

McGladrey & Pullen

Certified Public Accountants

State of Illinois Illinois Student Assistance Commission

Compliance Examination
For The Year Ended June 30, 2008

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

State of Illinois
 Illinois Student Assistance Commission
 Compliance Examination
 For the Year Ended June 30, 2008

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State of Illinois
Illinois Student Assistance Commission

Agency Officials

Executive Director

Andrew Davis

Chief Financial Officer

John Sinsheimer

General Counsel

Kim Barker Lee

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

April 28, 2009

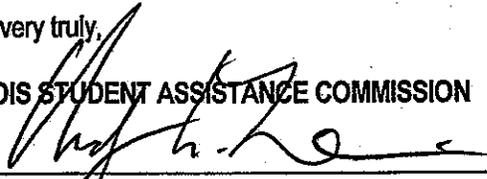
McGladrey & Pullen, LLP
20 North Martingale Road, Ste 500
Schaumburg, IL 60173

Ladies and Gentlemen:

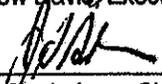
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Commission. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Commission's compliance with the following assertions during the year ended June 30, 2008. Based on this evaluation, we assert that during the year ended June 30, 2008, the Commission has materially complied with the assertions below.

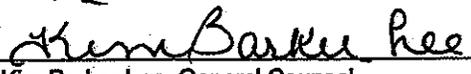
- A. The Commission has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Commission has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,


ILLINOIS STUDENT ASSISTANCE COMMISSION

Andrew Davis, Executive Director


John Sinsheimer, Chief Financial Officer


Kim Barker Lee, General Counsel

State of Illinois
 Illinois Student Assistance Commission

Compliance Report Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountants' Reports

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

Summary of Findings

Number of:	Compliance Report	Prior Reports
Findings	6	9
Repeated findings	1	3
Prior recommendations implemented or not repeated	8	4

Details of State compliance findings are presented in the separately tabbed report section of this report.

Schedule of Findings

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

Item No.	Page	Description	Finding Type
08-1	10	Securities Lending Program Not Accounted for Properly	Material weakness
08-2	11	Draft Financial Statements Not Accurate	Material weakness
08-3	12	Investment Policies Not Followed	Material weakness
08-4	14	Documentation of Journal Entry Approval is Lacking	Significant deficiency
08-5	15	Draft Financial Statements Not Completed Timely	Significant deficiency

FINDINGS (STATE COMPLIANCE)

Item No.	Page	Description	Finding Type
08-6	16	Late Filing Affidavits Incomplete	Noncompliance and significant deficiency

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

State of Illinois
 Illinois Student Assistance Commission

Compliance Report Summary

Schedule of Findings (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
08-1	10	Securities Lending Program Not Accounted for Properly	Material noncompliance and material weakness
08-2	11	Draft Financial Statements Not Accurate	Material noncompliance and material weakness
08-3	12	Investment Policies Not Followed	Material noncompliance and material weakness
08-4	14	Documentation of Journal Entry Approval is Lacking	Noncompliance and significant deficiency
08-5	15	Draft Financial Statements Not Completed Timely	Noncompliance and significant deficiency

PRIOR FINDINGS NOT REPEATED

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
A	17	Financial Reporting – Illinois Prepaid Tuition Program
B	17	Internal Auditing
C	17	Material Year-end Financial Statement Adjustment Not Recorded
D	17	Failure to Properly Complete Performance Evaluations of Employees
E	18	Delinquent Filing of Quarterly Receipts and Disbursements for Locally Held Funds
F	18	Delinquent Reporting of Revenue Bonds
G	18	Incomplete Contract-Obligation Document Information
H	18	Failure to Establish College Savings Program

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on February 4, 2009. Attending were:

Illinois Student Assistance Commission

Frank Berauer	IDAPP Director, Accounting and Finance
Anne Hunter	Financial Reporting Manager
John Sinsheimer	Chief Financial Officer
Shoba Nandhan	ISAC Director, Budget and Finance

McGladrey & Pullen, LLP

Linda Abernethy	Partner
Rolake Adedara	Manager

Office of the Auditor General

Jon Fox	Audit Manager
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The responses to the recommendations were provided by Shoba Nandhan in a letter dated February 17, 2009.

McGladrey & Pullen

Certified Public Accountants

Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois

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

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Illinois Student Assistance Commission's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2008. The management of the State of Illinois, Illinois Student Assistance Commission (Commission) is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Commission's compliance based on our examination.

- A. The Commission has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Commission has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Commission's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Commission's compliance with specified requirements.

As described in findings 08-1 through 08-3 in the accompanying schedule of findings, the Commission did not comply with all laws and regulations pertaining to its financial and fiscal operations, and the Commission did not comply with all laws and regulations pertaining to the handling of money and negotiable securities. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the instances of noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2008. However, the results of our procedures disclosed other instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying Schedule of Findings as findings 08-4 through 08-6.

Internal Control

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Commission's internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as findings 08-1 through 08-6 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings, we consider items 08-1 through 08-3 to be material weaknesses.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

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

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission) as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated March 27, 2009. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Commission.

The 2008 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2008, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Commission's basic financial statements for the years ended June 30, 2007 and June 30, 2006. In our reports dated March 4, 2008 and November 15, 2006, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the 2007 and 2006 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2007 and June 30, 2006 taken as a whole.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 28, 2009

McGladrey & Pullen

Certified Public Accountants

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

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (findings 08-1 through 08-5).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 08-1 through 08-3 to be material weaknesses.

Compliance and Other Matters

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

We also noted certain matters which we have reported to management of the Commission in a separate letter dated March 27, 2009.

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 28, 2009

State of Illinois
Illinois Student Assistance Commission

Current Findings – *Government Auditing Standards*
Year Ended June 30, 2008

Finding 08-1 Securities Lending Program Not Accounted for Properly

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.

Generally accepted accounting principles (GAAP) require that the Commission record the collateral assets, liabilities and gains or losses associated with securities lending transactions and disclose certain information related to securities lending transactions in its financial statements. The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

According to Commission management, the Commission receives information on a monthly basis from the custodial bank. The final information regarding impairment of the value of the securities lending collateral was received by the Commission only after year-end in August 2008.

Failure to record and disclose material assets, liabilities and investment losses results in materially misstated financial statements not prepared in accordance with GAAP. (Finding No. 08-1)

Recommendation

We recommend the Commission improve its controls so that it timely obtains all relevant investment information necessary to properly record and disclose of all material investment transactions in the Program's annual financial statements.

Commission Response

Agree.

Commission has implemented additional controls to ensure that all material transactions and disclosures are properly recorded on the financial statements on a timely basis.

State of Illinois
Illinois Student Assistance Commission

Current Findings – *Government Auditing Standards*
Year Ended June 30, 2008

Finding 08-2 Draft Financial Statements Not Accurate

The Illinois Designated Account Purchase Program (IDAPP) of the Illinois Student Assistance Commission (Commission) did not have sufficient controls over financial reporting.

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

- Unamortized bond issuance costs that totaled approximately \$840,000 were inappropriately classified as unrestricted other assets instead of restricted unamortized bond issuance costs.
- Approximately \$16 million of student loans, net of allowance for loan losses, were inappropriately classified as unamortized bond issuance costs.
- Net assets were not properly categorized as to restricted and unrestricted.
- Generally Accepted Accounting Standards Board (GASB) Statement No. 40 disclosure of custodial credit risk for deposits and investments was not complete.
- Cash flows from operating activities were not properly classified.

All material transactions should be recorded in accordance with generally accepted accounting principles (GAAP), and financial statement amounts should be supported with complete and accurate disclosures in the form of notes to the financial statements. The errors and omissions described above resulted in certain aspects of the draft financial statements for IDAPP to be prepared not in accordance with GAAP.

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

According to Commission management, the primary issues noted above were caused by a change in procedures and reductions in the workforce resulting from the outsourcing of the servicing of alternative loans.

Insufficient and/or ineffective controls over financial reporting could lead to significant reporting inaccuracies in the financial statements and notes to the financial statements. (Finding Nos. 08-2, 07-3)

Recommendation

We recommend the Commission review its procedures over outsourced services, allocate the resources necessary, and improve controls over financial reporting to ensure accurate presentation and disclosure of IDAPP's annual financial statements.

Commission Response

Agree.

Subsequent to the audit being performed the Commission has implemented several changes to address the issues noted above. The Accounting department has been reorganized to better utilize existing talent and also a new financial reporting manager (with a CPA certificate) has been hired who will assist in the review process. In addition, a formal review and sign-off process has been implemented.

State of Illinois
Illinois Student Assistance Commission

Current Findings – *Government Auditing Standards*
Year Ended June 30, 2008

Finding 08-3 Investment Policies Not Followed

The Illinois Designated Account Purchase Program (IDAPP) does not have adequate collateral to cover 100% of its bank deposit balances that exceed FDIC insured amounts, and investments in a single issuer exceeded investment policy established limits.

IDAPP is in violation of its current investment policy restricting investments in a single issuer to no more than 5% of the total investment portfolio of the agency. In addition, during testing of cash and investments, a lack of sufficient collateral for deposits in excess of FDIC insured amounts was noted. IDAPP has an uninsured uncollateralized deposit balance of approximately \$5 million at June 30, 2008, consisting of 2 locally held accounts in violation of the State Officers and Employees Money Disposition Act (Act).

At June 30, 2008, IDAPP held over \$5.6 million in commercial paper issued by another financial institution. This investment is approximately 10% of IDAPP's total investment balance at its fiscal year-end. IDAPP's investment policy requires IDAPP to diversify its investments by security type and institution. With the exception of certain obligations as set forth in the investment policy (direct federal obligations, federal guaranteed obligations, and federal affiliated institutions) or investments fully collateralized by these obligations, IDAPP's investment policy states that no more than 5% of IDAPP's total investment portfolio will be invested in the obligations of a single issuer.

