State of Illinois
Illinois Student Assistance Commission

Financial Audit
For the Year Ended June 30, 2011

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

State of Illinois
Illinois Student Assistance Commission
Financial Audit
For the Year Ended June 30, 2011

Table of Contents

Table of Contents

Agency Officials

Executive Director (through July 8, 2011)	Andrew Davis
Interim Executive Director (July 8, 2011 – February 21, 2012)	John Sinsheimer
Executive Director (February 21, 2012 – Current)	Eric Zarnikow
Interim Chief Financial Officer (July 1, 2010 – March 1, 2011)	Shoba Nandhan
Chief Financial Officer (March 1, 2011 – Current)	Shoba Nandhan
General Counsel (July 1, 2010 – February 11, 2011)	Kim Barker Lee
Interim General Counsel (February 12, 2011 – June 7, 2011)	Karen Salas
General Counsel (June 8, 2011 – Current)	Annie Pike

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

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified matters involving the Commission's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are described in the accompanying schedule of findings listed in the table of contents as:

- finding 11-1 (Procurement Law Not Followed)
- finding 11-2 (Noncompliance with Investment Policy)
- finding 11-3 (Financial Statement Preparation)
- finding 11-4 (Alternative Investment Oversight and Manager Fees)
- finding 11-7 (Financial Reporting Process)

The significant deficiencies are described in the accompanying schedule of findings listed in the table of contents as:

- finding 11-5 (Timeliness of Actuarial Valuation Report)
- finding 11-6 (Competitive Procurement Requirements Not Followed)
- finding 11-8 (Student Loan Payments Not Processed Correctly)
- finding 11-9 (Noncompliance with Write-Off Policy)

The auditors also identified instances of noncompliance and other matters. The instances of noncompliance and other matters are described in the accompanying schedule of findings listed in the table of contents as finding 11-1 (Procurement Law Not Followed), finding 11-2 (Noncompliance with Investment Policy), finding 11-6 (Competitive Procurement Requirements Not Followed), finding 11-9 (Noncompliance with Write-Off Policy) and finding 11-10 (Debt Covenant Violation).

Summary (Continued)

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on January 23, 2012. Attending were:

Illinois Student Assistance Commission	
John Sinsheimer	Interim Executive Director
Shoba Nandhan	Chief Financial Officer
Annie Pike (via phone)	General Counsel
Anita Geter	Director-Internal Audit
Brian Begrowicz	Deputy Chief Financial Officer
Anne Hunter	Assistant Comptroller
Wendy Funk	Director of Accounting and Finance
McGladrey & Pullen, LLP	
Linda Abernethy	Partner
Rolake Adedara	Director
Office of the Auditor General	
Jon Fox	Audit Manager

The responses to the recommendations were provided by Shoba Nandhan in a letter dated March 16, 2012.

McGladrey

Independent Auditors' Report

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

Ms. Kym Hubbard
Honorable Chair of the Governing Board
Illinois Student Assistance Commission

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission) as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, as of July 1, 2010, the Commission adopted the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

As discussed in Note 2, the financial statements of the Commission are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2011, and its changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As further discussed in Note 14, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2011 of $262 million.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Commission, as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2012, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 27, 2012

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
June 30, 2011
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 45,824	$ -	$ 45,824
Cash and cash equivalents	496	59,643	60,139
Investments	-	3,997	3,997
Receivables			
Intergovernmental	-	33,946	33,946
Accrued interest on investments	-	3	3
Default fee	-	(15)	(15)
Other	9	-	9
Securities lending collateral	-	15,343	15,343
Due from other State funds	-	14	14
Due from other ISAC funds	(33,497)	33,497	-
Total current assets - unrestricted	12,832	146,428	159,260
Restricted			
Cash and cash equivalents	-	56,638	56,638
Investments	-	19,606	19,606
Receivables			
Student loans	-	127,702	127,702
Accrued interest on loans	-	17,209	17,209
Accrued interest on investments	-	127	127
Unamortized debt issuance costs	-	798	798
Total current assets - restricted	-	222,080	222,080
Non-current			
Unrestricted			
Investments	-	1,124,443	1,124,443
Notes receivable	4,144	-	4,144
Capital assets, net of accumulated depreciation	12,088	700	12,788
Total non-current assets - unrestricted	16,232	1,125,143	1,141,375
Restricted			
Student loans receivable, net	-	812,148	812,148
Unamortized debt issuance costs	-	6,083	6,083
Total non-current assets - restricted	-	818,231	818,231
Total assets	$ 29,064	$ 2,311,882	$ 2,340,946

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
June 30, 2011
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 11,582	$ 18,772	$ 30,354
Accrued interest payable	-	1,518	1,518
Tuition payable	-	78,277	78,277
Accreted tuition payable	-	6,897	6,897
Federal special allowance and interest subsidy	-	2,541	2,541
Due to other State funds	10	314	324
Due to State of Illinois component units	843	115	958
Deferred revenue	10	-	10
Securities lending collateral obligation	-	15,343	15,343
Intergovernmental payable	-	7,791	7,791
Due to U.S. Department of Education	329	-	329
Compensated absences	-	324	324
Installment purchase obligation	1,755	-	1,755
Line of credit	-	314,457	314,457
Total current liabilities	14,529	446,349	460,878
Non-current			
Tuition payable	-	828,374	828,374
Accreted tuition payable	-	478,781	478,781
Revenue bonds payable and notes, net	-	704,284	704,284
Installment purchase obligation	1,845	-	1,845
Compensated absences	-	2,110	2,110
Total non-current liabilities	1,845	2,013,549	2,015,394
Total liabilities	16,374	2,459,898	2,476,272
Net Assets			
Invested in capital assets, net of related debt	8,488	700	9,188
Restricted	-	64,057	64,057
Unrestricted	4,202	(212,773)	(208,571)
Total net assets	$ 12,690	$ (148,016)	$ (135,326)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Governmental activities			
Education			
Scholarships, awards and grants	$ 422,326	$ -	$ 11,149
Interest	273	-	-
Total governmental activities	422,599	-	11,149
Business-type activities			
Education			
Student loan purchase program	44,347	42,709	(7,990)
Prepaid tuition	94,405	1,356	168,894
Loan guarantee program	238,506	31,178	205,015
Total business-type activities	377,258	75,243	365,919
Total Commission	$ 799,857	$ 75,243	$ 377,068

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

Change in net assets

Net assets July 1, 2010

Net assets June 30, 2011

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
$ (411,177)	$ -	$ (411,177)
(273)	-	(273)
(411,450)	-	(411,450)
-	(9,628)	(9,628)
-	75,845	75,845
-	(2,313)	(2,313)
-	63,904	63,904
(411,450)	63,904	(347,546)
455,081	-	455,081
(248)	-	(248)
(12,255)	-	(12,255)
-	220	220
187	-	187
(2)	-	(2)
(31,554)	31,554	-
411,209	31,774	442,983
(241)	95,678	95,437
12,931	(243,694)	(230,763)
$ 12,690	$ (148,016)	$ (135,326)

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2011
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 45,824	$ -	$ 45,824
Cash and cash equivalents	1	495	496
Other receivables	-	9	9
Due from other ISAC funds	3	-	3
Notes receivable, net of allowance of $13,512	4,144	-	4,144
Total assets	$ 49,972	$ 504	$ 50,476
Liabilities			
Accounts payable and accrued liabilities	$ 11,481	$ 101	$ 11,582
Due to other ISAC funds	33,500	-	33,500
Due to other State funds	-	10	10
Due to State of Illinois component units	843	-	843
Deferred revenues	-	10	10
Due to U.S. Department of Education	-	329	329
Total liabilities	45,824	450	46,274
Fund Balances			
Nonspendable - notes receivable	4,144	-	4,144
Committed	-	54	54
Unassigned	4	-	4
Total fund balances	4,148	54	4,202
Total liabilities and fund balances	$ 49,972	$ 504	$ 50,476

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets
June 30, 2011
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds		$ 4,202
Amounts reported for governmental activities in the Statement of Net Assets are different due to:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 2,700	
Buildings	18,311	
Equipment	509	
Accumulated depreciation	(9,432)	
Total capital assets		12,088
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Installment purchase obligations		(3,600)
Net assets of governmental activities		$ 12,690

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 11,149	$ 11,149
Other	8	179	187
Total revenues	8	11,328	11,336
Expenditures			
Education			
Scholarships, awards and grants	410,558	11,314	421,872
Debt Service			
Principal	-	1,670	1,670
Interest	-	273	273
Total expenditures	410,558	13,257	423,815
Deficiency of revenues over expenditures	(410,550)	(1,929)	(412,479)
Other sources (uses) of financial resources			
Appropriations from State resources	455,031	50	455,081
Lapsed appropriations	(248)	-	(248)
Receipts remitted to State Treasury	(12,255)	-	(12,255)
Amount of SAMS transfer in	(2)	-	(2)
Transfers in	227	1,943	2,170
Transfers out	(33,500)	(224)	(33,724)
Net other sources (uses) of financial resources	409,253	1,769	411,022
Net change in fund balance	(1,297)	(160)	(1,457)
Fund balance, July 1, 2010	5,445	214	5,659
Fund balance, June 30, 2011	$ 4,148	$ 54	$ 4,202

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$	(1,457)
Amounts reported for governmental activities in the Statement of Activities are different due to:		
Governmental funds report capital outlays as expenditures while the Statement of Activities reports depreciation expense to allocate those expenditures over the life of the assets.		(454)
Payment of principal on installment purchases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		1,670
Change in net assets of governmental activities	$	(241)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Enterprise Funds
June 30, 2011
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Assets				
Current				
Unrestricted				
Cash and cash equivalents	$ 10,735	$ 7,833	$ 41,075	$ 59,643
Investments	3,997	-	-	3,997
Receivables				
Intergovernmental	-	-	33,946	33,946
Accrued interest on investments	-	-	3	3
Default fee	-	-	(15)	(15)
Securities lending collateral	-	-	15,343	15,343
Due from other State funds	-	-	14	14
Due from other ISAC funds	-	-	38,051	38,051
Total current assets - unrestricted	14,732	7,833	128,417	150,982
Restricted				
Cash and cash equivalents	56,638	-	-	56,638
Investments	19,606	-	-	19,606
Receivables				
Student loans receivable, net of allowance of $3,877	127,702	-	-	127,702
Accrued interest on loans	17,209	-	-	17,209
Accrued interest on investments	127	-	-	127
Due from other ISAC funds	1	-	-	1
Unamortized debt issuance costs	798	-	-	798
Total current assets - restricted	222,081	-	-	222,081
Noncurrent				
Unrestricted				
Investments	-	1,124,443	-	1,124,443
Capital assets, net of accumulated depreciation	11	-	689	700
Total noncurrent assets - unrestricted	11	1,124,443	689	1,125,143
Restricted				
Student loans receivable, net of allowance of $23,814	812,148	-	-	812,148
Unamortized debt issuance costs	6,083	-	-	6,083
Total noncurrent assets - restricted	818,231	-	-	818,231
Total assets	$ 1,055,055	$ 1,132,276	$ 129,106	$ 2,316,437

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
Enterprise Funds
June 30, 2011
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 530	$ 1,872	$ 16,370	$ 18,772
Accrued interest payable	1,518	-	-	1,518
Tuition payable	-	78,277	-	78,277
Accreted tuition payable	-	6,897	-	6,897
Federal special allowance and interest subsidy	2,541	-	-	2,541
Due to other ISAC funds	4,551	-	4	4,555
Due to other State funds	-	-	314	314
Due to State of Illinois component units	-	115	-	115
Securities lending collateral obligation	-	-	15,343	15,343
Intergovernmental payable	-	-	7,791	7,791
Compensated absences	22	25	277	324
Line of credit	314,457	-	-	314,457
Total current liabilities	323,619	87,186	40,099	450,904
Noncurrent				
Tuition payable	-	828,374	-	828,374
Accreted tuition payable	-	478,781	-	478,781
Revenue bonds and notes payable, net	704,284	-	-	704,284
Compensated absences	201	66	1,843	2,110
Total noncurrent liabilities	704,485	1,307,221	1,843	2,013,549
Total liabilities	1,028,104	1,394,407	41,942	2,464,453
Net Assets				
Invested in capital assets	11	-	689	700
Restricted	17,513	-	46,544	64,057
Unrestricted	9,427	(262,131)	39,931	(212,773)
Total net assets	26,951	(262,131)	87,164	(148,016)
Total liabilities and net assets	$ 1,055,055	$ 1,132,276	$ 129,106	$ 2,316,437

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Operating revenues				
Investment income				
Interest - student loans	$ 41,428	$ -	$ -	$ 41,428
Income - investments	2,725	168,273	-	170,998
Interest - other	-	621	-	621
Total investment income	44,153	168,894	-	213,047
Other operating revenues				
Fees	1,281	1,356	-	2,637
Loan processing and issuance fees	-	-	(319)	(319)
Portfolio maintenance fee	-	-	3,804	3,804
Direct consolidation cost	-	-	8,199	8,199
Licenses and fees	-	-	(56)	(56)
Collections on student loans previously reimbursed by the U.S. Department of Education	-	-	19,514	19,514
Other	-	-	36	36
Total other operating revenues	1,281	1,356	31,178	33,815
Total operating revenues	45,434	170,250	31,178	246,862
Operating expenses				
Interest and other student loan expenses				
Interest expense				
Revenue bonds and notes	9,123	-	-	9,123
Amortization of loan premiums and fees	2,775	-	-	2,775
Other student loan fees	2,623	-	-	2,623
Provision for loan losses	18,576	-	-	18,576
Total interest and other student loan expenses	33,097	-	-	33,097

