State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Financial Statements
For the Year Ended June 30, 2009

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

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

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Agency Officials

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

Agency offices are located at:

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Deerfield, IL 60015-5209

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Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Summary

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

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

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Student Assistance Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
January 25, 2010

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Net Assets
June 30, 2009

Assets		
Current		
Cash and cash equivalents	$	61,331,548
Receivables:		
Accrued interest on investments		6,865
Securities lending collateral		72,330,822
Total current assets		133,669,235
Noncurrent		
Investments		824,995,537
Total assets		958,664,772
Liabilities		
Current		
Accounts payable and accrued expenses		638,094
Tuition payable		55,050,000
Accreted tuition payable		4,950,000
Due to other State funds		88,480
Due to State of Illinois component units		12,832
Compensated absences		6,746
Securities lending collateral obligation		77,663,481
Total current liabilities		138,409,633
Noncurrent		
Tuition payable		829,435,313
Accreted tuition payable		332,418,746
Compensated absences		60,713
Total noncurrent liabilities		1,161,914,772
Total liabilities		1,300,324,405
Net assets, unrestricted (deficit)	$	(341,659,633)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

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

Operating revenues:	
Loss from investment securities	$ (155,993,677)
Interest revenue - other	120,614
Application and other fees	1,940,342
Net operating revenues	(153,932,721)
Operating expenses:	
Salaries and employee benefits	1,856,385
Accreted tuition expenses	67,775,477
Management and professional services	3,437,547
Investment management fees	1,649,207
Total operating expenses	74,718,616
Operating loss	(228,651,337)
Transfer - Out	(31,300)
Change in net assets	(228,682,637)
Net assets (deficit), July 1, 2008	(112,976,996)
Net assets (deficit), June 30, 2009	$ (341,659,633)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows
Year Ended June 30, 2009

Cash flows from operating activities	
Cash receipts from prepaid tuition contracts	$ 114,320,191
Cash received from application and other fees	1,940,342
Cash paid for refund of contracts	(8,791,427)
Cash paid for tuition and accretion	(53,855,616)
Cash payments to suppliers for goods and services	(3,562,034)
Cash payments to employees for services	(1,868,359)
Net cash provided by operating activities	48,183,097
Cash flows from noncapital financing activities	
Transfer out	(31,300)
Cash flows from investing activities	
Purchase of investment securities	(302,900,480)
Sales and maturities of investment securities	287,524,025
Cash returned for securities lending collateral transactions	(93,113,008)
Investments sold from securities lending collateral transactions	93,113,008
Interest and dividends on investments	24,207,837
Cash paid to investment managers	(1,649,207)
Net cash provided by investing activities	7,182,175
Net increase in cash and cash equivalents	55,333,972
Cash and cash equivalents, July 1, 2008	5,997,576
Cash and cash equivalents, June 30, 2009	$ 61,331,548

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

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

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	$ (228,651,337)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Investment loss and other interest income	155,873,063
Investment management fees	1,649,207
Accreted tuition expense	67,775,477
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(222,235)
Due to other State funds	84,917
Due to State of Illinois component units	12,832
Tuition payable	51,673,147
Compensated absences	(11,974)
Total adjustments	276,834,434
Net cash provided by operating activities	$ 48,183,097

Supplemental disclosure of noncash investing transactions:	
Net depreciation in fair value of investments	$ (180,056,484)

See Notes to Financial Statements.

Note 1. Description of Program

The Illinois Student Assistance Commission (ISAC) administers the nonshared proprietary fund, Illinois Prepaid Tuition Program (*College Illinois!*®) 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.

Legislation authorizing ISAC to administer an Illinois Prepaid Tuition Program was passed in November 1997. The Illinois Prepaid Tuition Program is administered by ISAC with advice and counsel from an investment advisory panel consisting of seven members appointed by ISAC. The purpose of this program is to provide Illinois families with an affordable tax-advantaged method to pay for college. Illinois Prepaid Tuition contracts will allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at current program prices, which are significantly 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 first contracts were offered for sale in 1998. After eleven enrollment periods, as of June 30, 2009, the Illinois Prepaid Tuition Program had 54,965 contracts in force with a purchased value of $1,472 million. As of June 30, 2009, the fund has received cash collections of $1,052 million.