Good business practices require that an entity's bank balances be adequately insured or collateralized to prevent losses in the event of a bank failure and to properly safeguard the entity's assets. In addition, a good internal control environment includes checks and balances to ensure policies established by the Board are followed. The Act (30 ILCS 230/2c) states, "Whenever funds deposited with a bank or savings and loan association exceed the amount of federal deposit insurance coverage, a bond, pledged securities, or other eligible collateral shall be obtained."

According to Commission management, one of the bank accounts had an uncollateralized deposit (\$435,000) at year end. The account was set-up incorrectly, resulting in the balances being uncollateralized. An additional \$4.7 million in a different bank was set up as a collateral account based on a contractual agreement. It was an oversight that a reciprocal collateralization was not provided (by the bank) for the funds that IDAPP provided to the bank as collateral. The \$5,612,565 of commercial paper at another financial institution was also set-up in error.

IDAPP's uncollateralized and uninsured deposits are susceptible to loss in the event of a bank failure, as the amount of deposits in excess of FDIC insured limits may not be recoverable. In addition, IDAPP has failed to comply with State Statute and its investment policy and has exposed itself to concentration of credit risk in excess of levels deemed appropriate by its governing officials. (Finding No. 08-3)

State of Illinois
Illinois Student Assistance Commission

Current Findings – *Government Auditing Standards*
Year Ended June 30, 2008

Finding 08-3 Investment Policies Not Followed (Continued)

Recommendation

We recommend IDAPP obtain sufficient collateral to cover uninsured deposit balances at each applicable bank. In addition, IDAPP should improve monitoring controls over deposit balances at each bank to make sure collateral is sufficient to cover deposit balances in the event of a bank failure. We also recommend IDAPP improve controls to ensure that it adheres to its investment policy.

Commission Response

Agree.

The \$5.6 million of commercial paper at June 30, 2008 has subsequently been reduced to \$3.5 million and invested in treasury bills. Therefore we no longer have over 10% of our investments with one issuer. With the switch in investments to treasury bills, the funds are now collateralized.

The \$435,000 of investments had been held at LaSalle Bank, which was acquired by Bank of America subsequent to June 30, 2008. With the switch to Bank of America, the funds are now fully collateralized

The \$4.7 million uncollateralized deposit at Guarantee Bank was held pending the resolution of a legal dispute which was resolved in December 2008. The account has now been closed.

Additionally, ISAC's Commissioners approved a new Investment Policy at its November 2008 meeting. This included the restructuring of IDAPP's Investment Committee, chaired by ISAC's Chief Investment Officer.

State of Illinois
Illinois Student Assistance Commission

Current Findings – *Government Auditing Standards*
Year Ended June 30, 2008

Finding 08-4 Documentation of Journal Entry Approval is Lacking

The Illinois Designated Account Purchase Program (IDAPP) does not have adequate controls over the preparation and posting of journal entries.

During our testing of internal controls over accounting for the federal special allowance revenues and receivables, we noted that there was no evidence of review of the journal entries prepared to record this revenue and related receivables by an appropriate supervisor. The federal special allowance and interest subsidy revenue was \$20,828,750 and the related receivable at year-end was \$1,785,701.

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. A good system of internal control requires that journal entries and supporting documentation related to significant accounts should be reviewed by an appropriate supervisor.

According to Commission management, IDAPP's accounting personnel are aware of the requirement to have all journal entries reviewed and initialed to document the review. In an effort to meet closing deadlines, sign-offs were not always obtained.

Lack of supervisory review of journal entries could result in Federal special allowance revenues and related receivables being misstated. In addition, errors in analyses and journal entries will not be detected if not reviewed by an appropriate supervisor. (Finding No. 08-4)

Recommendation

We recommend that account reconciliations, analyses and journal entries prepared for all significant accounts be reviewed by a supervisor other than the preparer. In addition, these reviews should be documented by dating and signing or initialing the item. Journal entries lacking documentation of supervisory review should not be posted until after written documentation of such review has been obtained.

Commission Response

Agree.

IDAPP's Accounting personnel are aware of the requirement to have all journal entries reviewed and initialed to document the review. In an effort to meet closing deadlines, sign-offs were not always obtained.

The Commission has re-emphasized this requirement for FY09, both in writing and in departmental meetings and will continue to monitor this requirement.

State of Illinois
Illinois Student Assistance Commission

Current Findings – *Government Auditing Standards*
Year Ended June 30, 2008

Finding 08-5 Draft Financial Statements Not Completed Timely

The Illinois Student Assistance Commission (Commission) did not provide the auditors with complete and accurate financial statements on a timely basis.

During the audit entrance conference on May 14, 2008 a deadline for submission of the Commission's draft financial statements for timely completion of the financial audit was determined and agreed to by the auditors and Commission management. The deadline for delivery of the complete draft financial statements to the auditors for fiscal year 2008 was September 26, 2008. Although an initial draft was provided to the auditors on September 26, 2008, the draft was incomplete and had not been fully reviewed by all parties involved with the preparation and approval of the financial statements. Changes and adjustments to the initial draft were occurring as late as January 14, 2009, 110 days after the agreed upon deadline, when a \$185 million reclassification and other minor changes were made affecting the financial statements and note disclosures.

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

According to Commission management, the delay is due to the growing complexity of financial reporting for the Commission coupled with the number of parties involved in the financial reporting process.

Submitting incomplete and unadjusted draft financial statements delays completion of the audit process and the timely release of the Commission's financial report to users. (Finding Code No. 08-5)

Recommendation

We recommend the Commission take a comprehensive look at the entire financial reporting process and make changes needed to timely release audited financial statements to users and to auditors.

Commission Response

Agree.

The Commission made all efforts and was in constant communication with the Illinois Office of the Comptroller and the auditors prior to the end of the fiscal year to ensure that the year-end process was timely and accurate.

The Commission is committed to working with the Illinois Office of the Comptroller and the Office of the Auditor General to complete financial statements accurately and in a timely manner and will continue to review our internal procedures to determine if additional modifications can be made to assist in timely and accurate reporting.

State of Illinois
Illinois Student Assistance Commission

Current Findings – State Compliance
Year Ended June 30, 2008

Finding 08-6 Late Filing Affidavits Incomplete

The Illinois Designated Account Purchase Program (IDAPP) did not include the required explanations on all contract late filing affidavits for contracts filed late with the Illinois Office of the Comptroller.

During our examination of non-appropriated contracts, we noted 10 of 20 (50%) non-appropriated contracts were filed late to the Comptroller's office and the corresponding Late Filing Affidavit did not indicate an explanation or reason as to why the contract liability was not filed timely. The contracts ranged from 32 days late to 304 days late with amounts ranging from \$12,000 to \$720,000.

According to the Statewide Accounting Management System (SAMS) 15.10.40 State agencies are required to file Professional and Artistic contracts exceeding \$5,000 and other contracts exceeding \$10,000 with the Comptroller's office within 15 calendar days of execution. When a contract has not been filed within 30 days of execution, the agency is required to file a Late Filing Affidavit signed by the Chief Executive Officer setting forth an explanation of why the contract liability was not filed within 30 days of execution.

According to Commission management, these contracts were not filed in time due to resource constraints.

Failure to file contracts with the Comptroller's office as required deprives the Comptroller of information needed to fulfill its duties to monitor State contracts. (Finding No. 08-6)

Recommendation

We recommend that the Commission comply with SAMS requirements and file all contracts executed within the required timeframe and in those situations when a contract cannot be filed timely include a properly completed Late Filing Affidavit when filing contracts late with the Comptroller.

Commission Response

Agree.

We are in the process of reviewing our legal review process and will implement new procedures to ensure that contracts are reviewed in a timely manner. We will also ensure that any late filing affidavits that need to be submitted are properly completed.

State of Illinois
Illinois Student Assistance Commission

Prior Findings Not Repeated
Year Ended June 30, 2008

A. Financial Reporting

During our review of the fiscal year 2007 draft financial statements of the Illinois Prepaid Tuition Program (the Program), we noted the Illinois Student Assistance Commission (Commission) did not have sufficient controls over the Program's reporting process. The disclosures related to the multiple ratings of securities as required by the Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* were not properly calculated by the Commission. (Finding Code No. 07-1)

In our fiscal year 2008 audit we noted the Program's GASB Statement No. 40 disclosures of the multiple ratings of securities in its financial reports were presented in accordance with GASB standards.

B. Internal Auditing

During our fiscal year 2007 audit and examination we noted the Commission failed to perform internal audits of 4 of its 12 (33%) major systems of internal accounting and administrative controls within the last two years. (Finding Code No. 07-2, 06-3)

We noted during the fiscal year 2008 audit that internal audits were performed that addressed the required major internal accounting and administrative control systems.

C. Material Year-end Financial Statement Adjustment Not Recorded

The Commission did not record a material year-end adjustment to its financial statements in fiscal year 2007. Although the Commission performed a detailed analysis supporting the estimated amount of Default Aversion Fees (DAF) earned, the adjustment to decrease the liability in the Student Loan Operating Fund and to decrease the corresponding asset in the Federal Student Loan Fund by \$3.7 million was not recorded by the Commission in the draft fiscal year 2007 financial statements. (Finding Code No. 07-4)

During our fiscal year 2008 audit, we noted the amounts recorded in the Student Loan Operating and Federal Student Loan Funds were in accordance with the detailed analysis performed.

D. Failure to Properly Complete Performance Evaluations of Employees

During our fiscal year 2007 compliance examination, we noted the Commission did not conduct annual employee performance evaluations on a timely basis. (Finding Code No. 07-7, 06-4)

During the current compliance examination our sample testing showed the Commission had improved the timeliness of performing its employee performance evaluations, therefore the finding is not repeated. We did, however, continue to note some instances of late performance evaluations and those were reported to management in the Report of Immaterial Findings letter.

