 30, 2010 and as such IDAPP no longer originates FFELP loans.

All FFELP loans disbursed 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 (DOE). DOE 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. 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. There is $956,473 of student loans receivable that IDAPP has classified as defaulted loans under the FFEL Program. Claims on these loans have been submitted to, but have not been reimbursed by, the guarantee agencies as of June 30, 2015.

Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by DOE. Alternative Loans are credit-based and a provision for loan loss is accrued for the amount of the loans estimated to be uncollectable. The total amount of Alternative Loans outstanding was $204,786,817 at June 30, 2015. Of this amount, $58,309,008 was recorded as a provision for loan losses.

Management has identified loans that may not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for loan losses totaling $60,630,894 as of June 30, 2015. This amount includes the alternative loans addressed above.

Note 4. Student Loans Receivable (Continued)

Included in the student loans receivable balance are premiums paid on the origination and purchase of certain student loans. These premiums are being amortized over the average life of the related loans. Premiums totaling less than $50,000 paid to a particular party during a fiscal year are expensed.

Federal Student Loan Fund

ISAC's Federal Student Loan Program maintains 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 IDAPP's and other lender's defaulted loan claims. Receipts for this fund include reinsurance receipts from the DOE.

The cash balance in this fund as of June 30, 2015 as reported by ISAC was $44,559,290. Restricted net position, which includes $22,791,661 of claims in process, was $38,369,389. If the federal reinsurance percentage were temporarily reduced from 97% to either 85% or 75% (for loans disbursed after October 1, 1998) due to excessive default claims and if the State's pledge of full faith and credit were found to be ineffective, then the full collectability of the non-federal reinsurance amount (i.e. 3% to 25%) of the IDAPP's net FFELP student loans receivable of $342,827,587 at June 30, 2015 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 5. Federal Special Allowance and Interest Subsidy

The Federal government pays IDAPP (interest subsidy) or IDAPP owes the federal government (excess interest) an interest amount 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, 2015 was $1,272,626.

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	$ 1,502,551
Special Allowance Payments (Interest Subsidy)	109,662
Excess Interest	(7,112,167)
Net Expense Incurred to DOE	$ (5,499,954)

Note 6. Interfund Balances and Activity

Balances Due from/to Other Funds

The following balance at June 30, 2015 represents amounts due to other ISAC funds.

Fund	Amount	Description/Purpose
Student Loan Operating	$2,303,045	Shared services
Other State Funds:		
Audit Fund	$ 2,200	Audit fees

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Equipment	Accumulated Depreciation	Capital Assets, Net
Balance, July 1, 2014	$ 312,981	$ (312,981)	$ -
Additions	-	-	-
Deletions	(29,591)	29,591	-
Balance, June 30, 2015	$ 283,390	$ (283,390)	$ -

Note 8. Long-Term Obligations Payable

A. Revenue Bonds and Notes Payable and Pledged Revenues

On October 27, 2010, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell $604,000,000 Student Loan Asset Backed Notes, Series 2010-1 (LIBOR Floating Rate Notes). The Notes were issued in three tranches. The Class A-1 tranche is $181,000,000 maturing April 25, 2017 with a rate of 3-Month LIBOR plus 0.48%, The Class A-2 tranche is $269,000,000 maturing April 25, 2022 with a rate of 3-Month LIBOR plus 1.05% and the Class A-3 tranche is $154,000,000 maturing July 25, 2045 with a rate of 3-Month LIBOR plus 0.90%. The variable interest rate for the debt is reset every quarter. The proceeds from the sale of the Notes were used to make the initial deposits to the Capitalized Interest Fund, the Reserve Fund, a portion of the initial deposit to the Loan Fund, and to pay acquisition costs. The remaining proceeds were used to purchase and cancel certain outstanding bonds (2002 Resolution Trust Bonds). The FFELP loans released from the 2002 Resolution Trust were deposited into the Loan Fund.