The Illinois Prepaid Tuition Program Fund is a non-appropriated fund.

Note 2. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Illinois Prepaid Tuition Program does not have component units, nor is it a component unit of any other entity. However, because the Illinois Prepaid Tuition Program is not legally separate from the State of Illinois, it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

Note 2. Summary of Significant Accounting Policies - Continued

A. Reporting Entity - Continued

The financial statements present only the Illinois Prepaid Tuition Program administered by the State of Illinois, Illinois Student Assistance Commission (ISAC) and do not purport to, and do not, present fairly the financial position of the State of Illinois or ISAC as of June 30, 2009, and changes in financial positions and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows have been presented for the Illinois Prepaid Tuition Program administered by ISAC.

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 the Illinois Prepaid Tuition Program activities, income from investments is considered an operating activity in the Statement of Revenues, Expenses and Changes in Net Assets. Nonoperating revenues and expenses result from nonexchange transactions or ancillary activities.

C. Basis of Accounting

The Illinois Prepaid Tuition Program 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. The fund accounts for resources received and used for financing self-supporting activities of the Illinois Prepaid Tuition Program that offers services on a user-charge basis to the general public.

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

D. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents include cash on hand, cash in banks, interest bearing deposits with banks, and securities with maturities at the date of purchase of 90 days or less.

Note 2. Summary of Significant Accounting Policies - Continued

E. Investments

The Illinois Prepaid Tuition Program presents investments on its Statement of Net Assets at fair value. The net appreciation or depreciation in the fair value of investments is included in income from investment securities in the Statement of Revenues, Expenses and Changes in Net Assets. The investments are classified as noncurrent, as current cash flows cover current payouts for the program and the program has no plans to withdraw investments in the near future.

F. Interfund Transactions

The Illinois Prepaid Tuition Program 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.

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.

Transfers—flows of assets (such as cash or goods) without equivalent flow of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

G. Compensated Absences

The liability for compensated absences reported in the Illinois Prepaid Tuition Program consists of unpaid, accumulated vacation and sick leave balances for Illinois Prepaid Tuition Program 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.

H. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 54,965 contracts held by the fund as of June 30, 2009.

Note 2. Summary of Significant Accounting Policies - Continued

I. Net Assets, Unrestricted (Deficit)

The program does not have any net assets that are restricted by outside parties or by law or through constitutional provisions or enabling legislation. As a result, all net assets are categorized as unrestricted.

J. 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.

K. Funding and Actuarial Assumptions

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

In the event the Commission, with the concurrence of the State of Illinois, determines the Illinois Prepaid Tuition Program to be financially infeasible, the Commission may discontinue, prospectively, the operation of the Illinois Prepaid Tuition 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 Illinois Prepaid Tuition Program is discontinued.

L. Subsequent Events

The Illinois Prepaid Tuition Program has evaluated subsequent events for potential recognition and/or disclosure through January 25, 2010, the date the financial statements were available to be issued.

Note 3. Deposits and Investments

A. Investment Authority and Legal Compliance

The State Treasury is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. The investment authority for the State Treasury is found in the State Treasurer Act (15 ILCS 505), which authorizes the State of Illinois primary government and its component units to engage in a wide variety of investment activities. For further details please refer to the State of Illinois Comprehensive Annual Financial Report, available in the Office of the Treasurer, Fiscal Officer Responsibilities Audit Report. A copy of the report can be obtained from the State Treasurer at 300 West Jefferson, Springfield, Illinois, 62701.

Note 3. Deposits and Investments - Continued

A. Investment Authority and Legal Compliance - Continued

The Illinois Prepaid Tuition Program independently manages cash and cash equivalents maintained outside the State Treasury. 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 Illinois 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 Illinois Prepaid Tuition Program.