State of Illinois
Illinois Student Assistance Commission

Prior Findings Not Repeated
Year Ended June 30, 2008

E. Delinquent Filing of Quarterly Receipts and Disbursements for Locally Held Funds

During fiscal year 2007 compliance examination we noted the Commission was late in filing 3 of the 4 required quarterly reports of receipts and disbursements for locally held funds (form C-17) with the Illinois Office of the Comptroller. (Finding Code No. 07-8)

During our fiscal year 2008 compliance examination we noted that all C-17 forms were filed on a timely basis.

F. Delinquent Reporting of Revenue Bonds

The Commission was delinquent in reporting required revenue bond activity to the Illinois Office of the Comptroller for the year ended June 30, 2007. Thirty seven out of the 312 (12%) required C-08 forms, "Notice of Payment of Bond Interest and/or Principal" to be reported to the Comptroller's Office were delinquent. (Finding Code No. 07-9)

During fiscal year 2008 we noted in our sample testing that there was not a significant number of C-08 forms that were filed past the deadline.

G. Incomplete Contract-Obligation Document Information

During our fiscal year 2007 compliance examination we noted the Commission did not document the authorization dates on 4 out of 29 (14%) contract-obligation documents examined. (Finding Code No. 07-10)

During our fiscal year 2008 compliance examination we did not note any missing authorization dates within the contract obligation documents sampled.

H. Failure to Establish College Savings Program

During prior compliance examinations, we noted that the Commission had not established a program of college savings instruments for Illinois citizens required by the Higher Education Student Assistance Act (110 ILCS 947/75). (Finding Code No. 07-11, 06-7, 05-7)

During the current examination we noted that the Commission had taken steps to remedy the statutory requirement, therefore this finding was not repeated and was reported to management in the Report of Immaterial Findings letter.

State of Illinois
Illinois Student Assistance Commission

Supplementary Information for State Compliance Purposes

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

Fiscal Schedules and Analysis:

- Schedule of Expenditures of Federal Awards and Related Notes
- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Balance Sheet Accounts
- Analysis of Accounts Receivable

Analysis of Operations

- Agency Functions and Planning Program
- Average Number of Employees
- Annual Cost Statistics – By Activity (Unaudited)
- Schedule of Investment Management Fees
- Service Efforts and Accomplishments (Unaudited)
- Schedule of Federal and Nonfederal Expenditures

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountants' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

State of Illinois
 Illinois Student Assistance Commission

Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2008
 (Amounts expressed in thousands)

Federal Grantor Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Federal Family Education Loan Program	84.032	\$ 222,123
Leveraging Educational Assistance Partnership (LEAP - Formerly SSIG)	84.069	3,488
Byrd Honors Scholarships	84.185	1,570
Paul Douglas Teacher Scholarships	84.176	<u>(6)</u>
Total Expenditures of Federal Awards		<u>\$ 227,175</u>

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois
Illinois Student Assistance Commission

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Note 1. Significant Accounting Principles and Policies

(a) Basis of Presentation

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance of the Illinois Student Assistance Commission (Commission) for the year ended June 30, 2008. The Commission had no subrecipient activity to report.

(b) Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Under this method, expenditures are recognized in the accounting period in which cash is disbursed.

Note 2. Description of Grant Programs

The following is a brief description of the grant award programs included in the accompanying Schedule of Expenditures of Federal Awards:

(a) Federal Family Education Loan Program (FFELP) - CFDA No. 84.032

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

(b) Leveraging Educational Assistance Partnership (LEAP) - CFDA No. 84.069

This program is the federal portion of the Monetary Award Program funded by the United States Department of Education. The Leveraging Educational Assistance Partnership (LEAP) assists states in providing grants and work-study assistance to eligible students who attend institutions of higher education and have substantial financial need. The work-study assistance is provided through campus-based community service work learning study programs, referred to as community service-learning job programs.

(c) Byrd Honors Scholarships - CFDA No. 84.185

The Byrd Scholarships Program is a federally funded program, which provides scholarships of up to \$1,500, for a maximum of four academic years, for academically exceptional high school graduates who show promise of continued academic excellence. Byrd Scholars must become high school graduates in the same high school year in which a scholarship application is submitted, must demonstrate academic achievement through test scores and high school transcripts and be enrolled, or accepted for enrollment as full-time undergraduate students in a postsecondary institution approved by the United States Department of Education. This Scholarship is not limited to tuition and fees. Recipients may use the scholarship at out-of-state institutions.

(d) Paul Douglas Teacher Scholarships – CFDA No. 84.176

The Paul Douglas Teacher Scholarships Program was discontinued prior to July 1, 2002. ISAC has reported negative expenditures, which represent an adjustment to previously reported amounts.

State of Illinois
 Illinois Student Assistance Commission
 Schedule of Appropriations, Expenditures, and Lapsed Balances
 Appropriations for Fiscal Year 2008
 Fourteen Months Ended August 31, 2008

	Appropriations (Net After Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures	Balances Lapsed
Public Act. 95-0348					
Appropriated Funds					
General Revenue Fund - 001:					
Grants and scholarships:					
Minority teacher scholarships	\$ 3,100,000	\$ 2,732,877	\$ (8,443)	\$ 2,724,434	\$ 375,566
Veteran's home nurses loan payments	1,220,000	36,554	7,759	44,313	1,175,687
Nurse educators loan repayment	1,000,000	214,686	25,000	239,686	760,314
Matching grants to Illinois institutions to supplement scholarship programs	950,000	653,077	296,917	949,994	6
Scholarships to children of policemen or firemen killed in the line of duty or who are dependents of correctional officers killed or permanently disabled in the line of duty	470,000	469,426	-	469,426	574
National guard and naval militia scholarships	4,480,000	4,476,995	(7,294)	4,469,701	10,299
Veterans' scholarships	19,250,000	19,227,877	(4,738)	19,223,139	26,861
Illinois incentive for access grants	8,200,000	8,198,250	(43,500)	8,154,750	45,250
IL Scholars scholarships	3,160,000	3,160,000	-	3,160,000	-
IL Future Teachers Corps scholarships	4,100,000	3,841,573	(18,032)	3,823,541	276,459
College savings bond grants to eligible students	325,000	322,220	-	322,220	2,780
Nursing education students scholarships	1,350,000	1,161,327	37,084	1,198,411	151,589
Grant awards to eligible full-time and part-time students	381,099,800	380,289,195	368,614	380,657,809	441,991
Loan Repayment for Teachers Program	500,000	483,926	15,000	498,926	1,074
Total General Revenue Fund	\$ 429,204,800	\$ 425,267,983	\$ 668,367	\$ 425,936,350	\$ 3,268,450

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Schedule of Appropriations, Expenditures, and Lapsed Balances - Continued
 Appropriations for Fiscal Year 2008
 Fourteen Months Ended August 31, 2008

	Appropriations (Net After Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures	Balances Lapsed
Federal Congress Teacher Scholarship Fund - 092:					
Federal Congress Teacher scholarship for transferring repayment	\$ 400,000	\$ -	\$ -	\$ -	\$ 400,000
Payment of Byrd Honors scholarships	1,800,000	1,576,843	(5,250)	1,571,593	228,407
Total Federal Congress Teacher Scholarship Fund	\$ 2,200,000	\$ 1,576,843	\$ (5,250)	\$ 1,571,593	\$ 628,407
Accounts Receivable Fund - 242:					
Costs of collecting delinquent student scholarships	\$ 300,000	\$ 48,894	\$ 2,064	\$ 50,958	\$ 249,042
Optometric ED Scholarship Fund - 259:					
Scholarships for eligible students pursuing a graduate degree in optometry	\$ 50,000	\$ 50,000	\$ -	\$ 50,000	\$ -
University Grant Fund - 418:					
Grants to higher education institutions	\$ 70,000	\$ 51,675	\$ -	\$ 51,675	\$ 18,325
Federal Student Loan Fund - 663:					
Distribution necessary as the result of guarantees of loans that are uncollectible and payments pursuant to federal agreements	\$ 260,000,000	\$ 114,989,026	\$ 22,347,233	\$ 137,336,259	\$ 122,663,741
Payments, transfers and distributions*	82,504,163	82,504,163	-	82,504,163	-
Total	\$ 342,504,163	\$ 197,493,189	\$ 22,347,233	\$ 219,840,422	\$ 122,663,741

* Continuing appropriation

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Schedule of Appropriations, Expenditures, and Lapsed Balances - Continued
 Appropriations for Fiscal Year 2008
 Fourteen Months Ended August 31, 2008

	Appropriations (Net After Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures	Balances Lapsed
Student Loan Operating Fund - 664:					
Administration:					
Personal services	\$ 16,935,700	\$ 14,301,223	\$ (2,272)	\$ 14,298,951	\$ 2,636,749
State contribution to State Employees' Retirement Fund	2,811,300	2,370,265	1,224	2,371,489	439,811
State contribution to Social Security	1,295,700	1,042,058	541	1,042,599	253,101
State contribution for employees' group insurance	4,755,100	3,740,651	1,170	3,741,821	1,013,279
Contractual services	12,471,800	7,638,683	721,135	8,359,818	4,111,982
Collection agency fees	21,334,400	2,727,202	171,964	2,899,166	18,435,234
Travel	208,300	112,361	10,791	123,152	85,148
Commodities	265,200	95,773	8,918	104,691	160,509
Printing	724,200	49,135	39,828	88,963	635,237
Equipment	535,000	221,159	169,442	390,601	144,399
Telecommunications	1,894,900	368,237	111,426	479,663	1,415,237
Operation of automotive equipment	37,900	26,971	4,044	31,015	6,885
Loan-based solution project	5,000,000	1,259,407	-	1,259,407	3,740,593
Higher education shared services	2,128,100	1,750,142	124	1,750,266	377,834
Payment of Federal Default fee	15,000,000	11,659,122	74,022	11,733,144	3,266,856
Total Student Loan Operating Fund	\$ 85,397,600	\$ 47,362,389	\$ 1,312,357	\$ 48,674,746	\$ 36,722,854
Contracts and Grants Fund - 677:					
Costs to support outreach and training activities	\$ 70,000	\$ 14,031	\$ 1,297	\$ 15,328	\$ 54,672
Federal Student Incentive Trust Fund - 701:					
Grant awards to full-time and part-time students	\$ 3,700,000	\$ 3,700,000	\$ -	\$ 3,700,000	\$ -