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds (Continued)
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Other operating expenses				
Salaries and employee benefits	$ 2,481	$ 3,277	$ 23,741	$ 29,499
Loan guarantee	-	-	212,838	212,838
External loan servicing	4,022	-	-	4,022
Accreted tuition expenses	-	83,916	-	83,916
Occupancy expense	21	-	-	21
Investment management fees	-	1,684	-	1,684
Investment advisory fees	-	1,921	-	1,921
Management and professional services	2,465	3,607	1,897	7,969
ISAC shared expense	2,100	-	-	2,100
Depreciation	14	-	30	44
Other	147	-	-	147
Total other operating expenses	11,250	94,405	238,506	344,161
Total operating expenses	44,347	94,405	238,506	377,258
Operating income (loss)	1,087	75,845	(207,328)	(130,396)
Non-operating revenues (expenses)				
Federal government special allowance and interest subsidy	(10,715)	-	-	(10,715)
Federal government	-	-	205,015	205,015
Interest revenue	-	-	220	220
Total non-operating revenues	(10,715)	-	205,235	194,520
Income (loss) before transfers	(9,628)	75,845	(2,093)	64,124
Transfers in	-	-	33,500	33,500
Transfers out	-	(88)	(1,858)	(1,946)
Change in net assets	(9,628)	75,757	29,549	95,678
Net assets (deficit), July 1, 2010	36,579	(337,888)	57,615	(243,694)
Net assets (deficit), June 30, 2011	$ 26,951	$ (262,131)	$ 87,164	$ (148,016)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Cash flows from operating activities				
Cash received from fees and other charges	$ -	$ 1,356	$ 105,723	$ 107,079
Cash paid for refund of contracts and tuition payments	-	(24,955)	-	(24,955)
Cash payments to suppliers for goods and services	(9,709)	(2,657)	(2,050)	(14,416)
Cash payments to employees for services	(2,799)	(3,298)	(18,389)	(24,486)
Cash payments for loan guarantees	-	-	(221,697)	(221,697)
Cash receipts from student loans and fees	217,399	-	-	217,399
Cash receipts from prepaid tuition contracts	-	89,028	-	89,028
Cash payments for other operating activities	-	-	(79,047)	(79,047)
Cash payments for student loans	(10,038)	-	-	(10,038)
Cash payments for tuition and accretion	-	(78,690)	-	(78,690)
Net cash provided (used) by operating activities	194,853	(19,216)	(215,460)	(39,823)
Cash flows from noncapital financing activities				
Principal paid on revenue bonds and other borrowings	(954,044)	-	-	(954,044)
Proceeds from revenue bonds and other borrowings	589,966	-	-	589,966
Interest paid on revenue bonds and other borrowings	(11,648)	-	-	(11,648)
Special allowance and interest subsidy	(10,994)	-	-	(10,994)
Transfers in	-	-	24,705	24,705
Transfers out	-	(88)	(26,561)	(26,649)
Federal government grants	-	-	209,535	209,535
Net cash provided (used) by noncapital financing activities	(386,720)	(88)	207,679	(179,129)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	-	-	(569)	(569)
Cash flows from investing activities				
Purchase of investment securities	(189,336)	(556,616)	-	(745,952)
Proceeds from sales and maturities of investment securities	395,708	546,785	-	942,493
Interest and dividends on investments	3,029	23,843	250	27,122
Cash paid to investment managers	-	(1,684)	-	(1,684)
Net cash provided (used) by investing activities	209,401	12,328	250	221,979
Increase (decrease) in cash and cash equivalents	17,534	(6,976)	(8,100)	2,458
Cash and cash equivalents, July 1, 2010	49,839	14,809	49,175	113,823
Cash and cash equivalents, June 30, 2011	$ 67,373	$ 7,833	$ 41,075	$ 116,281

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds (Continued)
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ 1,087	$ 75,845	$(207,328)	$ (130,396)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	14	-	30	44
Investment income	(2,725)	(165,289)	-	(168,014)
Interest expense	9,123	-	-	9,123
Amortization of student loan premiums and fees	2,775	-	-	2,775
Accreted tuition expense	-	83,916	-	83,916
Provision for loan losses	18,576	-	-	18,576
Change in assets and liabilities				
Notes receivable	16,520	-	-	16,520
Student loans receivable	145,645	-	-	145,645
Accounts receivable	-	-	81	81
Intergovernmental receivables	-	-	249	249
Accrued interest - loans and notes	4,069	-	-	4,069
Due from other ISAC funds	-	-	(629)	(629)
Due from other funds	5	-	(14)	(9)
Accounts payable and accrued liabilities	(529)	925	(7,188)	(6,792)
Intergovernmental payables	-	-	(544)	(544)
Due to other ISAC funds	-	-	(4)	(4)
Due to other State funds and component units	474	17	163	654
Tuition payable	-	(14,617)	-	(14,617)
Compensated absences	(181)	(13)	(274)	(468)
Other	-	-	(2)	(2)
Total adjustments	193,766	(95,061)	(8,132)	90,573
Net cash provided (used) by operating activities	$ 194,853	$ (19,216)	$(215,460)	$ (39,823)
Supplemental disclosure of noncash transactions:				
Net appreciation in fair value of investments	$ 538	$ 143,929	$ -	$ 144,467

See Notes to Financial Statements.

Note 1. Organization

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

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

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

A. Monetary Award Program (MAP)

This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provides up to $4,968 in fiscal year 2011 for the payment of tuition and mandatory fees. The program is primarily funded by the General Revenue Fund appropriation.

B. Illinois Veteran Grant

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

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

C. Illinois Incentive for Access Program

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

Note 1. Organization (Continued)

D. Illinois National Guard Grant

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

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

E. Illinois Future Teacher Corps Scholarships

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

F. Illinois Scholars Program

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

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

G. Minority Teachers Scholarship Program

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

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

Note 1. Organization (Continued)

H. Nurse Educator Scholarship Program

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

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

I. Ancillary Award Programs

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

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

J. Robert C. Byrd Honors Scholarship Program

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

K. Federal Family Education Loan Program (FFELP)

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

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

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

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

Note 1. Organization (Continued)

L. Higher Education License Plate Grant Program

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

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

M. *College Illinois!®*

Legislation authorizing ISAC to administer an Illinois Prepaid Tuition Program was passed in November 1997. The Illinois Prepaid Tuition Program is administered by ISAC with advice and counsel from an investment advisory panel consisting of seven members appointed by ISAC. The purpose of this program is to provide Illinois families with an affordable tax-advantaged method to pay for college. Illinois Prepaid Tuition contracts will allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges. Benefits of the contracts can also be used at private and out-of-state colleges and universities. Contracts can be purchased in a lump sum payment or in installments. The Illinois Prepaid Tuition Program has been named *College Illinois!®*

N. Illinois Designated Account Purchase Program (IDAPP)

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

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

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

O. Alternative Loan Program

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

Note 2. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

2) Fiscal dependency on the primary government.

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

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

B. Basis of Presentation

***Government-wide Statements*.** The government-wide statement of net assets and statement of activities report the overall financial activity of the Commission. Eliminations have been made to minimize the double counting of internal activities of the Commission. These statements distinguish between the *governmental* and *business-type* activities of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are clearly identifiable with a specific function, including each activity's share of allocated (shared) costs. Interest expense related to borrowing for student loaning activities (business-type activities) totaling $11,898 (including amortization) is included in student loan purchase program expense in the Statement of Activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

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

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

For fiscal year 2011, the Commission did not receive appropriations through the General Fund - Educational Assistance Account. This account is a shared account and its activity (if any) attributed to the operations of the Commission is combined with the General Revenue Account for report presentation purposes. Any monies received by this fund are held in the State Treasury.

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Additionally, the Commission administers the following fund types:

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

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

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

C. Basis of Accounting

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

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

Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest revenue is a significant revenue source, which is susceptible to accrual. All other revenue sources such as fines, penalties, licenses and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Note 2. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

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

D. Shared Fund Presentation

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

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

<u>Unexpended Appropriation</u>

This "asset" account represents lapse period warrants issued between July and December for fiscal year 2011 in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

<u>Appropriations from State Resources</u>

This "other financing source" account represents the final legally adopted appropriation according to SAMS records. The amounts reported are net of any re-appropriations to subsequent years and the difference between current and prior year liabilities for re-appropriated accounts. Re-appropriations reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting a portion of the appropriation in more than one fiscal year.

<u>Lapsed Appropriations</u>

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 18-month period from July to December of the following year and re-appropriations to subsequent years according to SAMS records.

<u>Receipts Remitted to State Treasury</u>

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

<u>Amount of SAMS Transfer In</u>

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

Note 2. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

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

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

Unexpended appropriations are available for subsequent expenditures to the extent that encumbrances have been incurred at June 30, provided they are presented for payment during the succeeding six-month lapse period. Certain appropriations referred to as "reappropriations" represent the General Assembly's approval for continuation of a prior year's program which requires additional time for completion.

F. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand, cash in banks for locally held funds, and highly liquid investments purchased with maturities of three months or less. Due to the nature of IDAPP and *College Illinois!*® activities, loan and/or investment activities are considered operating activities.

G. Investments

ISAC presents investments on its Statement of Net Assets at fair value. The net appreciation or depreciation in the fair value of investments is included as investment income in the financial statements.

H. Student Loans Receivable/Premiums

The interest rate charged on IDAPP's student loans receivable is considered market rate. Therefore, the carrying amount of student loans receivable is considered a reasonable estimate of their market value.

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

Note 2. Summary of Significant Accounting Policies (Continued)

I. Allowance for Possible Loan Losses

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

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

J. Interfund Transactions

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

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

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

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

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

K. Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

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

Note 2. Summary of Significant Accounting Policies (Continued)

L. Restricted Assets

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

M. Encumbrances

The Commission employs encumbrance accounting for all Governmental Fund types. All outstanding contracts, purchase orders and other commitments for goods and services (if any) that have been received/rendered at June 30, but delivered and invoiced during the State's lapse period, are reported as restricted, committed or assigned fund balances, as appropriate, not as expenditures or liabilities. Encumbrances are recorded as expenditures on the budgetary basis for such funds.

N. Compensated Absences

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

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

O. Debt Premiums, Discounts, and Issuance Costs

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

P. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 53,644 contracts held by the fund as of June 30, 2011.

Note 2. Summary of Significant Accounting Policies (Continued)

Q. Fund Balances

Effective July 1, 2010, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. In the governmental fund financial statements, fund balances are reported in the following categories:

Nonspendable – This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted – This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Committed – This consists of amounts constrained by limitations that the State imposes upon itself through legislation by its governing body. The commitment amount will be binding unless removed or amended in the same manner in which it is created.

Assigned – This consists of net amounts that are constrained by the Commission's intent to be used for specific purposes, but that are neither restricted nor committed. The Commission is authorized to assign funds by the State in accordance with the Higher Education Assistance Act (110 ILCS 947/20).

Unassigned – This includes the residual fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

In instances where restricted, committed and assigned fund balances are available for use, the Commission's policy is to use restricted resources first, followed by committed resources, then assigned resources, as needed.

R. Net Assets

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

S. Use of Estimates

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

T. Funding and Actuarial Assumptions

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

Note 3. Deposits and Investments

A. Authorized Deposits and Investments

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

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

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

Note 3. Deposits and Investments (Continued)

A. Authorized Deposits and Investments (Continued)

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

B. Custodial Credit Risk - Deposits

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

Funds in the custody of the State Treasurer, or in transit, totaled $49,127 at June 30, 2011. These amounts are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Commission does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report. As of June 30, 2011, locally held deposits were not exposed to custodial credit risk.

C. Investments

Other than the securities lending program administered by the State Treasurer, in which the Commission participates, all investments held by the Commission as of June 30, 2011, pertain to the Illinois Designated Account Purchase Program (IDAPP), and the Illinois Prepaid Tuition Program (*College Illinois!*®) fund, both of which are major enterprise funds.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP)

Interest Rate Risk

IDAPP invests its funds in a manner that meets its cash flow needs while conforming to state statutes governing the investment of funds, including, without limitation, the Investment Act and all requirements/limitations of the various bond documents applicable to bonds and other securities issued by ISAC. The portfolio's maturity characteristics at June 30, 2011 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Federal agencies	$ 19,606	4.8
Government securities (U.S. treasury notes and bonds)	3,997	0.6
Total	$ 23,603	
Portfolio weighted average maturity		4.0

Credit Risk

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

As of June 30, 2011, IDAPP's investments were subject to credit risk (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government, which are not considered to have credit risk) as follows:

		Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's
Federal agencies	$ 19,606	AAA	Aaa
Money market securities	55,709	AAAm	Aaa

Custodial Credit Risk

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

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

IDAPP's investments total $79,312 of which $75,314 is held by the various trustees in the trust's name.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Concentration of Credit Risk

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

As of June 30, 2011, the following investments (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) exceed 5% or more of IDAPP's total investment portfolio:

Investment	Fair Value	Percentage of Portfolio
Federal Farm Credit Bank	$ 13,757	17.35%

Foreign Currency Risk

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

Illinois Prepaid Tuition Program

The Commission has retained State Street Global Advisors, LSV Asset Management, Income Research Management, RhumbLine Advisors, Pugh Capital, C.S. McKee Investment, Piedmont Investment, Security Capital Research, Alinda Infrastructure, Portfolio Advisors, JP Morgan AIRRO, Morgan Stanley, Balestra Capital, Neuberger Berman, Pinnacle Natural Resource, Reynoso Asset, Ativo, MacKay Shields, Harris/Pyrford, Camelot Secondary, Kennedy Wilson, Lyrical-Antheus, Mesirow Value, and DDJ Distressed Fund as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. The Program has contracted with Marquette Associates to evaluate the investment performance of the Program on a quarterly basis. Use of funds invested on behalf of the Illinois Prepaid Tuition Program by the investment managers is restricted to the payout of tuition and fee benefits for program beneficiaries.

As of June 30, 2011, 23.9% of the funds were invested in Domestic Equities, 21.6% in Domestic Fixed Income, 9.8% in International Equities, 1.7% in Infrastructure Funds, 14.1% in Hedge Funds, 11.5% in Private Equity Funds, 15.3% in Real Estate, 0.3% in Illiquid Securities and 1.8% as Cash and Equivalents. Investments of the Program, other than alternative investments and real estate, are recorded at fair value based on quoted market prices. Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities - (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Investments – fair values as determined by the Program in conjunction with its investment managers and investment advisors; (5) Alternative Investments (Private Equity, Hedge Funds and Infrastructure Funds) – fair values as determined by the Program in conjunction with its investment managers and investment advisors.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2011 are presented below at fair value by investment type and by investment manager (or Custodian).