The Commission may direct that assets of those Funds be placed in savings accounts or may use the same to purchase fixed or variable life insurance or annuity contracts, securities, evidence of indebtedness, or other investment products pursuant to the comprehensive investment plan and in such proportions as may be designated or approved under that plan.

Investment managers are hired who, by their record and experience have demonstrated their fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment managers retained for the Illinois Prepaid Tuition Program acknowledge in writing, a fiduciary relationship with respect to the Illinois Prepaid Tuition Program and need to be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis. The Commission has established investment guidelines for the investment managers and conducts thorough due diligence before the appointment of all investment managers.

A qualified investment consultant, on an ongoing basis, evaluates the Illinois Prepaid Tuition Program. Written reports are provided to the Commission by the investment consultant no later than 45 days after the end of each calendar quarter. The investment consultant meets with the various investment managers on a regular basis to review the investment guidelines and analyzes the general liability structure of the Illinois Prepaid Tuition Program. They also assist the Commission and the Investment Advisory Panel with the selection of investment managers and custodians. The qualified investment consultant retained by the Commission is required to exercise discretion within the parameters set forth in the investment policy guidelines for the portfolio(s) they manage. Additionally, the program has contracted with Marquette Associates to evaluate the investment performance of the Illinois Prepaid Tuition Program on a quarterly basis.

The Illinois Prepaid Tuition Program investment policy dictates certain guidelines and restrictions that apply to investments in domestic equities by the investment managers. The manager may only hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days. Further, options, financial futures, private placements, restricted stock, issues related to the investment manager, or venture capital may not be purchased. The policy also prohibits the purchase of securities on margin and short selling. Also, investments cannot be made in securities not traded on a U.S. exchange or traded in U.S. dollars.

Note 3. Deposits and Investments - Continued

A. Investment Authority and Legal Compliance - Continued

The investment policy authorizes the Commission to utilize a third party custodian 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 money market fund for re-deployment. The custodian retained by the Commission is required to exercise discretion within the parameters set forth in the investment policy guidelines for the portfolio(s) they manage on behalf of the fund.

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Illinois Prepaid Tuition Program'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 Illinois Prepaid Tuition Program has no policy that would further limit the requirements under State law. As of June 30, 2009, the Illinois Prepaid Tuition Program's locally held deposits were not exposed to custodial credit risk.

The State Treasurer is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. Deposits in the custody of the State Treasurer totaled $58,733,232 at June 30, 2009. These deposits are pooled and invested with other State funds in accordance with the Deposits of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been addressed as to custodial credit risk because the Illinois Prepaid Tuition Program 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.

C. Investments

ISAC is required annually to adopt a comprehensive investment plan to invest the funds received through contract payments. The Commission approved the Illinois Prepaid Tuition Program's most recent revision to the investment plan in June 2008. The comprehensive investment plan specifies the investment policies to be utilized by the Commission in its administration of the Illinois Prepaid Tuition Program. The Commission may direct that assets of those funds be invested in a manner that will provide the investment return and risk level consistent with the actuarial return requirements and risk levels and cash flow demands of the Fund. The investments should be in compliance with all applicable federal and state laws and other statutes governing the investment of Illinois Prepaid Tuition Program resources.

ISAC has retained State Street Global Advisors, LSV Asset Management, Galliard Capital, Income Research Management, Rhumb Line Advisors, Pugh Capital, C.S. McKee Investment, Piedmont Investment, and ShoreBank as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. Approximately $3,500,000 of additional contract payments received have been invested as of the end of the fiscal year June 30, 2009. 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.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

As of June 30, 2009, 34% of the funds were invested in Domestic Equities, 44% in Domestic Fixed Income, 10% in International Equity, 1% in Private Equity, and 11% as Cash and Equivalents. Investments of the Fund are recorded at fair value based on quoted market prices.