Note 8. Long-Term Obligations Payable (Continued)

A. Revenue Bonds and Notes Payable and Pledged Revenues (Continued)

The indenture has a provision that any excess cash in the Trust is used to pay down the principal amount of the Notes. The Class A-1 tranche has been paid off. $146,345,000 of the Class A-2 tranche has been paid off leaving a balance of $122,655,000. The total principal and interest remaining to be paid on the bonds is approximately $342,266,000. IDAPP has until the stated maturity dates to retire the principal amounts owed on these bonds. As such, liabilities related to these bonds are reported as noncurrent. IDAPP however will pay principal amounts in advance of that date (without penalty) as collections on the resulting student loans are received into the trust. As of June 30, 2015, variable interest rates were 1.327% and 1.177% for the LIBOR FRN Class A-2 and A-3, respectively.

Annual principal and interest payments on the bonds are expected to require approximately 98% of the related student loan collections. Principal and interest paid for the current year were $54,134,000 and $3,724,842, respectively. Total related student loan principal and interest received were $57,282,919 and $8,490,695, respectively.

As a result of the issuance of the LIBOR Floating Rate Notes and the purchase and cancellation of the remaining outstanding 2002 bonds during fiscal year 2011, a deferred amount on refunding of $70,320,074 was recorded. This amount is being amortized over the weighted average life of the LIBOR Floating Rate Notes of 16 years. The portion attributable to fiscal year 2015 is $4,042,511. Amortization is included as a reduction of interest expense on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

B. Changes in Long-Term Obligations Payable

Changes in long-term obligations payable for the year ended June 30, 2015 were as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Amounts Due Within One Year
Compensated absences payable	$ 71,332	$ 37,607	$ (52,317)	$ 56,622	$ 5,662
Revenue bonds/notes payable:					
Series 2010, Class A-2	176,789,000	-	(54,134,000)	122,655,000	-
Series 2010, Class A-3	154,000,000	-	-	154,000,000	-
Unamortized discounts	(6,466,228)	-	207,982	(6,258,246)	-
	$ 324,394,104	$ 37,607	$ (53,978,335)	$ 270,453,376	$ 5,662

Note 8. Long-Term Obligations Payable (Continued)

C. Future Maturities of Revenue Bonds and Notes Payable

ISAC issued notes to provide funds for student loan originations and purchases. IDAPP pledges the income derived from its assets to pay debt service. ISAC's outstanding notes are comprised of variable rate debt. As such, the interest figures shown are calculated assuming the interest rate in effect on June 30, 2015. Actual interest paid in future years could be materially different. Annual debt service requirements to maturity for revenue bonds and notes are as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2016	$ -	$ 3,440	$ 3,440
2017	-	3,440	3,440
2018	-	3,440	3,440
2019	-	3,440	3,440
2020	-	3,440	3,440
2021-2025	122,655	12,040	134,695
2026-2030	-	9,063	9,063
2031-2035	-	9,063	9,063
2036-2040	-	9,063	9,063
2041-2045	-	9,063	9,063
2046	154,000	119	154,119
	276,655	$ 65,611	$ 342,266
Plus (minus):			
Unamortized discounts	(6,258)		
Net long-term principal outstanding	$ 270,397		

Note 9. 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) 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 (the Collateral), which were largely financed with proceeds of the advances. 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, 2015 was .18400%.

On July 27, 2010, the Facility became due and payable. Due to conditions currently existing in the credit markets, ISAC has been unable to refinance this debt and is currently in default under the Facility. Citibank has reserved its rights to remedies in the Indenture. Conversations with Citibank are on-going but no resolution has been reached.

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).

Note 9. Mid-Term Credit Facility and Short Term Revolving Credit Line and Pledged Revenues (Continued)

During fiscal year 2015 there was $24,559,415 in principal and $6,378,376 in interest collected all of which was transferred to the trust. During the same period the trust paid $1,131,796 for interest expense and other professional fees and $1,579,942 for servicing fees.

Changes in the revolving credit line are as follows:

	Balance, July 1, 2014	Borrowings	Repayments	Balance, June 30, 2015	Amounts Due Within One Year
Citibank	$ 211,856,827	$ -	$ (28,300,000)	$ 183,556,827	$ 183,556,827

Note 10. Restatement for Implementation of New Accounting Standard

Effective for the year ending June 30, 2015, the State implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which required governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

The implementation of this Statement impacted IDAPP's financial statements and footnote disclosures with the recognition of a net pension liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and pension expense on the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position as detailed in the below table.