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Schedule of Appropriations, Expenditures, and Lapsed Balances - Continued
 Appropriations for Fiscal Year 2008
 Fourteen Months Ended August 31, 2008

	Appropriations (Net After Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Total Expenditures	Balances Lapsed
National Guard Grant and Military Vet Scholarships Fund - 721:					
Grant awards to full-time and part-time students	\$ 20,000	\$ -	\$ -	\$ -	\$ 20,000
IL Future Teacher Corps Scholarships Fund - 753:					
Grant awards to full-time and part-time students	\$ 57,000	\$ -	\$ -	\$ -	\$ 57,000
Grant awards to Golden Apple Foundation	3,000	-	-	-	3,000
Total IL Future Teacher Corps Scholarships Fund	\$ 60,000	\$ -	\$ -	\$ -	\$ 60,000
Totals - All Appropriated Funds	\$ 863,576,563	\$ 675,565,004	\$ 24,326,068	\$ 699,891,072	\$ 163,685,491
Nonappropriated Funds:					
Illinois Prepaid Tuition Fund - 557:					
Lump sum expenditures for operations		\$ 134,633,157	\$ 863,892	\$ 135,497,049	
ISAC Loan Purchase Program Payroll Fund - 773:					
Illinois Designated Account Purchase Program Expenditures		\$ 9,792,798	\$ 1,237	\$ 9,794,035	
Total - All Nonappropriated Funds		\$ 144,425,955	\$ 865,129	\$ 145,291,084	
Total - All Funds		\$ 819,990,959	\$ 25,191,197	\$ 845,182,156	

Note: All information shown in this Schedule was obtained from agency records and reconciled to the records of the State Comptroller.

(Concluded)

State of Illinois
 Illinois Student Assistance Commission
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
 Years Ended June 30, 2008, 2007 and 2006

	Fiscal Year		
	2008 P.A. 95-0348	2007 P.A. 94-0798	2006 P. A. 94-0015
General Revenue Fund - 001:			
Appropriations (net after transfers)	\$ 429,204,800	\$ 400,969,800	\$ 390,299,800
Expenditures:			
Minority teachers scholarships	2,724,434	2,891,974	2,866,965
Veteran's home nurses loan payments	44,313	-	-
Nurse educators loan repayment	239,686	-	-
Matching grants to Illinois institutions to supplement scholarship programs	949,994	949,975	949,951
Scholarships to children of policemen or firemen killed in the line of duty or who are dependents of correctional officers killed or permanently disabled in the line of duty	469,426	454,447	342,572
National guard and naval militia scholarships	4,469,701	4,462,438	4,447,015
Veterans' scholarships	19,223,139	19,176,748	19,234,585
Illinois incentive for access grants	8,154,750	8,077,750	7,031,500
IL Scholars scholarships	3,160,000	3,160,000	3,020,000
IL Future Teachers Corps scholarships	3,823,541	3,779,127	3,795,464
College savings bond grants to eligible students	322,220	648,920	648,820
Nursing education students scholarships	1,198,411	446,792	-
Grant awards to eligible full-time and part-time students	380,657,809	354,259,525	345,770,562
Loan Repayment for Teachers Program	498,926	485,146	497,639
Total expenditures	425,936,350	398,792,842	388,605,073
Lapsed balances	\$ 3,268,450	\$ 2,176,958	\$ 1,694,727
Federal Congress Teacher Scholarship Fund - 092:			
Appropriations (net after transfers)	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000
Expenditures:			
Payment of Byrd Honors scholarships	1,571,593	1,536,500	1,536,868
Total expenditures	1,571,593	1,536,500	1,536,868
Lapsed balances	\$ 628,407	\$ 663,500	\$ 663,132
Accounts Receivable Fund - 242:			
Appropriations (net after transfers)	\$ 300,000	\$ 300,000	\$ 300,000
Expenditures:			
Costs of collecting delinquent student scholarships	50,958	56,264	62,157
Lapsed balances	\$ 249,042	\$ 243,736	\$ 237,843

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances - Continued
 Years Ended June 30, 2008, 2007 and 2006

	Fiscal Year		
	2008 P.A. 95-0348	2007 P.A. 94-0798	2006 P. A. 94-0015
Optometric ED Scholarship Fund - 259:			
Appropriations (net after transfers)	\$ 50,000	\$ 50,000	\$ 50,000
Expenditures:			
Scholarships for eligible students pursuing a graduate degree in optometry	50,000	50,000	50,000
Lapsed balances	\$ -	\$ -	\$ -
University Grant Fund - 418:			
Appropriations (net after transfers)	\$ 70,000	\$ 70,000	\$ 70,000
Expenditures:			
Grants to higher education institutions	51,675	52,800	51,750
Lapsed balances	\$ 18,325	\$ 17,200	\$ 18,250
Federal Student Load Fund - 663:			
Appropriations (net after transfers)	\$ 260,000,000	\$ 190,000,000	\$ 190,000,000
Expenditures:			
Distribution necessary as the result of guarantees of loans that are uncollectible and payments pursuant to federal agreements	137,336,259	179,771,154	164,041,982
Lapsed balances	\$ 122,663,741	\$ 10,228,846	\$ 25,958,018

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances - Continued
 Years Ended June 30, 2008, 2007 and 2006

	Fiscal Year		
	2008 P.A. 95-0348	2007 P.A. 94-0798	2006 P. A. 94-0015
Student Loan Operating Fund - 664:			
Appropriations (net after transfers)	\$ 85,397,600	\$ 145,778,200	\$ 67,972,700
Expenditures:			
Personal services	14,298,951	15,056,423	16,306,231
State contribution to State Employees' Retirement Fund	2,371,489	1,736,222	1,271,197
State contribution to Social Security	1,042,599	1,099,267	1,191,125
State contribution for employees' group insurance	3,741,821	3,937,770	4,496,117
Contractual services	8,359,818	7,348,227	8,367,276
Collection agency fees	2,899,166	3,157,536	3,325,335
Travel	123,152	91,320	94,169
Commodities	104,691	73,504	104,757
Printing	88,963	103,511	117,172
Equipment	390,601	116,626	51,246
Telecommunications	479,663	566,009	509,526
Operation of automotive equipment	31,015	21,825	25,835
Loan-based solution project	1,259,407	681,821	1,026,952
Higher education shared services	1,750,266	1,761,874	-
Payment of Federal Default fee	11,733,144	9,692,657	-
Monetary Award Program Plus	-	26,905,500	-
Monetary Award Program	-	26,400,152	-
Total expenditures	48,674,746	98,750,244	36,886,938
Lapsed balances	\$ 36,722,854	\$ 47,027,956	\$ 31,085,762
Contracts and Grants Fund - 677:			
Appropriations (net after transfers)	\$ 70,000	\$ 70,000	\$ 70,000
Expenditures:			
Costs to support outreach and training activities	15,328	19,327	10,966
Lapsed balances	\$ 54,672	\$ 50,673	\$ 59,034
Federal Student Incentive Trust Fund - 701:			
Appropriations (net after transfers)	\$ 3,700,000	\$ 3,700,000	\$ 3,700,000
Expenditures:			
Grant awards to full-time and part-time students	3,700,000	3,626,127	2,071,194
Lapsed balances	\$ -	\$ 73,873	\$ 1,628,806

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances - Continued
 Years Ended June 30, 2008, 2007 and 2006

	Fiscal Year		
	2008 P.A. 95-0348	2007 P.A. 94-0798	2006 P. A. 94-0015
National Guard Grant and Military Vet Scholarship Fund - 721:			
Appropriations (net after transfers)	\$ 20,000	\$ 20,000	\$ 20,000
Expenditures:			
Grant awards to full-time and part-time students	-	-	-
Lapsed balances	\$ 20,000	\$ 20,000	\$ 20,000
IL Future Teacher Corps Scholarships Fund - 753:			
Appropriations (net after transfers)	\$ 60,000	\$ 60,000	\$ 60,000
Expenditures:			
Grant awards to full-time and part-time students	-	45,000	-
Grant awards to Golden Apple Foundation	-	2,632	-
Total expenditures	-	47,632	-
Lapsed balances	\$ 60,000	\$ 12,368	\$ 60,000
Total all funds:			
Appropriations (net after transfers)	\$ 781,072,400	\$ 743,218,000	\$ 654,742,500
Expenditures	617,386,909	682,702,890	593,316,928
Lapsed balances	\$ 163,685,491	\$ 60,515,110	\$ 61,425,572

(Concluded)

State of Illinois
 Illinois Student Assistance Commission
 Schedule of Changes in State Property
 Year Ended June 30, 2008
 (Amounts expressed in thousands)

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,700	\$ -	\$ -	\$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	1,157	-	(14)	1,143
Total capital assets being depreciated	19,468	-	(14)	19,454
Less accumulated depreciation:				
Buildings	(7,096)	(459)	-	(7,555)
Equipment	(1,156)	-	14	(1,142)
Total accumulated depreciation	(8,252)	(459)	14	(8,697)
Total capital assets being depreciated, net	11,216	(459)	-	10,757
Governmental activity capital assets, net	\$ 13,916	\$ (459)	\$ -	\$ 13,457
Business-type activities:				
<i>Designated Account Purchase Program:</i>				
Capital assets being depreciated:				
Equipment	\$ 514	\$ -	\$ -	\$ 514
Less accumulated depreciation:				
Equipment	(470)	(27)	-	(497)
Total capital assets being depreciated, net	44	(27)	-	17
<i>Other business-type activities:</i>				
Capital assets being depreciated:				
Equipment and automobiles	887	24	(28)	883
Less accumulated depreciation:				
Equipment and automobiles	(665)	(110)	28	(747)
Total capital assets being depreciated, net	222	(86)	-	136
Business-type activities capital assets, net	\$ 266	\$ (113)	\$ -	\$ 153

Note: The above information has been reconciled to reports (Form C-15) submitted to the Office of the Comptroller.