Investment Managers
Asset Allocation
June 30, 2011

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Core	C.S. Mckee	$ 71,260	6.29%
Fixed Income-Core	Piedmont	33,302	2.94%
Fixed Income-Core	Pugh Capital	42,095	3.72%
Fixed Income-Intermediate	Income Research Management	64,299	5.68%
TIPS Account	N/A	33,714	2.98%
Total Fixed Income Portfolio		**244,670**	**21.61%**
Real Estate-Debt/Equity	SCM Capital Stable Income	60,086	5.31%
Real Estate-Preferred	SCM Capital Preferred Growth	47,714	4.21%
Real Estate-Value Added	Kennedy Wilson Property III	23,392	2.07%
Real Estate-Value Added	Kennedy Wilson Property IV	19,074	1.68%
Real Estate-Opportunistic	Lyrical-Antheus Realty III	18,280	1.61%
Real Estate-Value Added	Mesirow Value	4,295	0.38%
Total Real Estate		**172,841**	**15.26%**
Large-Cap Core Equity	SSgA S&P 500 Index	77,616	6.86%
All-Cap Core Equity	RhumbLine Advisors	193,073	17.05%
Total Domestic Equity		**270,689**	**23.91%**
International Large-Cap Equity	Ativo	31,936	2.82%
International Large-Cap Equity	MacKay Shields	30,134	2.66%
International Large-Cap Equity	Harris/Pyrford	32,297	2.85%
International Core Equity	SSgA MSCI EAFE	16,150	1.43%
International Core Equity	LSV Asset Management	7	0.00%
Total International Equity		**110,524**	**9.76%**
Infrastructure	Alinda Capital II	19,635	1.73%
Total Infrastructure		**19,635**	**1.73%**
Hedge FoFs	Balestra Spectrum II	55,224	4.88%
Hedge FoFs	NB Diversified Arbitrage	27,167	2.40%
Hedge FoFs	Pinnacle Natural Resources	56,102	4.96%
Hedge Fund-Market Neutral	Reynoso	21,678	1.91%
Total Hedge Fund		**160,171**	**14.15%**

(Continued)

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Investment Managers
Asset Allocation
June 30, 2011

Asset Class	Investment Manager	Fair Value	Actual Allocation
Private Equity FoFs Secondary	Camelot Secondary Fund	$ 14,966	1.32%
Private Equity Co-Invst	Camelot Co-Investment	18,732	1.66%
Private Equity FoFs Secondary	Morgan Stanley Secondary Fund	10,922	0.97%
Private Equity FoFs Secondary	Portfolio Advisors Secondary Fund	10,456	0.92%
Private Equity Distressed	DDJ Distressed Fund	57,393	5.07%
Private Equity Buy-Out	J.P. Morgan AIRRO Fund	17,237	1.52%
Total Private Equity		**129,706**	**11.46%**
Illiquid Securities Liquidating Trust	U.S. Bank (Custodian)	3,402	0.30%
Total Illiquid Securities Liquidating Trust		**3,402**	**0.30%**
Cash and Equivalents	NA	12,805	1.13%
Investment Cash Equivalents		**12,805**	**1.13%**
Total Investments		**1,124,443**	**99.31%**
Cash and Equivalents	N/A	7,833	0.69%
Total Cash Equivalents		**7,833**	**0.69%**
TOTAL PORTFOLIO		**$ 1,132,276**	**100%**

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

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

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

Investment Commitments

Private equity, real estate and infrastructure investment portfolios consist of passive interests in non-publicly traded companies. The Program had outstanding unfunded commitments of approximately $43,000 to private equity partnerships, $67,000 to real estate and $32,000 to infrastructure funds as of June 30, 2011.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Investment Management Fees

The Program has contracted with Commission-approved investment managers to manage the assets of the Program. The investment managers serve as investors and investment advisors to the Program.

For investment managers who invest moneys in publicly held securities the Program pays an investment management fee for investment management services. The investment management fee is based upon contractually agreed upon conditions and provisions. Investment management fees expense for investments in publicly held securities amounted to $1,684 for the year ended June 30, 2011 and is accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets.

For certain investment managers of private equity and real estate funds, the Program pays an investment advisory fee. The investment advisory fees are calculated based upon the terms and conditions agreed upon with each individual contractual agreement. The investment advisory fee expense for private equity and real estate funds amounted to $1,921 for the year ended June 30, 2011 and is accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets.

In addition for administration of the private equity, infrastructure, hedge and real estate funds the program also incurs additional fees such as investment management fees, syndication fees and other costs. These expenses are netted out of the unrealized gain on the market value of the investments. For the fiscal year ending June 30, 2011, these expenses amounted to approximately $7,600 and are accounted for as a part of the income from investment securities in the Statement of Revenues, Expenses, and Changes in Net Assets and the market value of investments on the Statement of Net Assets.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Illinois Prepaid Tuition Program's policy for managing interest rate risk is to ensure that the investment managers comply with its investment policy guidelines. Per the investment policy, the average duration of the portfolio for actively-managed bond managers is not to vary more than +/-50% of the duration of the BarCap Intermediate Government / Credit Index and the BarCap Aggregate Index.

As of June 30, 2011, all portfolios are within the guidelines permitted by the investment policy. The duration of the portfolios, by Manager, for the fixed income securities (excluding real estate portfolio), compared to the benchmark index(s) is as follows:

Fixed Income Portfolio Manager	Portfolio Average Duration	BarCap Aggregate Index	BarCap Int. Government/ Credit Index
Income Research Management	3.7 Years	N/A	3.9 Years
C.S. McKee	4.6 Years	5.2 Years	N/A
Piedmont	5.0 Years	5.2 Years	N/A
Pugh Capital	5.1 Years	5.2 Years	N/A

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Interest Rate Risk (Continued)

Portfolio Weighted Average Maturity

Investment Type		Fair Value	Weighted Average Maturity (in Years)
U.S. treasury bills	$	556	0.2
U.S. treasury notes		25,576	6.1
U.S. treasury bonds		3,640	19.0
U.S. agency obligations		27,290	11.3
Index linked government bonds		46,605	24.8
Municipal/Provincial bonds		5,498	16.5
Corporate debt securities		104,870	6.4
U.S. agency asset-backed securities		4,170	17.1
Guaranteed fixed income		1,476	0.8
Corporate convertible bonds		4,936	7.1
Corporate asset-backed securities		5,280	4.4
Mortgage backed securities:			
Government		30,553	22.8
Commercial		15,409	31.1
Total Fair Value	**$**	**275,859**	
Portfolio weighted average maturity			**13.6**

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The operational guidelines set forth in the Illinois Prepaid Tuition Program investment policy state that securities rated below investment grade by at least two of the three rating agencies (Standard & Poor's, Fitch or Moody's) may not be purchased. If a security is downgraded to below investment grade status by at least two of the three rating agencies the Investment Manager must notify the Chief Investment Officer and the Investment Consultant in writing of the downgrade and their recommended action. Furthermore, the Investment Manager may hold up to 20% of the portfolio in securities rated below investment grade by at least two of the three rating agencies only if the securities are downgraded to below investment grade while the Investment Manager held the security in the portfolio.

The following tables indicate credit ratings, as of June 30, 2011, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

Credit Ratings (Excludes Multiple-Rated Securities)
June 30, 2011

	Total Fair Value	Credit Rating*		
		Moody's	Standard & Poor's	Fitch
Money market mutual funds	$ 22,435	NR	AAA	NR
Illinois Funds	79	NR	AAA	NR
Guaranteed fixed income	1,476	Aaa	AAA	AAA
Mortgage backed securities - government agencies	30,553	NR	NR	NR

*NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

The following tables indicate credit ratings as of June 30, 2011, for debt security investments that received multiple ratings.

Credit Ratings (Corporate Debt Securities)

June 30, 2011

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 1,471
	Corporate debt securities	Aa	14,777
	Corporate debt securities	A	25,886
	Corporate debt securities	Baa	31,497
	Corporate debt securities	Ba	22,897
	Corporate debt securities	NR	8,342
			104,870
Standard and Poor's:	Corporate debt securities	AAA	1,471
	Corporate debt securities	AA	10,598
	Corporate debt securities	A	33,644
	Corporate debt securities	BBB	40,441
	Corporate debt securities	BB	14,872
	Corporate debt securities	NR	3,844
			104,870
Fitch:	Corporate debt securities	AAA	1,290
	Corporate debt securities	AA	6,214
	Corporate debt securities	A	28,487
	Corporate debt securities	BBB	18,607
	Corporate debt securities	BB	29,675
	Corporate debt securities	NR	20,597
			104,870

* NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Corporate Asset-Backed Securities and Municipal/Provincial Bonds)
June 30, 2011

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate asset-backed securities	Aaa	$ 4,366
	Corporate asset-backed securities	NR	914
			5,280
Standard and Poor's:	Corporate asset-backed securities	AAA	3,889
	Corporate asset-backed securities	A	200
	Corporate asset-backed securities	NR	1,191
			5,280
Fitch:	Corporate asset-backed securities	AAA	4,211
	Corporate asset-backed securities	NR	1,069
			5,280
Moody's:	Municipal/Provincial Bonds	Aaa	959
	Municipal/Provincial Bonds	Aa	3,216
	Municipal/Provincial Bonds	A	842
	Municipal/Provincial Bonds	NR	481
			5,498
Standard and Poor's:	Municipal/Provincial Bonds	AAA	959
	Municipal/Provincial Bonds	AA	2,441
	Municipal/Provincial Bonds	A	2,098
			5,498
Fitch:	Municipal/Provincial Bonds	AAA	355
	Municipal/Provincial Bonds	AA	3,289
	Municipal/Provincial Bonds	A	428
	Municipal/Provincial Bonds	NR	1,426
			5,498

* NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Commercial Mortgage-Backed Securities and Corporate Convertible Bonds)
June 30, 2011

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Commercial Mortgage-Backed	Aaa	$ 11,152
	Commercial Mortgage-Backed	Aa	325
	Commercial Mortgage-Backed	A	602
	Commercial Mortgage-Backed	NR	3,330
			15,409
Standard and Poor's:	Commercial Mortgage-Backed	AAA	7,838
	Commercial Mortgage-Backed	AA	1,229
	Commercial Mortgage-Backed	A	2,154
	Commercial Mortgage-Backed	BBB	1,375
	Commercial Mortgage-Backed	NR	2,813
			15,409
Fitch:	Commercial Mortgage-Backed	AAA	9,985
	Commercial Mortgage-Backed	NR	5,424
			15,409
Moody's:	Corporate Convertible Bonds	Baa	1,368
	Corporate Convertible Bonds	NR	3,568
			4,936
Standard and Poor's:	Corporate Convertible Bonds	A	597
	Corporate Convertible Bonds	BBB	1,368
	Corporate Convertible Bonds	NR	2,971
			4,936
Fitch:	Corporate Convertible Bonds	BBB	1,279
	Corporate Convertible Bonds	NR	3,657
			4,936

* NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (U.S. Agency Obligations and Notes and U.S. Agency Asset Backed)
June 30, 2011

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	U.S. Agency Obligations	Aaa	$ 23,346
	U.S. Agency Obligations	A	1,092
	U.S. Agency Obligations	NR	2,852
			27,290
Standard and Poor's:	U.S. Agency Obligations	AAA	24,523
	U.S. Agency Obligations	AA	2,767
			27,290
Fitch:	U.S. Agency Obligations	AAA	9,210
	U.S. Agency Obligations	NR	18,080
			27,290
Moody's:	U.S. Agency Asset Backed	Aaa	3,663
	U.S. Agency Asset Backed	NR	507
			4,170
Standard and Poor's:	U.S. Agency Asset Backed	AAA	3,663
		AA	507
			4,170
Fitch:	U.S. Agency Asset Backed	AAA	4,170
			4,170

* NR - not rated

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Illiquid Trust

As of June 30, 2011, the value of the remaining illiquid trust at U.S. Bank was $3,402. At year-end, the Illinois Prepaid Tuition Program has no credit risk exposure to borrowers.

Custodial Credit Risk

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

As of June 30, 2010, the Program exited its securities lending program. The counterparty continues to hold investments of $3,402 in the Program's name. These investments are subject to custodial credit risk.

Concentration of Credit Risk

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

The operational guidelines as set forth in the Illinois Prepaid Tuition Program's investment policy for actively managed bond managers dictate that no single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation, except for any U.S. Treasury or U.S. agency security, which may comprise no more than 15% of the portfolio's overall allocation after accounting for price appreciation. In the case of investments in active U.S. equity managers and non-U.S. equity managers, the policy states that no single security in the manager's portfolio will comprise more than 10% of its equity allocation at the time of purchase, nor will it be more than 15% of the equity allocation of the portfolio after accounting for price appreciation.

There were no investments in any single issuer (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) that exceeded 5% or more of the total investment portfolio as of June 30, 2011.

Foreign Currency Risk

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

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Foreign Currency Risk (Continued)

The Illinois Prepaid Tuition Program's investment policy authorizes a maximum of 12% of the portfolio for investments in international equities. As of June 30, 2011, 9.8% is invested in international equities. Certain alternative investments hold investments located outside of the United States. Fluctuations in foreign exchange rates between the U.S. dollar and other currencies could have an effect on the amounts realized in U.S. dollars involving these investments. The Program has the following investments in foreign currency.

Investments in Foreign Currency
June 30, 2011

Deposit or Investment Type	Foreign Currency Denomination	Fair Value in U.S. Dollars
Equities, cash and cash equivalents	Australian dollar	$ 3,629
Equities, cash and cash equivalents	British pound sterling	15,559
Equities, cash and cash equivalents	Canadian dollar	4,174
Equities, recoverable taxes, cash and cash equivalents	Danish krone	581
Equities, recoverable taxes, cash and cash equivalents	Euro	26,231
Equities, cash and cash equivalents	Hong Kong dollar	5,094
Equities	Japanese yen	12,181
Equities	Malaysian ringgit	1,202
Equities, cash and cash equivalents	New Israeli shekel	889
Equities, cash and cash equivalents	Norwegian krone	1,959
Equities, cash and cash equivalents	Singapore dollar	2,368
Equities, cash and cash equivalents	Swedish krona	1,424
Equities, cash and cash equivalents	Swiss franc	8,170
Total		$ 83,461

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

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

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

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

During fiscal year 2011, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investment made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. For the portion related to the Commission's non-major proprietary funds, namely the Federal Student Loan Fund and the Student Loan Operating Fund, securities lending collateral was invested in repurchase agreements and the value of securities on loan for the State Treasurer as of June 30, 2011 were $12,664 and $2,279, respectively. Securities on loan are reported at market value with the exception of U.S. Treasury Bills and U.S. Agency Discount notes which are reported at amortized cost.