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2009 are presented below at fair value by investment type and by investment manager:

Investment Managers
Asset Allocation
June 30, 2009

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Intermediate	Galliard Capital	$ 79,004,966	8.91%
Fixed Income-Core	C.S. Mckee	76,698,142	8.65%
Fixed Income-Core	Piedmont	30,556,796	3.45%
Fixed Income-Core	Pugh Capital	32,701,899	3.69%
Fixed Income-Intermediate	Income Research Management	81,450,590	9.19%
Fixed Income-Core	SSgA Passive Bonds	57,908,317	6.53%
TIPS Account	N/A	30,687,702	3.46%
Total Fixed Income Portfolio		389,008,412	43.88%
Large-Cap Core Equity	SSgA S&P 500 Index	108,477,538	12.24%
Large-Cap Value Equity	LSV Asset Management	24,540,647	2.77%
Large-Cap Growth Equity	Rhumb Line Advisors	90,819,592	10.25%
Small-Cap Value Equity	Rhumb Line Advisors	38,347,554	4.33%
Small-Cap Core Equity	Rhumb Line Advisors	38,226,410	4.30%
Total Domestic Equity		300,411,741	33.89%
International Core Equity	SSgA MSCI EAFE	41,102,296	4.64%
International Core Equity	LSV Asset Management	46,157,739	5.21%
Total International Equity		87,260,035	9.85%
Private Equity Venture	ShoreBank	9,534,375	1.08%
Total Private Equity		9,534,375	1.08%
Money Market Mutual Funds	U.S. Bank	38,780,974	4.38%
Total Investments		824,995,537	93.08%
Cash and Equivalents	N/A	61,331,548	6.92%
Total Cash Equivalents		61,331,548	6.92%
TOTAL PORTFOLIO		$ 886,327,085	100%

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Securities Lending Collateral

As of June 30, 2009, the Illinois Prepaid Tuition Program had the following cash collateral investments in its securities lending program:

Investment		Fair Value
Mount Vernon Prime Money Market Mutual Fund	$	53,178,800
Ineligible Securities Liquidating Trust		12,520,566
Deeper Discounted Securities Liquidating Trust		3,355,920
Illiquid Securities Liquidating Trust		3,275,536
	$	72,330,822

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Illinois Prepaid Tuition Program's policy for managing interest rate risk is to ensure that the investment managers comply with its investment policy guidelines. As per the investment policy, the operational guidelines for the Fixed Income Securities Managers require that the average duration of the manager's portfolio not vary more than +/- 30% of the duration of the Barclays Intermediate Government/Credit Index and the Barclays Aggregate Index, respectively (see schedule of investments on previous page).

As of June 30, 2009, 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
SSgA	4.3 Years	4.3 Years	N/A
C.S. McKee	3.6 Years	4.3 Years	N/A
Piedmont	4.3 Years	4.3 Years	N/A
Pugh Capital	4.1 Years	4.3 Years	N/A

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Interest Rate Risk -Continued

Portfolio Weighted Average Maturity

Portfolio Weighted Average

Investment Type	Fair Value	Weighted Average Maturity (in Years)
U.S. treasury bills	$ 1,703,150	0.4
U.S. treasury notes	23,495,709	5.3
U.S. treasury bonds	45,310,537	10.7
Federal agencies bonds and notes	30,523,734	11.4
U.S. agency asset-backed securities	471,357	31.4
Municipal debt	10,267,170	4.6
Corporate debt securities	113,229,225	6.4
Corporate asset-backed securities	7,682,916	6.4
Other debt securities	948,682	12.7
Passive bond index funds	57,908,317	6.6
Corporate mortgage-backed securities (CMBS)	13,738,622	30.4
Mortgage backed securities (MBS):		
Pass through (fixed rate, adjustable rate)	51,475,546	16.7
Collateralized mortgage obligations	7,108,110	19.9
Delegated underwriting and servicing bonds and surety bonds	22,717,788	5.7
Money market mutual funds	41,208,523	0.2
Equity in public treasurer's investment pool (Illinois Funds)	1,469,319	0.1
Total Fair Value	$ 429,258,705	
Portfolio weighted average maturity		8.7