State of Illinois
 Illinois Student Assistance Commission
 Comparative Schedule of Cash Receipts
 Years Ended June 30, 2008 and 2007
 (Amounts expressed in thousands)

	General Revenue Account		Federal Student Loan		Federal Student Incentive Trust		Federal Congressional Teacher Scholarship	
	2008	2007	2008	2007	2008	2007	2008	2007
Federal government receipts	\$ -	\$ -	\$ 125,496	\$ 89,124	\$ 3,483	\$ 3,626	\$ 1,571	\$ 1,527
Other:								
Collections on defaulted student loans	-	-	37,627	35,698	-	-	-	-
Repurchased student loans	-	-	56,219	55,832	-	-	-	-
Loan processing and issuance fee	-	-	-	-	-	-	-	-
Repayments and reimbursements of loans	-	-	-	-	-	-	5	16
Portfolio maintenance fee	-	-	-	-	-	-	-	-
Federal direct consolidation fee	-	-	-	-	-	-	-	-
Federal student loan	-	-	-	-	-	-	-	-
Interfund payments	-	-	-	-	-	-	-	-
Proceeds from sale of tuition contracts	-	-	-	-	-	-	-	-
Miscellaneous	487	413	-	-	-	-	-	-
Total other	487	413	93,846	91,530	-	-	5	16
Total receipts per Comptroller	\$ 487	\$ 413	\$ 219,342	\$ 180,654	\$ 3,483	\$ 3,626	\$ 1,576	\$ 1,543

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Comparative Schedule of Cash Receipts - Continued
 Years Ended June 30, 2008 and 2007
 (Amounts expressed in thousands)

	ISAC Accounts Receivable		Optometric Educational Scholarship		Contracts and Grants		Student Loan Operating	
	2008	2007	2008	2007	2008	2007	2008	2007
Federal government receipts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other:								
Collections on defaulted student loans	-	-	-	-	-	-	-	-
Repurchased student loans	-	-	-	-	-	-	-	-
Loan processing and issuance fee	-	-	-	-	-	-	4,920	4,520
Repayments and reimbursements of loans	286	284	2	10	-	-	-	-
Portfolio maintenance fee	-	-	-	-	-	-	6,470	7,001
Federal direct consolidation fee	-	-	-	-	-	-	4,649	4,408
Federal student loan	-	-	-	-	-	-	21,712	24,316
Interfund payments	-	-	-	-	-	-	27,000	26,530
Proceeds from sale of tuition contracts	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	246	14	2,871	2,357
Total other	286	284	2	10	246	14	67,622	69,132
Total receipts per Comptroller	\$ 286	\$ 284	\$ 2	\$ 10	\$ 246	\$ 14	\$ 67,622	\$ 69,132

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Comparative Schedule of Cash Receipts - Continued
 Years Ended June 30, 2008 and 2007
 (Amounts expressed in thousands)

	Illinois Prepaid Tuition Program		Illinois Designated Account Purchase Program		Total All Funds (memorandum only)	
	2008	2007	2008	2007	2008	2007
Federal government receipts	\$ -	\$ -	\$ -	\$ -	\$ 130,550	\$ 94,277
Other:						
Collections on defaulted student loans	-	-	-	-	37,627	35,698
Repurchased student loans	-	-	-	-	56,219	55,832
Loan processing and issuance fee	-	-	-	-	4,920	4,520
Repayments and reimbursements of loans	-	-	-	-	293	310
Portfolio maintenance fee	-	-	-	-	6,470	7,001
Federal direct consolidation fee	-	-	-	-	4,649	4,408
Federal student loan	-	-	-	-	21,712	24,316
Interfund payments	-	-	8,535	11,648	35,535	38,178
Proceeds from sale of tuition contracts	134,276	120,847	-	-	134,276	120,847
Miscellaneous	-	-	-	-	3,604	2,784
Total other	134,276	120,847	8,535	11,648	305,305	293,894
Total receipts per Comptroller	\$ 134,276	\$ 120,847	\$ 8,535	\$ 11,648	\$ 435,855	\$ 388,171

(Concluded)

State of Illinois
 Illinois Student Assistance Commission
 Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
 Year Ended June 30, 2008
 (Amounts expressed in thousands)

	General Revenue Account	Federal Student Loan	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	ISAC Accounts Receivable	Optometric Educational Scholarship
Total receipts per Comptroller	\$ 487	\$ 219,342	\$ 3,483	\$ 1,576	\$ 286	\$ 2
Reconciling items:						
Deposits in-transit -						
Prior year	(1)	(732)	-	-	-	-
Current Year	24	1,023	-	-	5	-
Net reconciling items	23	291	-	-	5	-
Receipts per Commission	\$ 510	\$ 219,633	\$ 3,483	\$ 1,576	\$ 291	\$ 2

(Continued)

State of Illinois

Illinois Student Assistance Commission

Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller - Continued

Year Ended June 30, 2008

(Amounts expressed in thousands)

	Contracts and Grants	Student Loan Operating	Illinois Prepaid Tuition Program	Illinois Designated Account Purchase Program	Total All Funds (Memorandum Only)
Total receipts per Comptroller	\$ 246	\$ 67,622	\$ 134,276	\$ 8,535	\$ 435,855
Reconciling items:					
Deposits in-transit -					
Prior year	-	-	-	-	(733)
Current Year	-	-	-	-	1,052
Net reconciling items	-	-	-	-	319
Receipts per Commission	\$ 246	\$ 67,622	\$ 134,276	\$ 8,535	\$ 436,174

(Concluded)

State of Illinois
 Illinois Student Assistance Commission
 Analysis of Significant Variations in Expenditures
 Years Ended June 30, 2008 and 2007

Source: Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances

	2008	2007	Increase (Decrease) Amount	% of Change Threshold 20%	Explanation
General Revenue Fund - 001					
Veteran's home nurses loan repayment	\$ 44,313	\$ -	\$ 44,313	100%	The appropriation authority was created in FY08.
Nurse educators loan repayment	239,686	-	239,686	100%	The appropriation authority was created in FY08.
College savings bond grants to eligible students	322,220	648,920	(326,700)	-50%	Due to a decrease in total grant award amount in FY08.
Nursing education students scholarships	1,198,411	446,792	751,619	168%	Due to an increase in total grant award amount in FY08.
Federal Student Loan Fund - 663					
Distribution necessary as the result of guarantees of loans that are uncollectible and payments pursuant to federal agreements	137,336,259	179,771,154	(42,434,895)	-24%	Due to an increase in payment of lender reimbursements in FY08.
Student Loan Operating Fund - 664					
State contribution to State Employees' Retirement Fund	2,371,489	1,736,222	635,267	37%	Due to an increase in required contribution to SERS from 11.5% to 16.6% in FY08.
Travel	123,152	91,320	31,832	35%	Due to an increase in marketing and outreach related travel in FY08.
Commodities	104,691	73,504	31,187	42%	Due to an increase in the purchase of promotional items for financial product sales and office supplies in FY08.
Equipment	390,601	116,626	273,975	235%	Due to the purchase of more than two hundred (200) computers and related peripherals in FY08.

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Analysis of Significant Variations in Expenditures - Continued
 Years Ended June 30, 2008 and 2007

Source: Schedule of Appropriations, Expenditures and Lapsed Balances

	2008	2007	Increase (Decrease) Amount	% of Change Threshold 20%	Explanation
Operation of automotive equipment	\$ 31,015	\$ 21,825	\$ 9,190	42%	Due to an increase in marketing and outreach related travel in FY08.
Loan-based solution project	1,259,407	681,821	577,586	85%	Due to repayment of MAP/MAP Plus refunds to IDAPP in FY08.
Payment of Federal Default fee	11,733,144	9,692,657	2,040,487	21%	Due to an increase in the number of guarantees in FY08.
Monetary Award Program Plus	-	26,905,500	(26,905,500)	-100%	The appropriation authority was created for FY07 only.
Monetary Award Program	-	26,400,152	(26,400,152)	-100%	The appropriation authority was created for FY07 only.
Contracts and Grants Fund - 677:					
Costs to support outreach and training activities	15,328	19,327	(3,999)	-21%	Due to a decrease in out-of-state travel to conferences in FY08.
IL Future Teacher Corps Scholarship Fund - 753					
Grant awards to full-time and part-time students	-	45,000	(45,000)	-100%	Funds were not expended from this appropriation in FY08, as no applications were received during the year.
Grant awards to Golden Apple Foundation	-	2,632	(2,632)	-100%	Funds were not expended from this appropriation in FY08, as no applications were received during the year.