Note 4. Notes Receivable

Previously IDAPP made loans to institutions of higher education for the purpose of funding loans by such institutions to students or parents of students attending such institutions to finance the students' attendance at such institutions of higher education. In such case, the student loans made with the proceeds have been pledged by the borrowing institution to IDAPP to secure such institution's obligation to IDAPP. The institutions are contractually committed to selling such loans to IDAPP after the loans reach a certain aging status. All such loans were purchased by IDAPP in early fiscal year 2011.

Note 5. Student Loans Receivable

IDAPP's student loans receivable balance is comprised of two types of student loans: loans that were originated or purchased as part of the Federal Family Education Loan Program (FFELP) and loans that are originated as part of IDAPP's Alternative Loan Program. The FFEL Program was eliminated as of June 30, 2010 and as such IDAPP no longer originates FFELP loans.

All FFELP loans originated or purchased by IDAPP prior to October 1, 1993 are guaranteed at 100% by Guarantors in accordance with the Higher Education Act. For loans disbursed between October 1, 1993 and prior to July 1, 2006 the loans are guaranteed at 98%. Loans disbursed after July 1, 2006 are guaranteed at 97%. All guaranteed loans are reinsured by the United States Department of Education (ED). ED has issued detailed loan servicing requirements, which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. For servicing contracts established with outside vendors, contractual provisions require the contractors to indemnify IDAPP for losses due to their negligence in loan servicing. Such recoveries will be recognized as income when received. There are $2,011 of student loans receivable that IDAPP has classified as defaulted loans under the FFEL program. These loans have been submitted to, but have not been reimbursed by, the guarantee agencies as of June 30, 2011.

Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by ED. Alternative Loans are credit-based and a provision for loan loss is set aside for the full amount of the loan when a loan becomes 120 days delinquent. The total amount of Alternative Loans outstanding was $287,090 at June 30, 2011.

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

Management has identified loans that may not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $27,690 as of June 30, 2011, which includes the amount collected from borrowers as an insurance fee for the Alternative Loans.

(All dollar amounts are expressed in thousands)

Note 5. Student Loans Receivable (Continued)

During fiscal year 2011, IDAPP sold $43,875 of loans to ED under ED's loan purchase (PUT) program. Reflected in the Statement of Revenues, Expenses, and Changes in Fund Net Assets is $1,281 of fees received from ED. The fee is comprised of $439 of lender fee reimbursement and $842 of purchase fees.

Federal Student Loan Fund

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

The cash balance in this fund as of June 30, 2011 as reported by ISAC was $34,945. Restricted net assets, which include $33,031 of claims in process, was $46,544. If the federal reinsurance percentage applied to guarantors was temporarily reduced from 95% to either 85% or 75% (for loans disbursed after October 1, 1998) due to excessive default claims and if the State's pledge of full faith and credit were found to be ineffective, then the full collectibility of the non-federal reinsurance amount (i.e. 5% to 25%) of the IDAPP's net student loans receivable of $939,850 at June 30, 2011 is subject to the adequacy of the annual appropriation from the Illinois Student Assistance Commission Federal Student Loan Fund and the reserve funds of the other Guarantors to pay defaulted loan claims. However, based on past loan default experience, management believes that material losses will not be incurred.

Note 6. Federal Special Allowance and Interest Subsidy

The Federal government pays IDAPP or IDAPP owes the federal government an interest subsidy on certain student loans during the time that the student is enrolled in an eligible educational institution or qualifies for deferment status. The federal interest payable at June 30, 2011 was $2,541.

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

Federal Interest Benefits	$	4,952
Special Allowance Payments		184
Excess Interest		(15,851)
Net Amount Paid to DOE	$	(10,715)

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity

A. Balances Due To/From Other Funds

The balances at June 30, 2011 represent amounts due from/to other ISAC and State of Illinois funds and component units as follows:

	Due from Primary Government Funds		Due from Component	
Fund	**ISAC**	**Other State**	**Units**	**Description/Purpose**
General Revenue	$ 3	$ -	$ -	Due from Student Loan Operating Fund for share of defaulted collections.
	3	-	-	
Illinois Designated Account Purchase Program	1	-	-	Due from Federal Student Loan Fund for default claims receivable.
Nonmajor Proprietary - Student Loan Operating	33,500	-	-	Due from General Revenue Fund for MAP grants.
	4,551	-	-	Due from IDAPP for shared services.
	-	14	-	Due from State Board of Education for refund of overpayment.
	38,051	14	-	
	$ 38,055	$ 14	$ -	

	Due to Primary Government Funds		Due to Component	
Fund	**ISAC**	**Other State**	**Units**	**Description/Purpose**
General Revenue	$ 33,500	$ -	$ -	Due to Student Loan Operating Fund for MAP grants.
	-	-	843	Due to State universities for scholarship and MAP grants.
	33,500	-	843	
Illinois Designated Account Purchase Program	4,551	-	-	Due to Student Loan Operating Fund for shared services.
Nonmajor Governmental - College Access Challenge Grant	-	10	-	Due to Central Management Services for communications.
Nonmajor Proprietary - Federal Student Loan	1	-	-	Due to IDAPP for default claims payable.
Student Loan Operating	-	314	-	Due to Central Management Services for EDP, communications, garage and Auditor General for audit of federal programs.
	3	-	-	Due to General Revenue Fund for share of defaulted collections.
	4	314	-	
Illinois Prepaid Tuition Program	-	-	115	Due to State universities for payment of tuition contracts.
	$ 38,055	$ 324	$ 958	

(All dollar amounts are expressed in thousands)

Note 7. Interfund Balances and Activity (Continued)

B. Transfers To/From Other Funds

Interfund transfers in for the year ended June 30, 2011 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General Revenue	$ 227	Transfers from Student Loan Operating Fund and ISAC Accounts Receivable Fund for share of receivable collections. Transfers for mandatory sweep from the University Grant Fund.
Nonmajor Governmental-ISAC COP Debt Service	1,943	Transfer from the Student Loan Operating Fund and College Illinois! for lease payments.
Nonmajor Proprietary-Student Loan Operating	33,500	Transfer from General Revenue Fund for payment of Monetary Award Program grants.
	$ 35,670	

Interfund transfers out for the year ended June 30, 2011 were as follows:

Fund	Transfers Out To Other ISAC Funds	Description/Purpose
General Revenue	$ 33,500	Transfer to Student Loan Operating Fund for payment of Monetary Award Program grants.
Illinois Prepaid Tuition Program	88	Transfer to Debt Service Fund for lease payments.
Nonmajor Governmental - University Grant	51	Transfer for mandatory sweep by Governor's Office of Management and Budget to the General Revenue Fund.
Future Teachers Corps	173	Transfer for mandatory sweep by Governor's Office of Management and Budget to the General Revenue Fund.
	3	Transfer to General Revenue Fund for share of receivable collections.
Nonmajor Proprietary - Student Loan Operating	1,855	Transfer to General Revenue Account for share of receivable collections.
	$ 35,670	

(All dollar amounts are expressed in thousands)

Note 8. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deletions and Adjustments	Balance June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	552	5	(48)	509
Total capital assets being depreciated	18,863	5	(48)	18,820
Less accumulated depreciation:				
Buildings	(8,470)	(459)	-	(8,929)
Equipment	(551)	-	48	(503)
Total accumulated depreciation	(9,021)	(459)	48	(9,432)
Total capital assets being depreciated, net	9,842	(454)	-	9,388
Governmental activities capital assets, net	$ 12,542	$ (454)	$ -	$ 12,088
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 544	$ -	$ (15)	$ 529
Less accumulated depreciation:				
Equipment	(519)	(14)	15	(518)
Total capital assets being depreciated, net	25	(14)	-	11
Nonmajor Enterprise Funds:				
Capital assets not being depreciated:				
Construction-in-progess	-	569	-	569
Capital assets being depreciated:				
Equipment and automobiles	1,069	-	(111)	958
Less accumulated depreciation:				
Equipment and automobiles	(919)	(30)	111	(838)
Total capital assets being depreciated, net	150	(30)	-	120
Business-type activities capital assets, net	$ 175	$ 525	$ -	$ 700

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2011 amounted to $459. Of that amount, 100% was charged to the Scholarships, awards and grants function.

Note 9. Long-Term Obligations Payable

A. Revenue Bonds and Notes Payable and Pledged Revenues

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

The general resolution bonds are auction rate certificates and are taxable. The variable interest rate for the debt is reset every 28 days, based on the one-month LIBOR rate. Starting in August 2007, the bond markets experienced severe disruption. As a result, an auction held on February 13, 2008 for $70,000 of bonds issued under the 2002 Resolution failed to attract enough bidders. All subsequent auctions also failed and continue to do so. A “failed auction” results in the bonds being priced at the “maximum auction rate” which, as defined in the Resolution, can be no more than the lesser of the rolling twelve-month 90 day U.S. Treasury rate plus 1.2% (for “AAA” rated bonds), 1.5% (for “A” rated bonds), 1.75% (for bonds rated below the lowest category of “A”) and one-month LIBOR plus 1.5%. The average maximum rate at June 30, 2011 was .98%.

In connection with the issuance of the LIBOR Floating Rate Notes (LIBOR FRN) in October 2010 (described below) and by using existing cash in the trust $849,950 of the Student Loan Revenue Bonds were redeemed. The remaining balance of bonds outstanding issued under the resolutions is $34,450 as of June 30, 2011.

IDAPP has pledged future student loan revenues, net of specified operating expenses, to repay the outstanding principal in student loan revenue bonds. The bonds are payable solely from principal and interest revenues under the related student loans and are payable through the final maturity of the bonds in 2045. Annual principal and interest payments on the bonds are expected to require approximately 92 percent of these student loan revenues. The total principal and interest remaining to be paid on the bonds is approximately $45,600.

Interest paid for the current year was approximately $4,800 and total related student loan principal and interest received were approximately $32,300 and $5,400, respectively. These figures reflect the higher amount of bonds outstanding from July 2010 to October 2010.

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

IDAPP has pledged future student loan revenues, net of specified operating expenses, to repay the outstanding principal in Student Loan Revenue Bonds, Series 2009 (State Guaranteed). The bonds are payable solely from principal and interest revenues under the related student loans and are payable through the final maturity of the bonds in 2014. Annual principal and interest payments on the bonds are expected to require approximately all of these student loan revenues. The total principal and interest remaining to be paid on the bonds is approximately $54,700. Interest paid for the current year was approximately $1,600 and total related student loan principal and interest received were approximately $8,300 and $800, respectively.

Note 9. Long-Term Obligations Payable (Continued)

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

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

On October 27, 2010, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell $604,000 Student Loan Asset Backed Notes, Series 2010-1 (LIBOR Floating Rate Notes). The Notes were issued in three tranches. The Class A-1 tranche is $181,000 maturing April 25, 2017 with a rate of 3-Month LIBOR plus 0.48%, The Class A-2 tranche is $269,000 maturing April 25, 2022 with a rate of 3-Month LIBOR plus 1.05% and the Class A-3 tranche is $154,000 maturing July 25, 2045 with a rate of 3-Month LIBOR plus 0.90%. The variable interest rate for the debt is reset every quarter. The proceeds from the sale of the Notes were used to make the initial deposits to the Capitalized Interest Fund, the Reserve Fund a portion of the initial deposit to the Loan Fund and to pay acquisition costs. The remaining proceeds were transferred to the 2002 Resolution Trust (described above) and were used with cash from Trust to purchase and cancel certain bonds outstanding thereunder. The FFELP loans released from the 2002 Resolution Trust were deposited into the Loan Fund. Annual principal and interest payments on the bonds are expected to require approximately 61% percent of these student loan revenues. The total principal and interest remaining to be paid on the bonds is approximately $664,500. Interest paid for the current year was approximately $3,400 and total related student loan principal and interest received were approximately $69,300 and $10,200, respectively.

As a result of the issuance of the LIBOR Floating Rate Notes and the purchase and cancellation of certain of the 2002 bonds, a deferred amount (gain) on refunding of $70,320 was recorded. This gain will be amortized over the weighted average life of the LIBOR Floating Rate Notes of nearly 16 years. The portion attributable to fiscal year 2011 is $3,314 and the annual amount of amortization recognized in future years will be $4,418. Amortization of the gain is included in interest expense on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

The current refunding allowed the Commission to reduce its total debt service payments over the next 34 years by $303,797, and resulted in an economic loss (difference between the present values of the debt service payments on the old and the new debt) of $78,649.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

B. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities:					
Other long-term obligations:					
Installment purchase obligations	$ 5,270	$ -	$ (1,670)	$ 3,600	$ 1,755
Business-type activities:					
Illinois Designated Account Purchase Program :					
Revenue bonds/notes payable	$ 1,022,750	$ 604,000	$ (982,105)	$ 644,645	$ -
Unamortized discounts	(3,049)	(7,231)	2,912	(7,368)	-
Unamortized deferred amount on refunding	-	70,320	(3,314)	67,006	-
Other long-term obligations:					
Compensated absences	404	122	(303)	223	22
Total Illinois Designated Account Purchase Program	1,020,105	667,211	(982,810)	704,506	22
Illinois Prepaid Tuition Program :					
Compensated absences	104	85	(98)	91	25
Tuition payable	914,437	89,029	(96,815)	906,651	78,277
Accreted tuition payable	408,593	83,916	(6,831)	485,678	6,897
Total Illinois Prepaid Tuition Program	1,323,134	173,030	(103,744)	1,392,420	85,199
Nonmajor Enterprise Fund:					
Compensated Absences	2,394	1,475	(1,749)	2,120	277
Total business-type activities	$ 2,345,633	$ 841,716	$ (1,088,303)	$ 2,099,046	$ 85,498

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

C. Future Maturities of Revenue Bonds and Notes

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

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 8,315	$ 8,315
2013	-	8,315	8,315
2014	50,000	8,315	58,315
2015	-	6,740	6,740
2016	-	6,740	6,740
2017-2021	137,195	29,375	166,570
2022-2026	269,000	13,634	282,634
2027-2031	-	10,726	10,726
2032-2036	-	10,726	10,726
2037-2041	-	10,726	10,726
2042-2045	188,450	6,586	195,036
	644,645	$ 120,198	$ 764,843
Less:			
Unamortized discounts	(7,368)		
Unamortized deferred amount on refunding	67,007		
Net long-term principal outstanding	$ 704,284		

The majority of IDAPP's outstanding revenue bonds and notes are comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the interest rate in effect on June 30, 2011. Actual interest paid in future years could be materially different.