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Securities Lending Collateral

The weighted average maturity of the cash collateral invested in liquidating trusts consisting of debt securities is as follows:

Investment	Fair Value	Weighted Average Maturity (Days)
Ineligible Securities Liquidating Trust	$ 12,520,566	255.2
Deeper Discounted Securities Liquidating Trust	3,355,920	112.0

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 tables indicate credit ratings, as of June 30, 2009, 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, 2009

		Credit Rating*		
	Total Fair Value	Moody's	Standard & Poor's	Fitch
U.S. Agency asset-backed securities	$ 471,357	Baa3	NR	NR
Other debt securities	948,682	Aaa	AAA	AAA
Mortgage-backed securities (collateralized and delegated)	29,825,898	Aaa	AAA	AAA
Passive Bond Index funds	57,908,317	NR	NR	NR

*NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk - Continued

The following tables indicate credit ratings, as of June 30, 2009, for debt security investments that received multiple ratings:

Credit Ratings (Multiple-Rated Securities)
June 30, 2009

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 1,593,513
	Corporate debt securities	Aa	21,720,650
	Corporate debt securities	A	56,218,866
	Corporate debt securities	Baa	32,770,413
	Corporate debt securities	Ba	536,317
	Corporate debt securities	NR	389,466
			113,229,225
Standard & Poor's:	Corporate debt securities	AAA	2,380,000
	Corporate debt securities	AA	14,075,327
	Corporate debt securities	A	65,121,730
	Corporate debt securities	BBB	30,268,392
	Corporate debt securities	BB	232,978
	Corporate debt securities	B	295,067
	Corporate debt securities	NR	855,731
			113,229,225
Fitch:	Corporate debt securities	AAA	422,976
	Corporate debt securities	AA	14,558,275
	Corporate debt securities	A	54,403,948
	Corporate debt securities	BBB	25,120,705
	Corporate debt securities	BB	528,045
	Corporate debt securities	NR	18,195,276
			113,229,225

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk - Continued

Credit Ratings (Multiple-Rated Securities), continued
June 30, 2009

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate asset-backed securities	Aaa	$ 7,239,101
	Corporate asset-backed securities	Caa	115,076
	Corporate asset-backed securities	NR	328,739
			7,682,916
Standard & Poor's:	Corporate asset-backed securities	AAA	6,789,958
	Corporate asset-backed securities	AA	328,739
	Corporate asset-backed securities	D	115,076
	Corporate asset-backed securities	NR	449,143
			7,682,916
Fitch:	Corporate asset-backed securities	AAA	4,980,808
	Corporate asset-backed securities	AA	328,739
	Corporate asset-backed securities	NR	2,373,369
			7,682,916

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk - Continued

Credit Ratings (Multiple-Rated Securities), continued
June 30, 2009

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Municipal Debt	Aaa	$ 3,120,304
	Municipal Debt	Aa	5,042,927
	Municipal Debt	A	978,416
	Municipal Debt	Baa	552,862
	Municipal Debt	NR	572,661
			10,267,170
Standard & Poor's:	Municipal Debt	AAA	2,706,386
	Municipal Debt	AA	6,189,818
	Municipal Debt	A	1,056,085
	Municipal Debt	NR	314,881
			10,267,170
Fitch:	Municipal Debt	AA	255,380
	Municipal Debt	BB	1,909,371
	Municipal Debt	NR	8,102,419
			10,267,170
Moody's:	CMBS	Aaa	12,765,820
	CMBS	NR	972,802
			13,738,622
Standard & Poor's:	CMBS	AAA	12,166,547
	CMBS	NR	1,572,075
			13,738,622
Fitch:	CMBS	AAA	7,451,476
	CMBS	NR	6,287,146
			13,738,622