State of Illinois
 Illinois Student Assistance Commission
 Analysis of Significant Variations in Receipts
 Years Ended June 30, 2008 and 2007
 (Amounts expressed in thousands)

	2008	2007	Increase (Decrease) Amount	% of Change Threshold 20% and \$20	Explanation
Federal Student Loan Fund - 663					
Federal government receipts	\$ 125,496	\$ 89,124	\$ 36,372	41%	Due to an increase in the number of default claims paid to lenders and borrowers filing bankruptcy in FY08.
Student Loan Operating - 664					
Miscellaneous	2,871	2,357	514	22%	Due to an increase in the amount of shared expenses paid by IDAPP.
Contracts and Grants - 677					
Miscellaneous	246	14	232	1657%	Due to an increase in the amount of grants awarded in FY08.
Illinois Designated Account Purchase Program - 773					
Interfund payments	8,535	11,648	(3,113)	-27%	Due to a reduction in the number of IDAPP employees in FY08.

*Source: State of Illinois Office of the Comptroller SB04 reports.

State of Illinois
 Illinois Student Assistance Commission
 Analysis of Significant Lapse Period Spending
 Fifteen Months Ended September 30, 2008

	Total Expenditures	Lapse Period Expenditures	Percent of Total Threshold > 20%	Explanation
General Revenue Fund - 001				
Matching grants to Illinois institutions to supplement scholarship programs	\$ 949,994	\$ 296,917	31%	For this program, ISAC rules stipulate that claims should be prorated if appropriations are insufficient to meet claims. ISAC needed to wait until all claims had been received before determining the prorated amount, thus, actual vouchering of payments to institutions occurred during the lapse period.
Student Loan Operating Fund - 664				
Printing	88,963	39,828	45%	A number of printing projects are normally delayed until the end of the legislative season to confirm information for publications (MAP maximum award, new program legislation, etc.).
Equipment	390,601	169,442	43%	The equipment purchases represent planned procurements to keep reasonably current with technology. The procurements were held until late in the fiscal year to ensure that the fund's total expenditure was within the total internal budget targeted for the year.
Telecommunications	479,663	111,426	23%	This invoice was not received until near the end of the fiscal year, thus payment of this invoice occurred during the lapse period.

State of Illinois
Illinois Student Assistance Commission

Analysis of Significant Balance Sheet Accounts
June 30, 2008 and 2007
(Amounts expressed in thousands)

	2008	2007
Cash and cash equivalents	\$ 134,374	\$ 222,587
Investments	987,650	1,024,630
Securities lending collateral	167,529	-
Tuition payable	828,100	745,078
Accreted tuition payable	274,306	211,123
Securities lending obligation	170,776	-
Revenue bonds and notes payable	879,441	3,479,574
Line of Credit	390,770	195,170

Cash and Cash Equivalents:

The decrease in the balance of cash and cash equivalents is due to the timing of student loan purchases and originations from year to year in the Illinois Designated Account Purchase Program (IDAPP).

Investments:

This represents the investment balances of the Illinois Prepaid Tuition Program and IDAPP at June 30 of the respective year. The Illinois Prepaid Tuition Program investments increased due to purchases of additional contracts and the corresponding increase in cash receipts from contract purchasers. Investments for the Prepaid Tuition Program have increased from \$986 million in 2007 to \$987 million in 2008. Changes in IDAPP's investments are due to the timing of student loan purchases and the availability of funds to invest which varies from year to year. IDAPP's investments have decreased from \$38 million in 2007 to \$60 thousand in 2008.

Securities Lending Collateral and Obligations:

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. As of June 30, 2008, cash collateral received was invested in a securities lending pool with a fair value of approximately \$168 million. Liabilities owed to the counterparty (collateral to be returned) amounted to approximately \$171 million.

Tuition Payable:

This account in the Illinois Prepaid Tuition Program represents amounts received from purchasers of contracts held by the fund. The increase in tuition payable is due to the additional contracts being purchased and cash payments received from existing contract holders for contracts sold on installment plans.

State of Illinois
Illinois Student Assistance Commission

Analysis of Significant Balance Sheet Accounts (Continued)
June 30, 2008 and 2007
(Amounts expressed in thousands)

Accreted Tuition Payable:

This account in the Illinois Prepaid Tuition Program represents management's estimate of the present value of the tuition payment to be made in excess of the principal payment (contract amounts) received and is expected to be financed through the investments of tuition contract proceeds. The accretion liability is estimated as a percentage of the tuition payable liability and, therefore, increases as tuition payable increases.

Revenue Bonds and Notes Payable:

This account in the Illinois Designated Account Purchase Program (IDAPP) represents the issuance of student loan revenue bonds and notes. There were no debt issuances during fiscal year 2008. The decrease is due to FY 2008 scheduled principal retirements, as well as early extinguishment of debt, described below.

During fiscal year 2008, the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of \$2,639 million for \$2,645 million. ISAC also retired \$2,608 million in revenue bonds associated with the student loan portfolio which was sold in July and August 2008.

Line of Credit:

On July 27, 2007 the Illinois Designated Account Purchase Program (IDAPP) executed a \$500 million mid-term revolving credit agreement through an affiliate of Citibank, CIESCO LLC. The revolving credit line was used to purchase alternative loans and FFELP student loans. Bank of New York is the Trustee for this credit line. IDAPP has also pledged the future student loan revenues of the above described alternative and FFELP loan portfolios to repay the approximately \$391 million principal outstanding on the Citibank credit line.

State of Illinois
 Illinois Student Assistance Commission

Analysis of Accounts Receivable
 June 30, 2008 and 2007
 (Amounts expressed in thousands)

	2008	2007
Intergovernmental	\$ 33,621	\$ 29,258
Student loans	1,135,038	3,414,956
Notes	98,838	87,586
Accrued interest on loans and notes	26,564	81,192
Federal special allowance and interest subsidy	1,786	20,432
Total	\$ 1,295,847	\$ 3,633,424

Intergovernmental Receivables:

The intergovernmental receivable in the Federal Student Loan Fund represents the reimbursements of claims to be paid by the U.S. Department of Education.

Student Loans Receivable:

IDAPP originated/purchased \$442 million and \$1.2 billion of student loans in FY 2008 and FY 2007, respectively. The current portion of the overall student loan portfolio balance outstanding at year-end was \$202 million in 2008 and \$602 million in 2007. For certain loans made under the alternative loan program, IDAPP uses a collection agency to assist in collecting delinquent balances. IDAPP's loan portfolio at year-end is composed of \$995 million of federally insured FFELP loans and \$94 million in alternative loans. The FFELP portfolio has historically defaulted less than 2% of the total portfolio per year. IDAPP is reimbursed for these loans at either 100% or 97% by the Guarantor agencies. The rate of reimbursement depends on the date of disbursement of the underlying loans and is also influenced by the loan servicers' designation of exceptional performer. For the Alternative Loan portfolio, any loans that become 120 days delinquent are reserved for in the loan loss reserve. At fiscal year-end 2008, 1.2% of the alternative loan portfolio was reserved for estimated loan losses. Included in the student loans balance above is approximately \$23.5 million of capitalized loan premiums reduced by loan acquisition and origination costs and deferred credits, less \$7 million allowance for doubtful accounts. The decrease in student loan receivable from prior year is due to the sale of a portion of the student loan portfolio. During fiscal year 2008, the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of \$2,639 million for \$2,645 million. The loans receivable constituted 78% of IDAPP's total student loan portfolio as of the beginning of the year.

Notes Receivable:

The increase in notes receivable is due to the timing of purchases of the student loans from the school lenders by IDAPP.

State of Illinois
Illinois Student Assistance Commission

Analysis of Accounts Receivable (Continued)
June 30, 2008 and 2007
(Amounts expressed in thousands)

Accrued Interest on Loans and Notes:

Accrued interest on loans and notes is down in 2008 when compared to 2007. The variable interest rates on student loans increased from 6.54% to 6.62% for school FFELP loans, 7.17% to 7.22% for repayment FFELP loans, and from 7.94% to 8.02% for Plus loans. In addition to the increase in the variable rates, all new loans after 07/01/06 carried a fixed rate of 6.8% for FFELP loans and 8.5% for Plus loans. Total interest revenue has been reduced significantly. Due to loan sales, the total portfolio size has been reduced by approximately two-thirds and a large number of the loans sold were loans at higher interest rates.

Federal Special Allowance and Interest Subsidy:

Receivables are down in 2008 relative to 2007 because of a reduction in the student loan portfolio and timing of the report submission and response from the U.S. Department of Education, as well as economic conditions that caused a lower special allowance.

**State of Illinois
Illinois Student Assistance Commission**

**Analysis of Operations
Year Ended June 30, 2008**

Agency Functions and Planning Program

Commission Organization

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

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

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

Monetary Award Program

This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provided up to \$4,968 in fiscal years 2007 and 2008 for the payment of tuition and mandatory fees. The program is funded by the General Revenue Fund.

Monetary Award Program Plus (MAP Plus)

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

**State of Illinois
Illinois Student Assistance Commission**

**Analysis of Operations
Year Ended June 30, 2008**

Agency Functions and Planning Program (Continued)

Illinois Incentive for Access Program

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

State Scholar Program

This program was created to publicly and personally identify graduating high school seniors who possess superior academic potential based on their college entrance exam scores and high school records. Students named State Scholars are awarded a Certificate of Achievement. No financial assistance is awarded by the Commission through this program.

Robert C. Byrd Honors Scholarship Program

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

Ancillary Award Programs

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

- Bonus Incentive Grant – Illinois College Savings Bonds
- Grant Program for Dependents of Correctional Officers
- Grant Program for Dependents of Police or Fire Officers
- Illinois Future Teacher Corps Program
- Illinois National Guard and Naval Militia Grant
- Illinois Special Education Teacher Tuition Waiver Program
- Illinois Veteran's Grant
- Minority Teachers of Illinois Scholarship Program
- Student to Student Program of Matching Grants
- Teacher/Child Care Loan Forgiveness Program
- Nurse Educator Scholarship Program
- I TEACH Program

**State of Illinois
Illinois Student Assistance Commission**

**Analysis of Operations
Year Ended June 30, 2008**

Agency Functions and Planning Program (Continued)

Federal Family Education Loan Program (FFELP)

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

The Higher Education Act of 1965 (HEA) as amended by the Higher Education Amendments of 1998 (Pub.L. 105-244) required the agency to establish two new funds for the Program's Administration, the Federal Student Loan Fund (FSLF) and the Student Loan Operating Fund (SLOF). ISAC established these funds as of October 1, 1998.