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

D. Tuition Payable

Tuition payable activity for the year ended June 30, 2011, is as follows:

Balance as of July 1, 2010	$	914,437
Add:		
Contributions		89,029
Less:		
Return of contributions		(24,955)
Tuition payments		(71,860)
Balance as of June 30, 2011	$	906,651
Reported as:		
Current	$	78,277
Noncurrent		828,374
	$	906,651

E. Accreted Tuition Payable

Accreted tuition payable is management's estimate of the present value of the tuition payment to be made in excess of principal payment received and is expected to be earned from investments of tuition contracts. The accretion expense for the fiscal year 2011 is estimated as a percentage of net tuition contracts paid to date. The rate is 9.17% and is based on the average increase in tuition for Illinois colleges.

Average monthly tuition payable balance	$	915,116
Estimate of 9.17% increase of tuition payable	$	83,916
Beginning balance accreted tuition payable as of July 1, 2010	$	408,593
Accretion expense		83,916
Accretion payments		(6,831)
Ending balance accreted tuition payable as of June 30, 2011	$	485,678
Reported as:		
Current	$	6,897
Noncurrent		478,781
	$	485,678

(All dollar amounts are expressed in thousands)

Note 9. Long-Term Obligations Payable (Continued)

E. Accreted Tuition Payable (Continued)

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

F. Installment Purchase Obligations

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

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

The cost of the building and land acquired was $18,311 and $2,700, respectively. The book value of the building at June 30, 2011 was $9,382. Future commitments under the installment purchase contract as of June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 1,755	$ 188	$ 1,943
2013	1,845	97	1,942
	$ 3,600	$ 285	$ 3,885

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

On July 27, 2007, ISAC entered into a Three-Year Asset Backed Revolving Credit Facility (the "Facility") through an affiliate of Citibank (the "Lender") pursuant to which ISAC has borrowed funds for the purpose of purchasing certain student loans. Advances made under the Facility are secured by a portfolio of student loans, which loans were largely financed with proceeds of the advances (the "Collateral"). Amounts due under the Facility constitute limited obligations of ISAC, payable solely and only from the Collateral and the revenues derived therefrom. The costs of borrowing under the Program will not exceed Citibank's commercial paper rate. The rate at June 30, 2011 was .19103%. On July 27, 2010, the final maturity date under the Facility, approximately $355,000 remaining outstanding under the Facility became due and payable. Due in part to conditions currently existing in the credit markets, ISAC has been unable to refinance this debt and is currently in payment default under the Facility. ISAC has reached an agreement with the Lender pursuant to which, subject to certain conditions, the Lenders will refrain from exercising their rights to require payment in full of amounts due under the Facility until July 27, 2011 or such later date as may be negotiated. Negotiations are under way with the Lenders to extend the date to July 27, 2012. In addition, IDAPP is in breach of the coverage condition and default ratios, as defined in the indenture. The breaches qualify as an Event of Termination under which Citibank would be eligible for remedies under the indenture. The agreement extending the date until July 27, 2011 with the lender discussed above also extends to the breach of the ratios.

(All dollar amounts are expressed in thousands)

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

Under the terms of the agreement all revenues generated by the underlying student loan portfolio are transferred to a trust. The trust pays all expenses related to the debt service and student loan servicing costs (capped at 65 basis points of the outstanding average balance in the portfolio). During fiscal year 2011 there was $34,729 in principal and $9,646 in interest collected. The total amount transferred to the trust was $44,391. During the same period the trust paid $2,366 for interest expense and other professional fees and $2,650 for servicing fees.

On December 22, 2008 ISAC/IDAPP executed a $7,000 credit and security agreement with ShoreBank. The revolving credit line was used for the purchase or origination of student loans under the Capstone program established in 2007. The agreement was amended on November 12, 2009 and reduced to $4,717. The credit and security agreement was paid in full on March 28, 2011.

	Balance, July 1, 2010	Additions	Deletions	Balance, June 30, 2011	Amounts Due Within One Year
Citibank	$ 355,457	$ -	$ (41,000)	$ 314,457	$ 314,457
ShoreBank	4,717	-	(4,717)	-	-
	$ 360,174	$ -	$ (45,717)	$ 314,457	$ 314,457

Note 11. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Commission’s risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and accordingly, have not been reported in the Commission’s financial statements for the year ended June 30, 2011.

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

Note 12. Pension Plan

Substantially all of the Commission's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

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

The Commission pays employer contributions based upon an actuarially determined percentage of their payrolls. For fiscal years 2011, 2010 and 2009, the employer contribution rate was 28.0%, 28.4% and 21.0%, respectively. For fiscal years 2011, 2010 and 2009, the required and actual contribution was $5,205, $5,665 and $4,467, respectively.

Note 13. Post-Employment Benefits

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

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

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

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

Note 14. Fund Balances and Net Assets

A. Deficit in Fund Net Assets

As of June 30, 2011, the Illinois Prepaid Tuition Program Fund has a deficit in net assets of $262,131. The actuarial soundness of the Program and management's plans to eliminate the deficit over time, are discussed in the paragraphs that follow.

B. Actuarial Report on Soundness – Unaudited

Gabriel, Roeder, Smith and Company, the independent actuarial firm retained by College Illinois!, has performed an actuarial soundness valuation of *College Illinois!*®, the State's section 529 prepaid tuition program, as of June 30, 2011 to evaluate the financial viability of the program as of June 30, 2011.

Beginning with FY 2010 the Program adopted an additional valuation methodology, the Actuarial Value method, where valuation of the assets is calculated by amortizing investment gains and losses over a 5-year timeframe. This methodology provides an actuarial value of assets that is a smoothed actuarial value which helps dampen some of the fluctuations in the deficit/surplus of the program which occurs as a result of year to year fluctuations in market value. The program also reports the deficit/surplus of the program based on the Market Value Method, which reflects the market value of the assets at a point in time. The following tables show both valuation methods and reconcile the change from the prior year.

Based on their report the estimated actuarially determined deficit for prepaid tuition program, as of June 30, 2011 based on the actuarial value of assets was $478,689 as compared to $340,875 in the prior year. On the market value of assets basis the deficit was $536,337 as compared to $531,271 in the prior year.

The June 30, 2011 actuarial valuations are based on an investment return assumption of 7.5 percent and an assumption of 2,500 new contract sales each year. Significant changes in the actuarial assumptions as compared to the prior year have contributed to the increase in deficit from the prior year. The investment return assumption of 7.5% compares to an assumed investment return of 8.4% in the prior year report and resulted in an increase in the deficit as of June 30, 2011 of approximately $112,000 compared to June 30, 2010. The increase in the deficit due to the change in the investment return assumption was offset for fiscal 2011 by investment returns that were higher than the actuarial projections and weighted average tuition rate increases that were lower than projected. The assumption for increase in the rate of tuition was in the range of 6.5 % - 8.5% and remained unchanged from the prior year.

The program's actuarially determined deficit is impacted by several major factors, including: actual investment performance, expected future investment performance, the level of actual tuition and fee increases at Illinois public universities, <u>future</u> expectations for tuition and fee increases at those institutions and the number of new contracts sold for each <u>future</u> enrollment period.

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

Each year when setting plan prices, the Commission reviews the assumptions that influence the actuarial deficit. Contract prices are generally set at a level that will provide revenue from contract sales sufficient not only to fund projected future contract obligations and current administrative costs, but also to improve the actuarial soundness of the program.

(All dollar amounts are expressed in thousands)

Note 14. Fund Balances and Net Assets (Continued)

B. Actuarial Report on Soundness – Unaudited (Continued)

In the fall of 2008, *College Illinois!* ® introduced SmartChoice Pricing. Under SmartChoice Pricing, contract purchasers have the option of purchasing semesters at Community Colleges (Choice 1), at public universities and colleges within the State of Illinois excluding the University of Illinois at Urbana-Champaign (Choice 2), and finally, semesters at any public university and college, including the University of Illinois at Urbana-Champaign (Choice 3). This differential pricing expands the market for *College Illinois!*® contracts to a wider range of household incomes.

The Actuary's Report on Soundness as of June 30, 2011 indicates that the program's cash flow is expected to remain positive through the fiscal year that ends in 2021 even without reflecting expected proceeds from contracts sold after June 30, 2011.

	Market Value of Assets	Actuarial Value of Assets
Market value of current assets*	$ 1,132,275	$ 1,132,275
Unamortized investment gains and losses	-	57,648
Actuarial present value of future payments expected to be made by the contract purchasers	149,735	149,735
Subtotal	1,282,010	1,339,658
Actuarial present value of future payments expected to be made by the Program	1,818,347	1,818,347
Actuarial deficit as of June 30, 2011	$ (536,337)	$ (478,689)

* Based on unaudited financial statements provided by Commission management.

C. Restrictions and Commitments

As of June 30, 2011, the Commission reported the following net assets restrictions and fund balance commitments:

The Illinois Designated Account Purchase Program reported $17,513 of net assets restricted for debt service. The Federal Student Loan Fund reported $46,544 of net assets restricted for federal grant programs (loan guarantees). The ISAC Accounts Receivable Fund, the Future Teacher Corp Fund and the University Grant Fund reported $14, $15, and $25, respectively, in fund balance committed for scholarships, awards and grants.

Note 15. Operating Leases

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

Expenses for all operating leases amounted to $138 in 2011. There are no future minimum rental commitments for non-cancelable operating leases to be satisfied by future Commission appropriations.

Note 16. New Governmental Accounting Standards

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

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

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was established to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The Commission is required to implement this Statement for the year ending June 30, 2013.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment to GASB Statement No. 53*, was established to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The Commission is required to implement this Statement for the year ending June 30, 2012.

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

Note 17. Subsequent Event

A. Revenue Bonds Refinanced - IDAPP

As a condition of the rating agency confirmation in connection with the purchase and cancellation of certain bonds issued under the 2002 resolution, IDAPP was required to retire $11,000 of the outstanding bonds at par plus accrued interest in November 2011. In addition IDAPP retired an additional $4,000 of the outstanding bonds at par plus accrued interest in November 2011.

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Budgetary Comparisons Schedule - Major Governmental Fund - General Fund
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Budgeted Amounts		Actual	Actual Amounts	Variance from
	Original	Final	Amount	GAAP Basis	Final Budget
Revenues (inflows)					
Appropriations from State resources and other revenues					
General Revenue Account	$ 455,031	$ 455,031	$ 442,679	$ 442,679	$ (12,352)
Education Assistance Account	-	-	(145)	(145)	(145)
Combined totals	455,031	455,031	442,534	442,534	(12,497)
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General Revenue Account	455,031	455,031	410,703	410,703	44,328
Education Assistance Account	-	-	(145)	(145)	145
Combined totals	455,031	455,031	410,558	410,558	44,473
Excess (deficiency) of revenues over expenditures	-	-	31,976	31,976	31,976
Other sources of financial resources					
Transfers in/General Revenue Account	-	-	227	227	227
Transfers out/General Revenue Account	-	-	(33,500)	(33,500)	(33,500)
Net change in fund balance	$ -	$ -	(1,297)	(1,297)	$ (1,297)
Fund balance, July 1, 2010			5,445	5,445	
Fund balance, June 30, 2011			$ 4,148	$ 4,148	

See Notes to Required Supplementary Information.

State of Illinois
Illinois Student Assistance Commission

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

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

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

Actual revenue amounts on the budgetary basis	$ 442,679
Total revenues on the GAAP basis	$ 442,679

State of Illinois
Illinois Student Assistance Commission

Combining Schedule of Accounts
General Fund
June 30, 2011
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Assets			
Unexpended appropriations	$ 45,824	$ -	$ 45,824
Cash and cash equivalents	1	-	1
Due from other ISAC funds	3	-	3
Notes receivable, net of allowance of $13,512	4,144	-	4,144
Total assets	$ 49,972	$ -	$ 49,972
Liabilities			
Accounts payable and accrued liabilities	$ 11,481	$ -	$ 11,481
Due to other ISAC funds	33,500	-	33,500
Due to State of Illinois component units	843	-	843
Total liabilities	45,824	-	45,824
Fund Balances			
Nonspendable - notes receivable	4,144	-	4,144
Unassigned	4	-	4
Total fund balances	4,148	-	4,148
Total liabilities and fund balances	$ 49,972	$ -	$ 49,972

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Revenues			
Other	$ 8	$ -	$ 8
Expenditures			
Education			
Scholarships, awards and grants	410,703	(145)	410,558
Excess (deficiency) of revenues over expenditures	(410,695)	145	(410,550)
Other sources (uses) of financial resources			
Appropriations from State resources	455,031	-	455,031
Lapsed appropriations	(248)	-	(248)
Receipts remitted to State Treasury	(12,110)	(145)	(12,255)
Amount of SAMS transfer in	(2)	-	(2)
Transfers in	227	-	227
Transfers out	(33,500)	-	(33,500)
Net other sources (uses) of financial resources	409,398	(145)	409,253
Net change in fund balance	(1,297)	-	(1,297)
Fund balance, July 1, 2010	5,445	-	5,445
Fund balance, June 30, 2011	$ 4,148	$ -	$ 4,148