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk - Continued

Credit Ratings (Multiple-Rated Securities), continued
June 30, 2009

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	MBS-Pass Through	Aaa	$ 50,406,505
	MBS-Pass Through	Aa	529,147
	MBS-Pass Through	A	74,945
	MBS-Pass Through	Caa	464,949
			51,475,546
Standard & Poor's:	MBS-Pass Through	AAA	51,343,715
	MBS-Pass Through	AA	131,831
			51,475,546
Fitch:	MBS-Pass Through	AAA	42,321,559
	MBS-Pass Through	NR	9,153,987
			51,475,546
Moody's:	Federal Agencies Bonds and Notes	Aaa	30,523,734
			30,523,734
Standard & Poor's:	Federal Agencies Bonds and Notes	AAA	29,340,528
	Federal Agencies Bonds and Notes	AA	857,151
	Federal Agencies Bonds and Notes	A	326,055
			30,523,734
Fitch:	Federal Agencies Bonds and Notes	AAA	29,038,213
	Federal Agencies Bonds and Notes	AA	326,055
	Federal Agencies Bonds and Notes	NR	1,159,466
			30,523,734

* NR - not rated

Securities Lending Collateral

The liquidating trusts consisting of debt securities were not rated.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, 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, 2009, investments of cash collateral under the securities lending program ($72.3 million) were held by the counterparty 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, 2009.

Foreign Currency Risk

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

The Illinois Prepaid Tuition Program's investment policy authorizes a maximum of 10% of the portfolio for investments in international equities. As of June 30, 2009, 10% is invested in international equities; however, none of these investments are denominated in foreign currencies.

Securities Lending

State statutes and the Illinois Prepaid Tuition Program's investment policy allow the Illinois Prepaid Tuition Program to use investments to enter into securities lending transactions – loans of securities to broker-dealers for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Effective August 1, 2007, ISAC participates in a securities lending program with U.S. Bank, who acts as the securities lending agent. All securities are eligible for the securities lending program. Securities are loaned to brokers, and collateral received in return consists solely of cash equal to 102% of the value of the loaned securities.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Securities Lending - Continued

Substantially all securities loans can be terminated on demand either by the Commission or by the borrower, although generally the term of these loans range from 1 day to 75 days. Securities lending cash collateral is invested and managed according to yield and duration needs of participants in the U.S. Bank securities lending program. In lending securities, cash collateral is invested in the lending agent's (U.S. Bank) securities lending investment pools (5 separate pools), which at year-end have varying weighted average maturities. The majority of the Commission's securities lending collateral is invested in a short-term investment pool consisting of securities limited to a weighted average maturity of 90 days. The investment pool is designed to meet liquidity and duration needs of all the participants invested in the pool. The relationship between the maturities of the investment pool and the Commission's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Commission cannot determine.

As of June 30, 2009, the market value of securities on loan was $74,671,707, and the value of cash collateral invested was $72,330,822. Liabilities to the borrowers totaled $77,663,481. The approximate $5.3 million decline in the fair value of the invested cash collateral has been recorded as a loss and is reported as a component of income (loss) from investment securities in the statement of revenues, expenses and changes in net assets. At year-end, the Illinois Prepaid Tuition Program has no credit risk exposure to borrowers because the amounts the Illinois Prepaid Tuition Program owes the borrowers exceeds the amounts the borrowers owe the Illinois Prepaid Tuition Program. In the event of borrower default, U.S. Bank provides ISAC with counterparty default indemnification.

Note 4. Balances Due to Other State Funds and Transfers

As of June 30, 2009, the Illinois Prepaid Tuition Program owed $3,261 to the Communications Revolving Fund for telephone service, $85,219 to the Audit Fund for the cost of the fiscal year 2008 audit, and $12,832 to Southern Illinois University for payment of tuition and fee benefits. During the year, $31,300 was transferred to the ISAC COP Debt Service Fund for lease payments.

