McGladrey & Pullen
Certified Public Accountants

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

Financial Statements
For the Year Ended June 30, 2007

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

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

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Agency Officials

Executive Director (01/01/07 – Current)	Andrew Davis
Executive Director (07/01/06 – 12/31/06)	Larry Matejka
Chief Financial Officer (03/19/07 – Current)	John Sinsheimer
Director (01/15/07 – Current)	Steve Di Benedetto
Director (07/01/06 – 01/15/07)	Thomas Breyer
Director, Financial Management and Control (07/1/06 – 7/23/07)	Wendy Funk

Agency offices are located at:

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

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified matters involving IDAPP's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 42 - 44 of this report, as finding 07-2, (Internal Auditing) and finding 07-3, (Financial Reporting). The auditors also consider finding 07-3 to be a material weakness.

Exit Conference

The findings and recommendations appearing in this report were discussed with IDAPP personnel at an exit conference on February 11, 2008. Attending were:

Illinois Student Assistance Commission	
Thomas Hood	IDAPP Comptroller
Su Ju	IDAPP Assistant Comptroller
John Sinsheimer	Chief Financial Officer
Shoba Nandhan	ISAC Comptroller
McGladrey & Pullen, LLP	
Linda Abernethy	Partner
Rolake Adedara	Manager
Office of the Auditor General	
Jon Fox	Audit Manager

The responses to the recommendations were provided by Shoba Nandhan in a letter dated February 12, 2008.

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Student Assistance Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Illinois Designated Account Purchase Program, a fund of the State of Illinois, Illinois Student Assistance Commission, and do not purport to, and do not, present fairly the financial position of the State of Illinois, Illinois Student Assistance Commission as of June 30, 2007, and its changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 14, 2008 on our consideration of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission. The other schedules, listed in the table of contents as supplemental information, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 14, 2008

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

Statement of Net Assets
June 30, 2007

Assets

Current assets - unrestricted		
Cash and cash equivalents	$	82,185,963
Investments		70,466
Other receivables		98,080
Total current assets - unrestricted		82,354,509
Current assets - restricted		
Cash and cash equivalents		74,230,438
Investments		38,225,821
Notes receivable		45,655,222
Accounts receivable		
Student loans		616,845,149
Accrued interest - loans and notes		81,192,148
Accrued interest - investments		466,828
Federal special allowance and interest subsidy		20,431,754
Due from other funds		788,420
Unamortized bond issuance cost		40,064
Total current assets - restricted		877,875,844
Noncurrent assets - unrestricted		
Depreciated capital assets, net		43,937
Other assets		16,196
Total noncurrent assets - unrestricted		60,133
Noncurrent assets - restricted		
Notes receivable		37,354,272
Accounts receivable		
Student loans, net of allowance for loan losses of $11,962,226		2,798,110,121
Unamortized bond issuance costs		1,379,379
Total noncurrent assets - restricted		2,836,843,772
Total assets		3,797,134,258

(Continued)

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

Statement of Net Assets (Continued)
June 30, 2007

Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$	14,942,712
Accrued interest payable		10,281,261
Due to other funds		27,019,582
Compensated absences		116,705
Revolving credit line		195,170,107
Demand revenue bonds payable, net		40,480,692
Total current liabilities		288,011,059
Noncurrent liabilities		
Compensated absences		604,346
Revenue bonds payable, net		3,439,093,546
Total noncurrent liabilities		3,439,697,892
Total liabilities		3,727,708,951
Net Assets		
Invested in capital assets		43,937
Restricted		29,694,010
Unrestricted		39,687,360
Total net assets	$	69,425,307

See Notes to Financial Statements.

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2007

Operating revenues	
Investment income	
Interest - student loans	$ 180,391,431
Interest - investments	11,822,323
Total operating revenues	192,213,754
Operating expenses	
Interest and other student loan expenses	
Interest expense	
Student loan revenue bonds	213,091,090
Amortization of loan premiums and fees	22,212,778
Other student loan fees	11,613,896
Provision for loan losses	6,553,675
Other operating expenses	
Salaries and employee benefits	10,824,021
External loan servicing	25,412,019
Line of credit fees	815,576
Occupancy	886,195
Marketing expenses	1,891,061
Bond issuance and legal fees	40,065
Management and professional services	9,139,733
Depreciation	35,158
Other	1,301,246
Total operating expenses	303,816,513
Operating loss	(111,602,759)

(Continued)

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets (Continued)
Year Ended June 30, 2007

Nonoperating revenues (expenses)	
Federal special allowance and interest subsidy	$ 97,758,931
Loss before special item and transfers	(13,843,828)
Special Item (Note 16)	(16,851)
Transfers out	(56,298,487)
Change in net assets	(70,159,166)
Net assets, July 1, 2006	139,584,473
Net assets, June 30, 2007	$ 69,425,307

See Notes to Financial Statements.