State of Illinois
Illinois Student Assistance Commission

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable	College Access Challenge Grant
Assets				
Cash and cash equivalents	$ -	$ 331	$ 27	$ 94
Receivables				
Other	-	9	-	-
Total assets	$ -	$ 340	$ 27	$ 94
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ -	$ 1	$ 13	$ 84
Due to other State funds	-	-	-	10
Deferred revenue	-	10	-	-
Due to U.S. Department of Education				
Other	-	329	-	-
Total liabilities	-	340	13	94
Fund balances				
Committed	-	-	14	-
Total liabilities and fund balances	$ -	$ 340	$ 27	$ 94

Special Revenue Funds: John R. Justice Grant	Special Revenue Funds: Future Teacher Corp	Special Revenue Funds: University Grant	Special Revenue Funds: Optometric Education	Special Revenue Funds: Total	Debt Service Fund: I S A C COP	Total Nonmajor Governmental Funds
$ 3	$ 15	$ 25	$ -	$495	$ -	$ 495
-	-	-	-	9	-	9
$ 3	$ 15	$ 25	$ -	$504	$ -	$ 504
$ 3	$ -	$ -	$ -	$101	$ -	$ 101
-	-	-	-	10	-	10
-	-	-	-	10	-	10
-	-	-	-	329	-	329
3	-	-	-	450	-	450
-	15	25	-	54	-	54
$ 3	$ 15	$ 25	$ -	$504	$ -	$ 504

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	I S A C Accounts Receivable	College Access Challenge Grant
Revenues				
Federal government	$ 4,000	$ 1,945	$ -	$ 4,840
Licenses, fees, and other	-	-	56	-
Total revenues	4,000	1,945	56	4,840
Expenditures				
Education				
Scholarships, awards and grants	4,000	1,945	45	4,840
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	4,000	1,945	45	4,840
Excess (deficiency) of revenues over expenditures	-	-	11	-
Other sources (uses) of financial resources				
Appropriations from State resources	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	-
Net change in fund balance	-	-	11	-
Fund balance, July 1, 2010	-	-	3	-
Fund balance, June 30, 2011	$ -	$ -	$ 14	$ -

Special Revenue Funds: John R. Justice Grant	Special Revenue Funds: Future Teacher Corp	Special Revenue Funds: University Grant	Special Revenue Funds: Optometric Education	Special Revenue Funds: Total	Debt Service Fund: I S A C COP	Total Nonmajor Governmental Funds
$ 364	$ -	$ -	$ -	$ 11,149	$ -	$ 11,149
-	46	77	-	179	-	179
364	46	77	-	11,328	-	11,328
364	-	70	50	11,314	-	11,314
-	-	-	-	-	1,670	1,670
-	-	-	-	-	273	273
364	-	70	50	11,314	1,943	13,257
-	46	7	(50)	14	(1,943)	(1,929)
-	-	-	50	50	-	50
-	-	-	-	-	1,943	1,943
-	(173)	(51)	-	(224)	-	(224)
-	(173)	(51)	50	(174)	1,943	1,769
-	(127)	(44)	-	(160)	-	(160)
-	142	69	-	214	-	214
$ -	$ 15	$ 25	$ -	$ 54	$ -	$ 54

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2011
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Assets				
Current				
Cash and cash equivalents	$ 6,130	$ 34,945	$ -	$ 41,075
Receivables				
Intergovernmental	915	33,031	-	33,946
Accrued interest on investments	3	-	-	3
Default fee	-	(15)	-	(15)
Security lending collateral	2,679	12,664	-	15,343
Due from other State funds	14	-	-	14
Due from other ISAC funds	38,051	-	-	38,051
Due from Federal Student Loan fund	1,388	-	(1,388)	-
Due from Student Loan Operating fund	-	391	(391)	-
Total current assets	49,180	81,016	(1,779)	128,417
Noncurrent				
Capital assets, net of accumulated depreciation	689	-	-	689
Due from Student Loan Operating fund - Deferred charges	-	2,785	(2,785)	-
Total noncurrent assets	689	2,785	(2,785)	689
Total assets	$ 49,869	$ 83,801	$ (4,564)	$129,106
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 957	$ 15,413	$ -	$ 16,370
Due to Federal Student Loan fund	391	-	(391)	-
Due to Student Loan Operating fund	-	1,388	(1,388)	-
Due to other ISAC funds	3	1	-	4
Due to other State funds	314	-	-	314
Security lending collateral obligation	2,679	12,664	-	15,343
Intergovernmental payable	-	7,791	-	7,791
Compensated absences	277	-	-	277
Total current liabilities	4,621	37,257	(1,779)	40,099
Noncurrent				
Due to Federal Student Loan fund - deferred revenue	2,785	-	(2,785)	-
Compensated absences	1,843	-	-	1,843
Total noncurrent liabilities	4,628	-	(2,785)	1,843
Total liabilities	9,249	37,257	(4,564)	41,942

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds (Continued)
June 30, 2011
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Net Assets				
Invested in capital assets	$ 689	$ -	$ -	$ 689
Restricted	-	46,544	-	46,544
Unrestricted	39,931	-	-	39,931
Total net assets	40,620	46,544	-	87,164
Total liabilities and net assets	$ 49,869	$ 83,801	$ (4,564)	$ 129,106

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses and Changes in Net Assets - Nonmajor Enterprise Funds
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Operating revenues			
Loan processing and issuance fees	$ (319)	$ -	$ (319)
Portfolio maintenance fee	3,804	-	3,804
Direct consolidation fees	8,199	-	8,199
Licenses and fees	-	(56)	(56)
Collections on student loans previously reimbursed by the U.S. Department of Education	-	19,514	19,514
Other	36	-	36
Total operating revenues	11,720	19,458	31,178
Operating expenses			
Salaries and employee benefits	23,741	-	23,741
Loan guarantee	-	212,838	212,838
Management and professional services	1,897	-	1,897
Depreciation	30	-	30
Total operating expenses	25,668	212,838	238,506
Operating loss	(13,948)	(193,380)	(207,328)
Non-operating revenues			
Federal government	-	205,015	205,015
Interest revenue	35	185	220
	35	205,200	205,235
Income (loss) before transfers	(13,913)	11,820	(2,093)
Transfers in from other ISAC funds	33,500	-	33,500
Transfers out to other ISAC funds	(1,858)	-	(1,858)
Transfers for:			
Collection retention fees	6,077	(6,077)	-
Repurchases/Rehabilitations/Consolidation Retention fees	13,861	(13,861)	-
Direct Consolidation fee refund	(3,789)	3,789	-
Default aversion fees	1,705	(1,705)	-
Net transfers	49,496	(17,854)	31,642
Change in net assets	35,583	(6,034)	29,549
Net assets, July 1, 2010	5,037	52,578	57,615
Net assets, June 30, 2011	$ 40,620	$ 46,544	$ 87,164

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ 9,791	$ 95,932	$ 105,723
Cash payments to suppliers for goods and services	(2,050)	-	(2,050)
Cash payments to employees for services	(18,389)	-	(18,389)
Cash payments for loan guarantees	-	(221,697)	(221,697)
Cash payments for other operating activities	(3,668)	(75,379)	(79,047)
Net cash used by operating activities	(14,316)	(201,144)	(215,460)
Cash flows from noncapital financing activities			
Federal government grants	-	209,535	209,535
Transfers in	21,029	3,676	24,705
Transfers out	(5,532)	(21,029)	(26,561)
Net cash provided by noncapital financing activities	15,497	192,182	207,679
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(569)	-	(569)
Cash flows from investing activities			
Interest and dividends on investments	37	213	250
Net increase (decrease) in cash and cash equivalents	649	(8,749)	(8,100)
Cash and cash equivalents, July 1, 2010	5,481	43,694	49,175
Cash and cash equivalents, June 30, 2011	$ 6,130	$ 34,945	$ 41,075

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds (Continued)
Year Ended June 30, 2011
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	$ (13,948)	$ (193,380)	$ (207,328)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	30	-	30
Change in assets and liabilities			
Accounts receivable	-	81	81
Intergovernmental receivables	249	-	249
Due from other ISAC funds	(629)	-	(629)
Due from other funds	(14)	-	(14)
Accounts payable and accrued liabilities	113	(7,301)	(7,188)
Intergovernmental payables	-	(544)	(544)
Due to other State funds and component units	163	-	163
Due to other ISAC funds	2	(6)	(4)
Compensated absences	(274)	-	(274)
Other	(8)	6	(2)
Total adjustments	(368)	(7,764)	(8,132)
Net cash used by operating activities	$ (14,316)	$ (201,144)	$ (215,460)

McGladrey

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

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

Ms. Kym Hubbard
Honorable Chair 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, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 27, 2012. That report contains emphasis of matter paragraphs which state "As discussed in Note 2, as of July 1, 2010, the Commission adopted the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions",* and "As further discussed in Note 14, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2011 of $262 million." 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.

<u>Internal Control Over Financial Reporting</u>

Management of the Commission is responsible for establishing and maintaining effective 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 first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in findings 11-1, 11-2, 11-3, 11-4 and 11-7 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 11-5, 11-6, 11-8 and 11-9 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as findings 11-1, 11-2, 11-6, 11-9 and 11-10.

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 the responses.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 27, 2012

Current Findings – *Government Auditing Standards*

Finding 11-1 Procurement Law Not Followed

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) did not comply with the competitive procurement requirements of the Illinois Procurement Code.

During our audit, we noted the following pertaining to the procurement process:

1. The Commission awarded a contract for investment due diligence services (due diligence services) for College Illinois. The RFP issued to procure the due diligence services was not specific to due diligence services, but rather was for real estate investment manager services.

2. Pricing for the due diligence services noted above was not included in the vendor's proposal and was negotiated at a later date, outside the competitive procurement process. The fee arrangement with the consultant awarded the due diligence services noted above did not ensure objectivity in the performance of the work which was the subject of the contract.

3. The required competitive procurement process for awarding investment manager contracts was not followed. During fiscal year 2011, two new investment managers were awarded investment manager contracts based on due diligence services performed by an investment consultant of the Commission (see 1 above), and not through a competitive bidding process in violation of the procurement law.

The auditors noted that on May 1, 2009, RFP#CI20092 was issued by the Commission, requesting proposals from real estate investment managers for; opportunistic, distressed debt, secondary real estate and value added real estate funds. The RFP was sent to 23 vendors. Out of the 23 vendors, 14 were responsive and 5 were pre-qualified as vendors. Upon review of a contract awarded in response to this RFP, the auditors noted that the Statement of Work (SOW) in the contract was for due diligence services related to the acquisition of two new investment managers. In the proposal submitted by the vendor who was awarded the contract, no qualifications or pricing for due diligence services was provided.

The terms of the agreement with the vendor performing the due diligence stated the vendor will receive as payment for services, an acquisition fee amounting to 0.75% of the aggregate capital investment for each of the new investments to be made. By paying the vendor on this basis, the Commission may have created an incentive for the vendor to recommend the investment. The vendor was awarded a contract for an amount not to exceed $390,000 for advisory services, $85,000 for due diligence services for each prospective investment, plus up to $2,500 in expenses in addition to the contingent fee. The contingent fee totals $787,500 based on 0.75% of the $105 million aggregate capital commitment made to the two investment managers. Fees paid to the vendor as of the date of this report were $271,875.

Upon completion of the due diligence report by the vendor noted above, the Commission awarded investment contracts to manage $105 million in real estate investments to the two investment managers that were the subject of the due diligence performed, circumventing the required procurement process. The investment managers were paid fees ranging from 0.5%-1.5% of the amount invested.

Best practices require that vendors contracted to provide their opinion on investment purchase decisions, not be compensated on a basis that is dependent upon the opinion rendered.

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

A. The type of services required;

B. A description of the work involved;

Current Findings – *Government Auditing Standards*

Finding 11-1 Procurement Law Not Followed (Continued)

C. An estimate of when and for how long the services will be required;

D. The type of contract to be used;

E. A date by which proposals for the performance of the services shall be submitted;

F. A statement of the minimum information that the proposal shall contain, which may, by way of example, include: (i) the name of the offeror, the location of the offeror's principal place of business and, if different, the place of performance of the proposed contract; (ii) if deemed relevant by the Procurement Officer, the age of the offeror's business and average number of employees over a previous period of time, as specified in the Request for Proposals; (iii) the abilities, qualifications, and experience of all persons who would be assigned to provide the required services; (iv) a listing of other contracts under which services similar in scope, size, or discipline to the required services were performed or undertaken within a previous period of time, as specified in the Request for Proposals; (v) a plan, giving as much detail as is practical, explaining how the services will be performed;

G. Price (to be submitted in a separate envelope in the proposal package and not mentioned elsewhere in the proposal package); and

H. The factors to be used in the evaluation and selection process and their relative importance.

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

The Commission did not provide sufficient oversight over the procurement process which resulted in the above noted departures from the procurement law.

Based on the RFP issued, there was no clear basis for awarding a contract for investment due diligence services in a fair and competitive manner that allowed all interested parties the opportunity to participate in the procurement opportunity. There may have been numerous vendors who specialize in the above mentioned types of services who did not reply to the requests for proposal because they did not appropriately describe the services needed. By circumventing the competitive procurement process, the Commission may have paid higher fees than it otherwise might have obtained through a truly competitive process. Additionally, by paying the vendor of due diligence services in the manner in which they did, the Commission may have created an incentive for the vendor to recommend the investments it was investigating.

In the prior year's finding, the Commission did not reduce a contract to writing and lacked documentation showing the vendor performed the services specified in the contract. In addition, we noted that other investment choices were not considered when evaluating a private equity investment. During the current year audit, we did not note any exceptions of this type in our sample testing. (Finding Code Nos. 11-1, 10-1)

Current Findings – *Government Auditing Standards*

Finding 11-1 Procurement Law Not Followed (Continued)

Recommendation

We recommend the following:

1. The Commission should comply with the requirements set forth in the Illinois Procurement Code and Administrative Rules in procuring professional and artistic services.

2. The Commission should establish policies whereby RFPs are thoroughly reviewed before issuance to ensure that all aspects of the needed services are thoroughly described. If the Commission determines at a later time that a necessary service is needed and was not initially included in the original RFP, the Commission should issue an addendum to the services needed provided that the RFP response submission deadline has not expired. In the event that the RFP deadline has expired, the Commission should issue a new RFP describing the new service needed.

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

Commission Response

We accept the recommendation.