Net Position, June 30, 2014	$ 20,706,976
Implementation of GASB 68:	
Net pension liability and deferred outflows - contributions after measurement date and outflows of resources	(8,903,335)
Net Position, June 30, 2014 as restated	$ 11,803,641

Note 11. Defined Benefit Pension Plan

Plan Description. Substantially all of IDAPP'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 single-employer defined benefit pension trust fund in the State reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate CAFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

Note 11. Defined Benefit Pension Plan (Continued)

Benefit Provisions. SERS provides retirement, disability and death benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is $15.00 for each year of covered employment and $25.00 for each year of noncovered employment.

Participants in SERS under the regular formula Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>A member must have a minimum of eight years of service credit and may retire at:

Age 60, with 8 years of service credit.
Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service.
Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.
Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.
If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum. </td>
<td>A member must have a minimum of 10 years of credited service and may retire at:

Age 67, with 10 years of credited service.
Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.
If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2014 rate is $110,631.
If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum. </td></tr>
</table>

Note 11. Defined Benefit Pension Plan (Continued)

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service to the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2015, this amount was $111,572.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2015, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2015, the employer contribution rate was 42.339%. IDAPP's contribution amount for fiscal year 2015 was $177,104.

Note 11. Defined Benefit Pension Plan (Continued)

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2015, IDAPP reported a liability of $4,038,424 for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2014 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. IDAPP's portion of the net pension liability was based on IDAPP's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2014. As of the current year measurement date of June 30, 2014, the Department's proportion was .0149%, which was a decrease of .0226% from its proportion measured as of the prior year measurement date of June 30, 2013.

For the year ended June 30, 2015, IDAPP recognized pension expense of $(788,986). At June 30, 2015, IDAPP reported deferred outflows and deferred inflows of resources related to the pension liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,595	$ -
Changes of assumptions	366,186	-
Net difference between projected and actual investment earnings on pension plan investments	-	143,978
Changes in proportion	-	4,315,728
Department contributions subsequent to the measurement date	177,104	-
Total	$ 560,885	$ 4,459,706

$177,104 reported as deferred outflows of resources related to pensions resulting from IDAPP contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	Amount
2016	$ (1,131,671)
2017	(1,131,671)
2018	(1,131,671)
2019	(680,911)
Total	$ (4,075,925)

Note 11. Defined Benefit Pension Plan (Continued)

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the entry age normal actuarial cost method and the following actuarial assumptions, applied to all periods included in the measurement:

Mortality: 105 percent of the RP2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015.

Inflation: 3.0%

Investment Rate of Return: 7.25%, net of pension plan investment expense, including inflation.

Salary increases: Salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lessor of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.

The long-term expected real rate of return on pension plan investments was determined based on the simulated average 10-year annualized geometric return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2014, the best estimates of the geometric real rates of return as summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	30%	5.69%
Fixed Income	20%	1.62%
Hedge Funds	10%	4.00%
International Equity	20%	6.23%
Real Estate	10%	5.50%
Infrastructure	5%	6.00%
Private Equity	5%	10.10%
Total	**100%**	**5.03%**

Note 11. Defined Benefit Pension Plan (Continued)

Discount Rate. A discount rate of 7.09% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 4.29%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2065. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2065, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 6.09%	Discount Rate 7.09%	1% Increase 8.09%
Department's proportionate share of the net pension liability	$4,865,912	$4,038,424	$3,351,131

Payables to the pension plan. At June 30, 2015, IDAPP reported a payable of $0 to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 12. Post-Employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits in accordance with Public Act 97-0695.

Note 12. Post-Employment Benefits (Continued)

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

The total costs incurred and related liabilities for health, dental, vision, and life insurance benefits are not separated by department, fund, or component unit for annuitants and their dependents nor active employees and their dependents.

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

Note 13. Risk Management

IDAPP, through the Commission, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation and natural disasters. The State retains the risk of loss (i.e., self-insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Commission's risk management activities for workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and, accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2015.