Note 5. Compensated Absences Payable

Changes in compensated absences for the year ended June 30, 2009, were as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Amounts Due Within One Year
Compensated absences	$ 79,433	$ 68,299	$ 80,273	$ 67,459	$ 6,746

Note 6. Tuition Payable

Tuition payable activity for the year ended June 30, 2009 is as follows:

Balance July 1, 2008	$ 828,099,799
Add:	
Contributions	114,320,191
Less:	
Return of contributions	(8,791,427)
Tuition payments	(49,143,250)
Balance June 30, 2009	$ 884,485,313
Reported as:	
Current	$ 55,050,000
Noncurrent	829,435,313
	$ 884,485,313

Note 7. Accretion Payable

Accretion payable is management’s estimate of the present value of the estimated tuition payment to be made in excess of principal payments received and is expected to be financed from investments of prepaid tuition contracts. The accretion expense for fiscal year 2009 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.25% and is based on the average increase in tuition for Illinois colleges.

Average monthly tuition payable over the year	$ 829,819,125
Estimate of 8.25% increase of tuition payable	$ 68,460,078
Present value	$ 67,775,477
Beginning balance accretion payable as of July 1, 2008	$ 274,305,635
Accretion expense	67,775,477
Accretion payments	(4,712,366)
Ending balance accretion payable as of June 30, 2009	$ 337,368,746
Reported as:	
Current	$ 4,950,000
Noncurrent	332,418,746
	$ 337,368,746

Note 7. Accretion 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.

Note 8. Pension Plan

Substantially all of ISAC's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. 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 2009 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009. 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 retirement contributions for the Illinois Prepaid Tuition Program based upon an actuarially determined percentage of its payroll. For fiscal years 2009, 2008 and 2007, the employer contribution rate was 21.0%, 16.6% and 11.5%, respectively. The required and actual contribution for fiscal years 2009, 2008 and 2007 was $268,065, $98,701 and $59,974, respectively.

Note 9. Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

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

Note 9. Post-employment Benefits - Continued

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

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

Note 10. Fund Deficits

The estimated actuarially determined deficit for *College Illinois!®,* the State's section 529 prepaid tuition program, as of June 30, 2009 is $516 million.

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 FY2010 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.

Note 10. Fund Deficits - Continued

Investment performance lagged the assumed return for FY2009 due to the extreme market conditions experienced during the 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.

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 believes that contract sales for the upcoming enrollment will reach 5,500.

The Actuary's Report on Soundness as of June 30, 2009 indicates that the program's cash flow is expected to remain positive through the fiscal year that ends in 2011 even without reflecting expected proceeds from contracts sold after June 30, 2009 and the program's assets are projected to cover expected benefit payments through fiscal year 2018. 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 (Unaudited)
Net assets, before tuition/accretion payable	$ 880,194,425
Actuarial present value of future payments expected to be made by contract purchasers	196,581,404
Subtotal	1,076,775,829
Actuarial present value of future payments expected to be made by the program	1,592,332,340
Actuarial deficit as of June 30, 2009	$ (515,556,511)

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 years. The Commission's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and, accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2009.

Note 12. New Governmental Accounting Standards

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

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

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

Management has completed their assessment of these Statements. They do not have a material effect on the overall financial statement presentation.

McGladrey & Pullen
Certified Public Accountants

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

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2009, and have issued our report thereon dated January 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
January 25, 2010

Prior Finding Not Repeated

A. Securities Lending Program Not Accounted For Properly

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

During our fiscal year 2008 audit, the Illinois Prepaid Tuition Program (Program) of the Illinois Student Assistance Commission (Commission) did not have adequate internal controls over financial reporting for its securities lending transactions. The Commission implemented a securities lending program in fiscal year 2008. The Commission did not record its $168 million in securities lending collateral investments or $171 million in liabilities related to securities lending as of June 30, 2008, or the associated $3 million unrealized loss incurred for the fiscal year. In addition, the draft financial statements provided to the auditors did not have the required securities lending disclosures. (Finding Code No. 08-1)

During our fiscal year 2009 audit, we noted that the securities lending program was properly accounted for. The Commission recorded the assets, liabilities and loss related to the securities lending transactions balances on a monthly basis throughout the year. In addition, the financial statements provided to the auditors had the required securities lending disclosures.