ISAC's future RFPs will have more precise descriptions of services to be solicited with clearer pricing requirements. Moreover, we have changed our procedures for RFPs that result in a large number of qualified bidders in order to ensure that services begin only after the contract is signed. We have reinforced our procedures that require review and sign-off of contract deliverables before vendor payments are processed. We will not use contingency-fee based compensation methods based on transaction completion.

In addition, a new procurement process has been instituted that includes review, approval, and monitoring by both the Agency Procurement Officer and the externally appointed State Procurement Officer.

It should also be noted that beginning July 2011, there have been significant changes made to the management and administration of the Agency. The changes include:

- Appointment of new members to the Commission and a new Chairperson.
- Appointment of a new Interim Executive Director in July 2011.
- Appointment of a new Executive Director in February 2012.
- Appointment of a new General Counsel with a reporting line to the Commission.
- Hiring of a new Chief Investment Officer with a reporting line to the Commission.

We believe that these changes will ensure our procurement process is sound going forward.

Current Findings – *Government Auditing Standards*

Finding 11-2 Noncompliance with Investment Policy

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) did not fully comply with the guidelines established in its investment policy.

During our audit we tested the Commission's adherence to its investment policy. Through our review of documentation provided and discussions with Commission management, we identified the following instances of noncompliance with the investment policy.

- The investment policy requires that the investment policy be reviewed on an annual basis. Commission personnel began the process of reviewing and proposing revisions to the Policy during fiscal year 2011, however this process was never finalized. There is no evidence of review by the Investment Advisory Panel or the Commission Board, as required by the investment policy. The Commission last approved an investment policy on January 22, 2010.
- In accordance with the investment policy, the Commission was required to establish an Investment Committee. The Investment Committee is required to consist of two members of the Commission's board appointed by the Chair. This Committee was never established. The Commission indicated that the Portfolio Committee was also functioning as the Investment Committee; however, there is no provision in the investment policy allowing for this transition of responsibilities. The Portfolio Committee, unlike the Investment Committee, is made up of three members of management.
- In accordance with the investment policy, the Investment Advisory Panel is required to hold two meetings per year. The auditors were provided with evidence to support only one meeting held during fiscal year 2011. In addition, we noted that there were three vacancies on the Investment Advisory Panel as of June 30, 2011 with vacancies ranging from September 2003 to March 2011.
- In accordance with the investment policy, the Portfolio Committee is required to meet monthly. Evidence to support the occurrence of meetings was only available for September 2010 and October 2010.

According to Commission management, the compliance with the investment policy function for the agency was the responsibility of the Portfolio Committee which consisted of the Executive Director, the Chief Investment Officer (CIO) and the Director of Portfolio Management. During fiscal year 2011 the Agency did not have a Director of Portfolio Management. Therefore, during this time, the Portfolio Committee consisted of the Executive Director (ED) and Chief Investment Officer (CIO). The CIO and ED communicated on a weekly basis to discuss the portfolio performance, evaluation and rebalancing of asset allocations needed to ensure compliance with the investment policy. Most of the communications between the CIO and ED were not formalized in "minutes".

Investments represent the most significant asset for the Commission (approximately $1.1 billion at June 30, 2011). Lack of compliance with the established investment policy results in inadequate monitoring of the Commission's assets. (Finding Code No. 11-2)

Current Findings – *Government Auditing Standards*

Finding 11-2 Non-Compliance with Investment Policy (Continued)

Recommendation

We recommend the Commission comply with its investment policy and:

- Conduct a formal review of its investment policy,
- Formally review and approve the investment policy annually,
- Establish the Investment Committee consisting of two members of the Commission appointed by the Chair of the Commission as required by the Policy to provide guidance to the Chief Investment Officer on issues related to investments,
- Take the actions necessary to fill the vacancies on the Investment Advisory Panel and ensure the Investment Advisory Panel meets twice yearly,
- Establish the Portfolio Committee and ensure that it meets monthly to review and rebalance the investment portfolio according to the investment policy guidelines, and
- Maintain minutes of all meetings for any committees or panels that have been established as required by the investment policy. Meeting minutes should document all pertinent discussions held by the respective committee or panel. Clear and concise documentation for all significant decisions and recommendations should exist to support decisions made by these groups.

Commission Response

We accept the recommendation.

Beginning July 2011, there have been significant changes made to the management and administration of the program. The changes include:

- Appointment of new members to the Commission and a new Chairperson.
- Appointment of new members to the Investment Advisory Panel.
- Appointment of a new Interim Executive Director in July 2011.
- Appointment of a new Executive Director in February 2012.
- Appointment of a new General Counsel with a reporting line to the Commission.
- The Commission hired a new Chief Investment Officer with a reporting line to the Commission.
- Establishment of an Investment Committee.

The new Commission along with the Executive staff of the agency is in the process of reviewing and approving new changes to the Agency's investment policy. These changes will be formalized in a revised Investment Policy. The Agency will continue to review its Investment Policy and suggest revisions on an ongoing basis.

Management believes that the changes at the agency will ensure that sufficient controls are in place to eliminate all instances of non-compliance with the investment policy.

Current Findings – *Government Auditing Standards*

Finding 11-3 Financial Statement Preparation

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) does not have sufficient control over its financial statement preparation.

The Illinois Prepaid Tuition Program receives reports from its third-party investment custodian, which show the individual debt security investment credit ratings for each investment, by investment manager. This report is used to prepare the required credit risk disclosures in the financial statements. We performed testing on the reported ratings to ensure that disclosures in the financial statements were accurate and complied with Governmental Accounting Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3) (GASB 40).* Debt security investments subject to credit risk totaled $199 million at fiscal year end June 30, 2011. In performing our testing, we identified various inaccuracies in the ratings reported for corporate bonds, municipal bonds, corporate asset backed securities, and U.S. agency obligations. Additionally, approximately $30.5 million of government agency mortgage backed securities, were not reported as "Not Rated" as required. These securities were omitted from the credit risk disclosure altogether. Upon investigating the errors and omissions it was determined that the ratings reported in the custodian's report were not ratings as of June 30, 2011. The Commission did not discover this issue prior to preparing the draft financials for submission to the auditors.

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.

Additionally, GASB Statement 40 requires "governments should provide information about the credit risk associated with their investments by disclosing the credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations—rating agencies—as of the date of their financial statements" and "governments should disclose the credit quality ratings of external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities in which they invest. If a credit quality disclosure is required and the investment is unrated, the disclosure should indicate that fact."

According to Commission management, the Commission hired a new Custodian beginning fiscal year 2011. The GASB 40 information was provided by the new Custodian. The Custodian did not have standardized reports for one of the rating agencies and as a result provided inaccurate rating information.

Insufficient or ineffective controls over financial reporting could lead to significant reporting inaccuracies in the financial statements and notes to the financial statements. (Finding Code No. 11-3)

Recommendation

We recommend the Commission improve controls over financial reporting to ensure accurate presentation of the Illinois Prepaid Tuition Program's credit risk disclosures. An experienced employee should be assigned responsibility for ensuring securities ratings provided by the Custodian at year-end, are accurate and properly disclosed in the financial statements.

Commission Response

We accept the recommendation.

The new Custodian will run the proper reports at June 30th of each year to ensure accurate credit ratings are obtained for disclosure in the financial statements. Additionally, we have hired a new Director of Accounting and Finance that will ensure securities ratings provided by the Custodian are accurate and properly disclosed in the financial statements.

Current Findings – *Government Auditing Standards*

Finding 11-4 Alternative Investment Oversight and Manager Fees

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (the Commission) has not established policies and procedures to monitor and value its alternative investments for financial reporting purposes. Additionally, review of fees paid to investment managers was not adequately documented.

The Commission has a significant amount of investments. In recent years, the Commission has increased the volume of alternative investments. Alternative investments consist of real estate, infrastructure, hedge fund and private equity investments. As of June 30, 2011, alternative investments represent $482 million or 42.6% of the Commission's portfolio. Alternative investments pose significant valuation concerns as these investments do not have readily available market data for valuation purposes.

During our testing of investments, we determined that the Commission does not have proper valuation protocols in place for alternative investments. Management asserts that investment staff participated in investor calls, site visits, corresponding with the general partner, attended annual meetings and reviewed interim financial information pertaining to these investments. In addition, management asserted that investment staff participated as members of advisory committees for the alternative investment fund and held quarterly meetings with investment managers. We were unable to obtain evidence that supports these monitoring controls were in place during fiscal year 2011, and there was no written policy or procedure that required these or other monitoring and valuation procedures.

We noted that the Commission does not prepare an analysis comparing audited financial statements of the alternative investment entity (Fund) to the investment balance as reported by the Commission, as of the Funds' year end. Additionally, the Commission does not perform a roll forward analysis of significant activity from this date (Fund year-end) to the Commission's year-end and compare the ending investment balance to that reported by the investment manager. Management values alternative investments using the investment statements received from the investment manager, custodian statements and investment consultant reports. However, the custodian and investment consultant only report the balances provided to them by the investment manager and do not perform independent valuation services.

During our testing of fees paid to investment managers, we noted there was no evidence of review of the fees being charged to the investment agreements to ascertain whether the fees charged are appropriate and in accordance with the agreed-upon terms of the arrangement. The Commission's investment consultant compares the management fee rates on the alternative investments to industry standards for each type of alternative investment and also shows the expected management fee. However, these fees may not align with those actually charged by the manager.

We also noted that the Commission first invested in certain investment funds in fiscal year 2011. Due to the timing of some of these investments, audited financial statement comparisons to investment balances may not be possible. The auditors noted an instance where the Commission entered into an investment in the second half of the fiscal year and the investment increased in value by 87% from the time of the initial contribution to June 30, 2011. Management should compare significant changes in investment balances to benchmark data for similar types of investments and should discuss reasons for significant increases or decreases in investment value attributable to unrealized gains and/or losses with the investment manager. Documentation of results and conclusions in these instances should also be maintained.

Current Findings – *Government Auditing Standards*

Finding 11-4 Alternative Investment Oversight and Manager Fees (Continued)

In accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Commission is required to report its investments at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For investments which are difficult to value, good business practice dictates that policies and procedures be established to determine and monitor fair value. Additionally, there is valuable guidance in a document issued by the AICPA that can be looked to for best practices. The AICPA's Alternative Investment Practice Aid provides guidance for the monitoring of alternative investments. This guidance states that management of the investor entity is responsible for the valuation of alternative investment amounts as presented in the investor entity's financial statements. The responsibility for valuation should not be outsourced or assigned to a party outside the investor entity's management.

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

According to Commission management, the monitoring and valuation of the alternative investments were primarily the responsibility of the Portfolio Committee which consisted of the Executive Director, the Chief Investment Officer (CIO) and the Director of Portfolio Management. During fiscal year 2011 the Commission did not have a Director of Portfolio Management. Therefore, during this time, the Portfolio Committee consisted of the Executive Director (ED) and Chief Investment Officer (CIO). The CIO and ED communicated on a weekly basis to discuss the portfolio performance, evaluation and rebalancing of asset allocations needed to ensure compliance with the investment policy. Most of the communications between the CIO and ED were not formalized in "minutes".

Failure to properly monitor investment valuation could result in a misstatement in the financial statements. In addition, improper investment valuation may inhibit the Commission's ability to properly analyze and make decisions regarding investments. (Finding Code No. 11-4)

Recommendation:

We recommend that management of the Commission maintain documentation for each alternative investment to support the existence of monitoring controls over the investment. Support should be in the form of meeting agendas, meeting notes, copies of any communications received from the investment manager, evidence of review of audited and unaudited financial statements or any operational reports received from the respective investment manager.

The Commission should have internal investment personnel charged with determining the value of alternative investments. Investment valuation should include a comparison of investment value at the date of the investment funds' most recent audited financial statements and a rollforward analysis of investment activity from that date to the Commission's fiscal year-end.

The Commission should maintain documentation to support any significant changes in investment valuation due to unrealized gains and/or losses. Documentation may include a comparison of unaudited statements from the investment fund to the investment value recorded, discussions with the investment manager, reviews of operational reports provided by the investment manager, a comparison of investment performance to comparable investments, a review of any appraisal reports obtained by the investment manager to support valuation (if applicable), etc.

Current Findings – *Government Auditing Standards*

Finding 11-4 Alternative Investment Oversight and Manager Fees (Continued)

The Commission should monitor and maintain evidence of review of all fees charged by the investment manager for reasonableness. The Commission should compare fees assessed to the investment agreements to ensure that the Commission is being properly charged.

Commission Response

We accept the recommendation.

Alternative investments are not publicly traded like stocks and therefore valuations are based on estimates by management working in conjunction with investment managers and investment advisors. However, the agency will do everything possible to gather support and retain documentation regarding investment valuation.

As stated previously, we have a new CIO who will ensure that appropriate investment valuations are obtained and that adequate backup documentation is maintained. Such documentation may include a comparison of unaudited statements from the investment fund to the investment value recorded, notes from discussions with the investment manager, reviews of operational reports provided by the investment manager, a comparison of investment performance to comparable investments, a review of any appraisal reports obtained by the investment manager to support valuation (if applicable), site visits (if applicable), and other documentation deemed appropriate.

Current Findings – *Government Auditing Standards*

Finding 11-5 Timeliness of Actuarial Valuation Report

The Illinois Student Assistance Commission (Commission) did not obtain a final actuarial valuation report pertaining to the soundness of the College Illinois Program, in a timely fashion.

The draft financial statements are due to the auditors by October 3, 2011 and were due to the State Comptroller by October 15, 2011 (SAMS Procedure 27.10.10), extended to October 24, 2011. Included in the Notes to the Financial Statements is an excerpt from a report prepared by an independent actuary, on the soundness of the College Illinois prepaid tuition program. According to Commission management the actuarial report was not scheduled to be issued until February 2012, approximately three months after the draft financial statement reporting deadline.

The State Comptroller establishes reporting deadlines for each State agency so they can complete the Statewide financial statements by the statutory and regulatory deadline. This year's assigned date was October 24, 2011. In accordance with the Illinois Prepaid Tuition Act (Act) 110 ILCS 979/30(d)), "The Commission shall annually prepare or cause to be prepared a report setting forth in appropriate detail an accounting of all Illinois prepaid tuition program funds and a description of the financial condition of the program at the close of each fiscal year. Included in this report shall be an evaluation by at least one nationally recognized actuary of the financial viability of the program." The Commission includes this report in its audited financial statements.