Note 14. New Governmental Accounting Standards

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

GASB Statement No. 72, *Fair Value Measurement and Application*, will be effective for the Commission with its year ended June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Nos. 67 and 68*, will be effective for the Commission beginning with its year ended June 30, 2017, except those provisions that amend provisions of Statements 67 and 68, which are effective for the Commission beginning with its year ended June 30, 2016. This Statement will establish requirements for deferred benefit pensions that are not within the scope of Statement No. 68. It also amends provisions of Statements 67 and 68.

Note 14. New Governmental Accounting Standards (Continued)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be effective for the Commission beginning with its year ended June 30, 2017. This Statement establishes guidance for reporting OPEB plans that administer benefits on behalf of governmental entities. This Statement also addresses financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for the Commission beginning with its year ended June 30, 2018. This Statement addresses accounting and financial reporting for OPEB that is provided to employees of State and local governmental employers.

Management has not yet completed its assessment of these Statements and the potential impact it will have on the overall financial statement presentation.

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

Schedule of Notes Outstanding
June 30, 2015

A summary of notes outstanding at June 30, 2015 is presented as follows:

	LIBOR FRN - 2010			
	Class A-1	Class A-2	Class A-3	Total
Original amount	$ 181,000,000	$ 269,000,000	$ 154,000,000	$ 604,000,000
Principal retirements	(181,000,000)	(146,345,000)	-	(327,345,000)
Unamortized discount	-	-	(6,258,246)	(6,258,246)
Balance at June 30, 2015	$ -	$ 122,655,000	$ 147,741,754	$ 270,396,754
Effective interest rate (1)	Variable	Variable	Variable	
Date of bonds/notes	10/27/10	10/27/10	10/27/10	
Current portion of notes payable				$ -
Long tern notes payable, net				270,396,754
Total notes outstanding				$ 270,396,754
Interest dates	Varies	Varies	Varies	
Paying agents	Wells Fargo Minneapolis, MN	Wells Fargo Minneapolis, MN	Wells Fargo Minneapolis, MN	
Optional call feature beginning:	At issuance 100%	At issuance 100%	At issuance 100%	
Taxable/Tax-exempt	Taxable	Taxable	Taxable	

(1) As of June 30, 2015 variable interest rates were 1.327% and 1.177% for the LIBOR FRN Class A-2 and A-3, respectively

Independent Auditor's 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. Miguel del Valle
Acting Chair of the Governing Board
Illinois Student Assistance Commission

As Special Assistant Auditors for the Auditor General, we have audited, 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, the financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting (internal control) of the Illinois Designated Account Purchase Program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Student Assistance Commission, Illinois Designated Account Purchase Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2015-001.

State of Illinois, Illinois Student Assistance Commission's Response to Findings

The State of Illinois, Illinois Student Assistance Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings. The State of Illinois, Illinois Student Assistance Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Student Assistance Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Schaumburg, Illinois
December 18, 2015

Current Findings – *Government Auditing Standards*

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

Finding 2015-001 Debt Covenant Violation

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

During our audits of the agency's June 30, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 financial statements, we noted that IDAPP was in violation of one or more debt covenants related to the agency's revolving credit (loan) agreement. In addition, the Three-Year Asset Backed Revolving Credit Facility (the facility) matured on July 27, 2010 and has not been repaid. Per the agreement, the minimum required coverage condition ratio is 104%. We reviewed the monthly reports noting that all 12 months fell under this ratio, ranging from 101.90% to 103.23%. Also per the agreement, the default ratio is set at a maximum of 6.25%. We reviewed the monthly reports noting that 5 of these months fell above this ratio, ranging from 6.45% to 12.84%.

As a result of the debt covenant violation and the maturity of the facility, 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 the maturity of the loan and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. The balance of the line of credit with the bank was $183,556,827 at June 30, 2015.

According to Commission management, the coverage condition and default issues are due to the poor performance of the portfolio. The portfolio continues to experience a high level of delinquent accounts. The line of credit has not been refinanced because of the conditions in the private loan credit market.

As a result of the violation, the bank may have certain remedies under the terms of the loan agreements, principal of which would be the right to call the loan and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code Nos. 2015-001, 2014-001, 2013-001, 12-2, 11-10, 10-6, 09-1)

Recommendation

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

Commission Response

We agree with the recommendation. The loan covenants are reviewed on a monthly basis. We continue to talk to Citibank about the portfolio.