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

Alternative Loan Program

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

Illinois College Accounts Network

This program is a savings and investment plan which provides tax incentives for Illinois residents to begin saving for their children's college education. Although new accounts are no longer available, accounts previously opened under the plan are maintained.

Higher Education License Plate Grant Program

Working with the Secretary of State, participating public universities, community colleges and not-for-profit private colleges and universities in Illinois can have specialized collegiate license plates issued for their schools. Of the \$75 fee charged for these specialized plates, \$25 is used to fund a grant program called the Higher Education License Plate (HELP) Grant Program.

Each participating public university and community college administers its own scholarship program using the funds received directly from the license plate fees. Participating private institutions receive their funding from an appropriation to ISAC in which proceeds generated by the license plate fee are deposited into the University Grant Fund, a special fund in the State Treasury.

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

State of Illinois
Illinois Student Assistance Commission

Analysis of Operations
Year Ended June 30, 2008

Agency Functions and Planning Program (Continued)

College Illinois!

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

Illinois Designated Account Purchase Program (IDAPP)

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

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

Capital to support IDAPP student loan purchases is funded through the sale of revenue notes and bonds. The student loan collections or the U.S. Department of Education's guarantees are used to pay the debt service on the notes and bonds.

Commission Planning Program

The Commission's internal planning program includes several levels of planning. The Commission has established mission and departmental goals, which are a statement of its primary aims, and continuing, long-term key results areas. It serves as the focus for departmental planning and links program and organizational planning.

In addition, the Commission is required to file various reports, both quarterly and annually, with the U.S. Department of Education (DOE). These reports address the performance effectiveness of certain programs administered by DOE and provide the Commission with a useful planning mechanism.

State of Illinois
 Illinois Student Assistance Commission
 Average Number of Employees
 Year Ended June 30, 2008

The average number of full-time equivalent employees shown below was computed by the Commission using employment listings at the end of each month.

Division	2008	2007	Increase/ (Decrease)
Executive	40	38	2
Public Service	14	10	4
Program Services and Compliance	76	89	(13)
Business and Financial Services			
Claims and Collections	77	96	(19)
Accounting Services	53	49	4
Sub-total	<u>130</u>	<u>145</u>	<u>(15)</u>
Management Information Services	57	62	(5)
Human Resources	8	10	(2)
Administrative Services	<u>15</u>	<u>16</u>	<u>(1)</u>
Total full-time employees*	340	370	(30)
Full-time equivalent part-time employees*	7	11	(4)
IDAPP	<u>100</u>	<u>120</u>	<u>(20)</u>
Total Employees	<u><u>447</u></u>	<u><u>501</u></u>	<u><u>(54)</u></u>

*Source: Monthly Personnel Listing Report - for years ended June 30, 2008 and 2007

State of Illinois
 Illinois Student Assistance Commission
 Annual Cost Statistics - By Activity
 Two Years Ended June 30, 2008 and 2007 (Unaudited)

Program	2008 Recipients/Students Dollars Awarded Average Award	2007 Recipients/Students Dollars Awarded Average Award	% Change	Description/Highlights
Bonus Incentive Grant	427	942	-54.67%	Non-need based grants awarded to holders of Illinois college savings bonds. The proceeds of bonds are used for educational instruction purposes.
	\$322,220	\$648,920	-50.35%	
	\$755	\$689	9.58%	
Higher Ed License Plate Program (HELP)	207	211	-1.90%	A grant program funded by fees charged for specialized collegiate license plates by colleges and universities in Illinois.
	\$51,675	\$52,000	-0.63%	
	\$250	\$246	1.63%	
Illinois National Guard and Naval Militia Grant Program	1,897	1,821	4.17%	An entitlement program for members of the Illinois National Guard and Naval Militia.
	\$4,469,701	\$4,462,432	0.16%	
	\$2,330	\$2,451	-4.94%	
IL Teachers and Child Care Providers Loan Repayment Program	111	112	-0.89%	A matching grant program to the federal Teacher Loan Forgiveness Program for teachers and child care providers.
	\$498,426	\$485,146	2.74%	
	\$4,490	\$4,332	3.65%	
Nurse Educator Loan Repayment Program	54	0	100.00%	A grant program to repay eligible education loans of nurse educators who maintain their career in Illinois.
	\$239,686	\$0	100.00%	
	\$4,439	\$0	100.00%	
Veterans' Home Nursing Loan Repayment Program	18	0	100.00%	A grant program to repay eligible education loans of nursing students who maintain their career in Illinois Veterans' Homes.
	\$44,313	\$0	100.00%	
	\$2,462	\$0	100.00%	
Illinois Veterans' Grant	11,462	11,781	-2.71%	An entitlement program for Illinois veterans.
	\$19,223,139	\$19,176,749	0.24%	
	\$1,677	\$1,628	3.01%	

Information was obtained from the Commission's Data Book.

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Annual Cost Statistics - By Activity - Continued
 Two Years Ended June 30, 2008 and 2007 (Unaudited)

Program	2008 Recipients/Students Dollars Awarded Average Award	2007 Recipients/Students Dollars Awarded Average Award	% Change	Description/Highlights
Monetary Award Program	145,543 \$380,657,809 \$2,637	146,635 \$383,192,533 \$2,613	-0.74% -0.66% 0.92%	This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provides up to \$4,968 in fiscal year 2008 for the payment of tuition and mandatory fees.
Monetary Award Program Plus	0 \$0 \$0	59,700 \$26,905,500 \$451	-100.00% -100.00% -100.00%	Need-based grant program that provides up to \$500 for students ineligible for the Monetary Award Program. This program was authorized by the General Assembly for 2007 only.
Police/Fire Officers' Survivor Grant Program and Grant Program for Dependents of Correctional officers	77 \$469,426 \$6,096	66 \$454,447 \$6,886	16.67% 3.30% -11.47%	This program pays tuition for spouses and children of police and firefighters killed in the line of duty.
Silas Purnell Illinois Incentive for Access Grant Program (IIA)	21,335 \$8,154,750 \$392	20,709 \$8,010,500 \$387	3.02% 1.80% 1.29%	A need based grant program for freshman applicants who have no financial resources for college.
Student to Student Program of Matching Grants	3,028 \$949,994 \$314	3,084 \$949,974 \$308	-1.82% 0.00% 1.95%	An institutional need-based grant program for undergraduate students.
Illinois Future Teacher Corp Scholarship Program	549 \$3,823,541 \$6,965	564 \$3,824,127 \$6,780	-2.66% -0.02% 2.73%	This program provides scholarships of up to a maximum \$5,000 per academic year. Must teach in Illinois for one year for each year of scholarship assistance received. Teachers in designated teacher shortage areas can receive up to \$10,000.
Illinois Scholars (Golden Apple)	342 \$3,160,000 \$9,240	349 \$3,200,000 \$9,169	-2.01% -1.25% 0.77%	A scholarship program for recruiting students into teaching careers.

Information was obtained from the Commission's Data Book.

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Annual Cost Statistics - By Activity - Continued
 Two Years Ended June 30, 2008 and 2007 (Unaudited)

Program	2008 Recipients/Students Dollars Awarded Average Award	2007 Recipients/Students Dollars Awarded Average Award	% Change	Description/Highlights
Minority Teachers of Illinois Scholarship Program	589 \$2,724,434 \$4,626	601 \$2,891,974 \$4,812	-2.00% -5.79% -3.87%	This program awards up to \$5,000 to minority students who agree to teach for at least one year, under specified conditions.
Nursing Education Students Scholarship Program	79 \$1,198,411 \$15,217	28 \$446,792 \$15,957	182.14% 168.23% -4.64%	A scholarship program for students pursuing a graduate nursing degree in Illinois.
Optometric Education Scholarship Program	10 \$50,000 \$5,000	10 \$50,000 \$5,000	0.00% 0.00% 0.00%	A scholarship program for students pursuing a graduate optometry degree in Illinois.
Robert C. Byrd Honors Scholarship Program	1,067 \$1,598,468 \$1,498	1,037 \$1,536,500 \$1,482	2.89% 4.03% 1.08%	This program provides scholarships of up to \$1,500 for a maximum of four academic years to academically exceptional high school graduates.
Merit Recognition Scholarship Program	0 \$0 \$0	0 \$0 \$0	0.00% 0.00% 0.00%	This program recognizes academic achievements of Illinois high school graduates with a one time non-need based award of \$1,000. The General Assembly has not funded this program since 2005.
Federal Stafford Loans Subsidized	104,472 \$496,430,537 \$4,751	104,541 \$474,934,527 \$4,542	-0.07% 4.53% 4.60%	Low interest loan program. Both subsidized (need based) and non-subsidized loans are made available to students.
Unsubsidized	78,294 \$447,623,056 \$5,717	80,454 \$440,010,536 \$5,469	-2.68% 1.73% 4.53%	

Information was obtained from the Commission's Data Book.