According to Commission management, the contracted actuary for the Commission passed away in April of 2011. The Commission had to issue a new RFP for actuarial services. This has resulted in a delay in the timing of the final actuarial evaluation report for fiscal year 2011.

As a result of this delay, issuance of the Illinois Prepaid Tuition financial statements will be delayed which could further result in delays in the issuance of the statewide financial statements. (Finding Code No. 11-5)

Recommendation

We recommend that the Commission work with its actuary to ensure the actuarial valuation report is completed in a timely fashion in order to enable timely completion of the Illinois Prepaid Tuition Program's financial reports.

Commission Response

We accept the recommendation.

The Commission hired a new actuary and this finding should not be repeated in the future.

Current Findings – *Government Auditing Standards*

Finding 11-6 Competitive Procurement Requirements Not Followed

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not comply with certain competitive procurement requirements of the Illinois Procurement Code.

The Commission awarded a vendor contract for assistance in analyzing account balance issues pertaining to one of Illinois Designated Account Purchase Program's (IDAPP) third party loan servicers (loan processing services). Pricing for the loan processing services noted above was not requested in the Commission's request for proposal, and was not included in the vendor's proposal. Pricing for this service was negotiated at a later date, outside the competitive procurement process.

On January 4, 2008, the Illinois Student Assistance Commission (through Central Management Services) issued an RFP titled "**to provide Financial Advisory services to the Illinois Student Assistance Commission RFP#IDAPP200710".** Within the RFP, Page 8, Section **4.1."Need For Services"** it stated **"**The Illinois Student Assistance Commission (ISAC) is requesting proposals for financial advisory services to ISAC in connection with (i) structuring and placing new debt, (ii) restructuring its current debt structure and (iii) swaps or other derivative transactions. ISAC will enter into contracts with several financial advisory firms and (iv) general financial advice in connection with improving ISAC's operational and financial functions".

Using this RFP, approximately 10 vendors were prequalified to perform the services specified in the RFP. Upon review of the complete RFP, the auditors concluded the RFP was issued primarily to assist the Commission with services pertaining to the issuance/ restructuring of debt.

The proposal submitted by the vendor who was awarded a fiscal year 2011 contract to review loan processing issues at IDAPP's external service provider did not include proposed fees for this type of service in the proposal submitted. Prequalified vendors were not asked to provide written fee quotes for this service. These fees were negotiated at a later date with only this vendor. The vendor was awarded a contract for $450,000 to review the student loans processed by an external service provider. The external service provider managed a portfolio of $287 million in student loans. The vendor has been paid $222,398 as of the date of this report.

According to the Illinois Administrative Code (44 Ill. Adm. Code 1.2035.h), RFPs shall include the following information:

A. The type of services required;

B. A description of the work involved;

C. An estimate of when and for how long the services will be required;

D. The type of contract to be used;

E. A date by which proposals for the performance of the services shall be submitted;

Current Findings – *Government Auditing Standards*

Finding 11-6 Competitive Procurement Requirements Not Followed (Continued)

F. A statement of the minimum information that the proposal shall contain, which may, by way of example, include: (i) the name of the offeror, the location of the offeror's principal place of business and, if different, the place of performance of the proposed contract; (ii) if deemed relevant by the Procurement Officer, the age of the offeror's business and average number of employees over a previous period of time, as specified in the Request for Proposals; (iii) the abilities, qualifications, and experience of all persons who would be assigned to provide the required services; (iv) a listing of other contracts under which services similar in scope, size, or discipline to the required services were performed or undertaken within a previous period of time, as specified in the Request for Proposals; (v) a plan, giving as much detail as is practical, explaining how the services will be performed;

G. Price (to be submitted in a separate envelope in the proposal package and not mentioned elsewhere in the proposal package); and

H. The factors to be used in the evaluation and selection process and their relative importance.

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

The Commission did not provide sufficient oversight over the procurement process which resulted in the above noted departure from the procurement law.

Based on the RFP issued, there was not a clear request for loan processing related services which would have resulted in a fair and competitive process that allowed all interested parties the opportunity to participate in the procurement opportunity, including competitive pricing. There may have been numerous vendors who specialize in the above mentioned types of services who did not reply to the requests for proposal because they did not appropriately describe the services needed. Under the process used, the Commission may have paid higher fees than it otherwise might have obtained through a truly competitive process. (Finding Code No. 11-6)

Recommendation

We recommend the following:

1. The Commission should comply with the requirements set forth in the Illinois Procurement Code and Administrative Rules in procuring professional and artistic services.

2. The Commission should establish policies whereby RFP's are thoroughly reviewed before issuance to ensure that all aspects of the needed services are thoroughly described. If the Commission determines at a later time that a necessary service is needed and was not initially included in the original RFP, the Commission should issue an addendum to the services needed provided that the RFP response submission deadline has not expired. In the event that the RFP deadline has expired, the Commission should issue a new RFP describing the new service needed.

Commission Response

We accept the recommendation.

IDAPP's future RFPs will have more precise descriptions of services to be solicited with clearer requirements.

Current Findings – *Government Auditing Standards*

Finding 11-7 Financial Reporting Process

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) does not have sufficient control over financial reporting.

During our review of the draft financial statements of the Illinois Designated Account Purchase Program (IDAPP) provided to the auditors, several errors and omissions relating to the draft financial statements and note disclosures were identified and corrected. Some of the more significant items noted were as follows:

- On October 27, 2010, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell $604,000,000 Student Loan Asset Backed Notes, Series 2010-1 (LIBOR Floating Rate Notes). As a result of the issuance of the LIBOR Floating Rate Notes and the purchase and cancellation of certain of the 2002 bonds, a deferred amount (gain) of approximately $70 million was recorded. IDAPP erroneously recognized this gain on the Statement of Changes in Net Assets, rather than recording it as a component of the debt liability and amortizing it over the weighted average life of the LIBOR Floating Rate Notes of approximately 16 years resulting in an overstatement of assets and the increase in net assets of $67 million.

- In relation to the issuance of the LIBOR Floating Rate Notes and refunding of the 2002 bonds noted above, IDAPP did not perform a calculation of or disclose the economic loss resulting from the transaction of $78,648,720, or the reduction in debt service of $303,797,090 over 34 years, as required by applicable accounting standards.

- The student loan receivable balance was not properly classified between the current and non-current portions on the Statement of Net Assets. $3.9 million was reclassed from current student loans receivable to noncurrent student loans receivable.

Governmental Accounting Standard Board Statement No.23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* states that "for current refundings and advance refundings resulting in defeasance of debt reported by proprietary activities, the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter".

In addition, Governmental Accounting Standard Board Statement No.7, *Advance Refundings Resulting in Defeasance of Debt*, states "governmental entities that defease debt through an advance refunding should provide a general description of the transaction in the notes to financial statements in the year of the refunding. At a minimum, the disclosures should include (a) the difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding and (b) the economic gain or loss resulting from the transaction."

Further, 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.

Current Findings – *Government Auditing Standards*

Finding 11-7 Financial Reporting Process (Continued)

According to IDAPP management, IDAPP did not initially regard the bond transaction as a refunding because it was not performed to reduce its annual debt service payments as discussed in the accounting standard. The current/non-current classification issue for the student loan receivable was due to IDAPP not having the latest draft of the report template from last year as the change was made outside of IDAPP.

Submitting incomplete and inaccurate draft financial statements delays completion of the audit process and the timely release of IDAPP's and the Commission's financial reports to users. Also, insufficient and/or ineffective controls over financial reporting could lead to significant reporting inaccuracies in the financial statements and notes to the financial statements. (Finding Code Nos. 11-7, 10-2, 09-3, 08-5)

Recommendation

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

Commission Response

We accept the recommendation.

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

Current Findings – *Government Auditing Standards*

Finding 11-8 Student Loan Payments Not Processed Correctly

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

The Illinois Designated Account Purchase Program (IDAPP) utilizes several external service organizations to manage and monitor its student loan portfolio. IDAPP management indicated it was aware of a system problem relating to the processing of payments at one of its service organizations. Subsequent to IDAPP's fiscal year ended June 30, 2011, the service provider performed a retrospective review calculation for propriety. In addition, the Commission hired an independent third party to review the service provider's retrospective calculation. Based on the review, misapplied payments as of June 30, 2011 totaled approximately $638,773, resulting in an overstatement of IDAPP's student loan receivable balance by the same amount. This amount was deemed immaterial and was not recorded at year end.

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

A good internal control environment includes checks and balances to ensure accounting transactions are recorded accurately. This extends to those transactions processed by third parties such as service organizations.

According to IDAPP management, this is the result of issues with the vendor's loan servicing software package in which certain transactions did not get processed correctly.

The service provider in question manages approximately $287 million of IDAPP's student loan portfolio as of June 30, 2011. This represents approximately 31% of the student loan receivable balance of $940 million at the fiscal year ended June 30, 2011. Misapplication of student loan payments between interest and principal could result in IDAPP's student loan receivable and operating revenue being misstated. Additionally, misapplication of payments could lead to certain borrowers "paying off their loan" when a balance actually remains, or over- paying the remaining loan balance. Although individual payments misapplied during the year ended June 30, 2011 appear to be insignificant, these amounts can accumulate throughout the years to a more significant amount. (Finding Code Nos. 11-8, 10-3)

Recommendation

Since this issue has been ongoing for over a year, we recommend IDAPP management find a resolution to this situation as soon as possible. We recommend IDAPP management closely monitor each service organization used to manage its student loan portfolio. This should include reviews of the service organization's "Reports on controls at a service organization" prepared and issued by independent auditors in accordance with the Statement on Standards for Attestation Engagements No. 16. Any noted variances in application of borrower payments should be investigated and corrected in a timely manner.

Current Findings – *Government Auditing Standards*

Finding 11-8 Student Loan Payments Not Processed Correctly (Continued)

Commission Response

We accept the recommendation.

A systematic solution which will correct borrower balances has been developed and is awaiting Commission approval. The balances should be properly stated before the end of the state fiscal year 2012. Additionally, we have an RFP in process to replace the servicer of our Private Loan portfolio which should lead to better processing and control.

IDAPP also has a process where it reviews the SAS 70/SSAE-16 reports of all the outside service providers and follows up on any findings that are deemed material weaknesses.

Current Findings – *Government Auditing Standards*

Finding 11-9 Noncompliance with Write-Off Policy

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

During our analysis of the Illinois Designated Account Purchase Program's (IDAPP) student loan receivable balance, we noted that IDAPP's current write-off policy requires the Loan Accounting department to write-off the loan balance within three business days of receiving the completed and approved write-off form. Three out of the three selections reviewed (100%) were not written-off within three business days, as required by the policy. They were written off 23 days from the date of receiving the completed and approved write-off form.

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

According to IDAPP management, timeliness of the write-offs was the result of reductions in the workforce occurring within IDAPP.

Not posting the write-off within the required time period of three days could result in interest being inaccurately accrued on outstanding balances. Although individual write-off amounts were immaterial (an average of $250), these amounts can accumulate throughout the year to a more significant amount. (Finding Code Nos. 11-9, 10-5)

Recommendation

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

Commission Response

We accept the recommendation.

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

Additionally, the agency's credit agreement with Citi Bank does not allow us to write off loans. IDAPP recognizes an allowance for uncollectible loans in its balance sheet instead of writing off student loans. This should not be a problem going forward.

Current Findings – *Government Auditing Standards*

Finding 11-10 Debt Covenant Violation

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

During the audit of the agency's June 30, 2009 financial statements, the Illinois Designated Account Purchase Program (IDAPP) management brought to our attention that they had potentially violated one of the covenants relating to the agency's revolving credit line (loan) agreement with a bank. The noncompliance pertained to the "Coverage condition ratio" covenant. According to the line of credit agreement with the bank, the "Forbearance Excess Amount", defined as the aggregate value of all eligible student loans that are subject to forbearance, is to be used in the calculation of the coverage condition ratio covenant. When IDAPP completed the report, created by the bank, and as instructed by the bank, the report produced an inaccurate calculation of the amount for the loans in forbearance. Once the error was discovered and the Coverage condition ratio was recalculated, it resulted in noncompliance with the Coverage condition ratio by IDAPP. The minimum Coverage condition ratio required by the line of credit agreement is 104% and the current ratio as of June 30, 2011 was 102%.

During our audits of the agency's June 30, 2010 and 2011 financial statements, we noted that IDAPP was in violation of the same covenant noted above. In addition, the agency was in violation of another covenant, the "Default ratio." According to the line of credit agreement with the bank, the Default ratio is defined as "the annualized percentage of the aggregate principal balance of all student loans which have become defaulted pledged student loans during the settlement period divided by the weighted average principal balance of all pledged student loans during such settlement period". IDAPP is required to maintain a maximum Default ratio of 6.25%. As of June 30, 2011, IDAPP's Default ratio was 13.39%, resulting in noncompliance with the Default ratio by IDAPP.

As a result of the violation, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the event of default and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. Management believes the bank would have little incentive to call the line of credit and begin servicing the student loans itself, particularly because IDAPP has made all of its required payments in a timely fashion. The balance of the line of credit with the bank was $314,456,827 at June 30, 2011.

According to IDAPP management, the noncompliance with the Coverage condition ration and the Default ration is due to the increased level of delinquent accounts in the portfolio. The level has increased due to the poor global economic conditions.

Failure to comply with debt covenants could result in the debt becoming due and payable in advance of scheduled retirement dates. As a result of the violation, the bank may have certain remedies under the terms of the loan agreements, principal of which would be the right to call the loan and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code Nos. 11-10, 10-6, 09-1)

Recommendation

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

Current Findings – *Government Auditing Standards*

Finding 11-10 Debt Covenant Violation (Continued)

Commission Response

We accept the recommendation.

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

Prior Finding Not Repeated

A Noncompliance with Investment Policy

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) invested in a money market mutual fund with holdings in securities not permitted by its investment policy. (Finding Code No. 10-4)

The non-compliant investment was sold and the funds moved into a compliant investment on December 16, 2010. No noncompliant investments were noted during fiscal year 2011 audit testing.