(Continued)

State of Illinois
 Illinois Student Assistance Commission
 Annual Cost Statistics - By Activity - Continued
 Two Years Ended June 30, 2008 and 2007 (Unaudited)

Program	2008 Recipients/Students Dollars Awarded Average Award	2007 Recipients/Students Dollars Awarded Average Award	% Change	Description/Highlights
Federal Plus Loans	11,223	12,203	-8.03%	A need-based program designed to assist either parents of dependent undergraduate students, or graduate students. The program for graduate students was implemented in 2007.
Undergraduate Program	\$129,192,800	\$136,419,197	-5.30%	
	\$11,511	\$11,179	2.97%	
Graduate Program	4,238	2,074	104.34%	
	\$58,220,505	\$27,712,020	110.09%	
	\$13,738	\$13,362	2.81%	
Un/Loan Consolidation Loan Program	3,536	34,433	-89.73%	Combined various educational loans into one manageable loan, allowing borrowers to make one monthly payment.
	\$82,891,241	\$721,020,021	-88.50%	
	\$23,442	\$20,940	11.95%	
Illinois Designated Account Purchase Program	100,633	172,018	-41.50%	ISAC's secondary market purchases student loans from lenders relieving them of administrative duties, and increasing access to student loans as more lenders are inclined to participate in the Federal Financial Loan Program.
	\$449,689,532	\$1,387,675,732	-67.59%	
	\$4,469	\$8,067	-44.61%	
Illinois State Scholar Program	18,178	17,903	1.54%	An honorary program (no monetary value) to recognize academic achievement in high school.
Illinois Special Education Teacher Tuition Waiver Program	240	245	-2.04%	This program exempts tuition and fees, at eligible Illinois public universities, for students pursuing a career in special education in Illinois.

Information was obtained from the Commission's Data Book.

(Concluded)

State of Illinois
 Illinois Student Assistance Commission
 Schedule of Investment Management Fees
 Year Ended June 30, 2008

Investment Manager	Investment Management Fees	Percentage of Average Portfolio
LSV Asset Management	\$ 793,770	0.53 %
Nicholas Applegate	386,090	0.82
Denver Investment Advisors	320,890	0.74
State Street	288,931	0.11
Holland Capital	172,287	0.42
William Blair & Company	172,134	0.40
Income Research & Management	164,266	0.12
Galliard Capital Management	144,739	0.18
C.S. McKee	138,485	0.11
New Amsterdam Partners	136,292	0.33
Piedmont Investment Advisors	74,487	0.28
Pugh Capital	61,301	0.23
Rhumblin Advisers	44,951	0.10
Earnest Partners	43,906	0.11
Great Lakes Advisors	29,813	0.07
Total	\$ 2,972,342	0.25 %

State of Illinois
Illinois Student Assistance Commission

Service Efforts and Accomplishments (Unaudited)
Two Years Ended June 30, 2008 and 2007

Mission Statement: To reduce financial barriers to post-secondary education for students who might otherwise be prohibited from attending college and to assist specific segments of the Illinois population with college costs.

- Program Goals:**
1. Provide equal educational opportunity to post-secondary education of Illinois citizens.

Objectives:

 - a. Grant dollars awarded per staff positions enrollment will increase at least as much as the mean weighted increases in tuition fees.
 - b. The administrative to program dollar ratio will not fall below a level sufficient to support the successful and timely delivery of program dollars to qualified recipients.
 2. Improve college affordability for low and middle-income families.
 - a. Need-based grant aid as a proportion of college costs will increase annually.
 - b. The average constant dollar taxable income of Monetary Award Program (MAP) eligible students and families will increase annually.
 3. Reward military service as well as a recruitment incentive for the Illinois National Guard.
 - a. The number of students utilizing the National Guard Grant Program will remain equal to 18,000 per year, or increase.
 4. Recognize and reward academic achievement of Illinois high school seniors.
 - a. The number of students recognized through the Merit Recognition Scholarship Program (MRSP) will remain constant or increase.
 5. Increase the number of teachers and workers in designated shortage fields.
 - a. The number of students receiving scholarships to pursue careers in worker shortage areas will increase annually.

	<u>Fiscal Year 2007 Actual</u>		<u>Fiscal Year 2008 Actual</u>
<u>Input Indicators</u>			
Total expenditures - all sources (in thousands)	\$ 464,927		\$ 438,824
Total expenditures - state appropriated funds (in thousands)	\$ 464,927		\$ 438,824
Average monthly full-time equivalent employees	80		80
<u>Output Indicators</u>			
Number of students receiving MAP awards	146,635		145,543
Number of students benefiting from service programs	13,668		13,436
Number of students participating in teacher and worker shortage programs	1,764		1,643
Number of applications filed	576,557		597,441
Number of students receiving MRSP awards	-		-
<u>Outcome Indicators</u>			
Grant aid as a proportion of tuition and fees	28 %		26 %
Grant aid per undergraduate full-time equivalent students (in dollars)	\$ 956		\$ 903
Percentage of undergraduates at Illinois colleges receiving state need-based aid	27 %		26 %
Proportion of merit award winners attending in-state schools	N/A		N/A
Average taxable income of families eligible for MAP grants (in dollars)	\$ 21,960		\$ 22,435
<u>External Benchmarks</u>			
National ranking of maximum award	12		12
National ranking of need-based aid per undergraduate student (in dollars)	6		4
National ranking of total grant dollars per population aged 18-24	10		11
National ranking of student aid as a percentage of Higher Education budget	9		9
<u>Efficiency/Cost-Effectiveness Indicators</u>			
Proportion of General Revenue Fund administrative spending per \$ awarded	1.60 %		1.60 %

State of Illinois
 Illinois Student Assistance Commission

Service Efforts and Accomplishments (Unaudited)
 Two Years Ended June 30, 2008 and 2007

Mission Statement: To facilitate the delivery of low-interest loans to students and their families by administering the Federal Family Education Loan Program (FFELP) and to improve student access to loans.

- Program Goals:**
1. Provide an efficient means for students and schools to apply for and receive loan funds from participating lenders.

Objectives:

 - a. Borrower satisfaction ratings will continue to show satisfaction with ISAC services.
 2. Counsel and educate student borrowers who are delinquent on their loan payments.
 - a. ISAC's default rates will stay below the national average.
 3. Collect outstanding loan balances from defaulted borrowers.
 - a. Collections on individual defaulted accounts will be optimized.
 4. Provide loan funds to an increasing number of students through institutions that collaborated with both the Illinois guaranty agency and the secondary market.
 - a. An increasing number of Illinois students who need to use loans to finance their college education will obtain them from ISAC.

	Fiscal Year 2007 Actual	Fiscal Year 2008 Actual
<u>Input Indicators</u>		
Total expenditures - all sources (in thousands)	\$ 213,269	\$ 254,861
Total expenditures - state appropriated funds (in thousands)	\$ 213,269	\$ 254,861
Average monthly full-time equivalent employees	256	255
<u>Output Indicators</u>		
Number of loans guaranteed	199,272	198,227
Dollar value of new loan guarantees (in millions)	\$ 1,079.0	\$ 1,131.5
Number of defaults averted	70,058	67,056
Dollar value of default collections (in millions)	\$ 91.4	\$ 94.5
<u>Outcome Indicators</u>		
Number of defaults	30,227	32,759
Percent of Illinois student loans guaranteed by ISAC	42 %	39 %
Percent of delinquent accounts resolved	70 %	67 %
Borrower satisfaction ratings	88 %	83 %
<u>Efficiency/Cost-Effectiveness Indicators</u>		
Cost per dollar guaranteed (in dollars)	\$ 0.02	\$ 0.02
Costs per dollar collected (in dollars)	\$ 0.17	\$ 0.17

State of Illinois
 Illinois Student Assistance Commission

Service Efforts and Accomplishments (Unaudited)
 Two Years Ended June 30, 2008 and 2007

Mission Statement: To encourage and better enable Illinois families to finance the cost of higher education.

- Program Goals:**
1. Increase the number of families purchasing College Illinois! Contracts.

Objectives:

 - a. The number of families participating in College Illinois! and the amount of contracts administered shall increase each year.
 2. Expand outreach efforts to meet the informational needs of prospective purchasers.

Objectives:

 - a. The effectiveness of program promotional efforts will improve each year.

	Fiscal Year 2007 Actual	Fiscal Year 2008 Actual
<u>Input Indicators</u>		
Total expenditures - all sources (in thousands)	\$ 6,957	\$ 7,686
Average monthly full-time equivalent employees	5	5
<u>Output Indicators</u>		
College Illinois! contracts purchased (excluding cancellations)	4,386	4,850
Cumulative College Illinois! contracts purchased	57,705	62,526
Total Internet site visits (through enrollment period)	1,249,077	1,463,200
Total phone calls (through enrollment period)	6,645	4,275
Total TV/Radio ads aired	27,265	10,001
Total newspaper articles	637	190
Total number of news reports	86	270
Annual contract sales (in millions)	\$ 126	\$ 144
<u>Outcome Indicators</u>		
Percent of population covered by marketing efforts	98 %	98 %
Minority beneficiaries as a percent of total contracts	10 %	18 %
Estimated years of college purchased	11,260	11,822
Cumulative years of college purchased	179,890	191,712
<u>External Benchmarks</u>		
College Illinois! National rank among other prepaid tuition programs	7	7
<u>Efficiency/Cost-Effectiveness Indicators</u>		
Media cost per contract (in dollars)	\$ 203	\$ 230
Total marketing cost per contract (in dollars)	\$ 388	\$ 441

State of Illinois
Illinois Student Assistance Commission

Schedule of Federal and Nonfederal Expenditures
Year Ended June 30, 2008
(expressed in thousands)

	Amount	Percent
Federal Expenditures (A)	\$ 227,175	31.07%
Nonfederal Funds	<u>503,975</u>	<u>68.93%</u>
Totals (B)	<u>\$ 731,150</u>	<u>100.00%</u>

Source:

- (A) Schedule of Expenditures of Federal Awards
- (B) Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and the Statement of Activities - Proprietary Funds, for year ended June 30, 2008 (excluding IDAPP).