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

Statement of Cash Flows
Year Ended June 30, 2007

Cash flows from operating activities		
Cash payments to suppliers for goods and services	$	(41,895,519)
Cash payments to employees for services		(10,922,080)
Cash receipts from other operating activities (student loans)		1,114,639,081
Cash payments for other operating activities (student loans)		(1,271,437,330)
Proceeds from sale of student loan portfolio		670,786,226
Expenses from sale of student loan portfolio		(1,445,995)
Net cash provided by operating activities		459,724,383
Cash flows from noncapital financing activities		
Principal payments related to early extinguishment of debt		(690,180,000)
Expenses related to early extinguishment of debt		(3,464,597)
Principal paid on revenue bonds and other borrowing		(40,135,000)
Proceeds from revolving credit line		195,170,107
Interest paid on revenue bonds and other borrowing		(211,010,228)
Operating grants - federal special allowance and interest subsidy		108,317,146
Transfers out		(29,298,487)
Net cash used for noncapital financing activities		(670,601,059)
Cash flows from capital and related financing activities		
Acquisition of capital assets		(14,219)
Cash flows from investing activities		
Interest received from investment securities		10,948,833
Purchase of investment securities		(47,596,000)
Proceeds from sale and maturities of investment securities		30,629,285
Net cash used for investing activities		(6,017,882)
Net decrease in cash and cash equivalents		(216,908,777)
Cash and cash equivalents, July 1, 2006		373,325,178
Cash and cash equivalents, June 30, 2007	$	156,416,401
Reported as:		
Current - unrestricted	$	82,185,963
Current - restricted		74,230,438
	$	156,416,401

(Continued)

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

Statement of Cash Flows (Continued)
Year Ended June 30, 2007

Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	$	(111,602,759)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation		35,158
Interest - investments		(11,822,323)
Interest expense		213,091,090
Amortization of student loan premiums and fees		22,212,778
Provisions for loan losses		6,553,675
Change in assets and liabilities		
Notes receivable		(1,015,087)
Accounts receivable		
Student loans		365,807,494
Accrued interest - loans and notes		(25,146,566)
Due from other funds		358,794
Other receivables		(98,080)
Other noncurrent assets		(16,196)
Accounts payable and accrued expenses		1,651,770
Compensated absences		(98,059)
Due to other funds		(187,306)
Net cash provided by operating activities	$	459,724,383
Supplemental disclosure of noncash transactions		
Net depreciation in fair value of investments	$	(459,709)

See Notes to Financial Statements.

Note 1. Description of Fund

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

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

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

Note 2. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

2. Fiscal dependency on the primary government.

Note 2. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Based upon the required criteria, IDAPP has no component units, nor is it a component unit of any other entity. However, because IDAPP is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements present only IDAPP as administered by the State of Illinois and ISAC, and do not purport to, and do not, present fairly the financial position of the State of Illinois or ISAC as of June 30, 2007, and changes in its financial position and cash flows, where applicable, for the year then ended in conformity with GAAP.

B. Basis of Presentation

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

C. Basis of Accounting

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

D. Revenue Recognition

Revenues from federal special allowance and interest subsidy assistance are recognized when earned. Uncollected interest income on student loans is accrued as revenue at June 30, 2007.

E. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in banks for locally held funds and securities with maturities of less than 90 days at the date of purchase. Cash and cash equivalents also include deposits held in the State Treasury.

Note 2. Summary of Significant Accounting Policies (Continued)

F. Investments

IDAPP presents investments in its Statement of Net Assets at fair value. The net appreciation or depreciation in the fair value of investments is included as interest on investments in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

G. 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 $50,000 (in the aggregate) are capitalized and amortized on a straight-line basis over the average remaining useful lives of the student loans. Premiums under $50,000 (in the aggregate) are expensed.

H. Allowance for Possible Loan Losses

The allowance for possible loan losses is a reserve for estimated credit losses, which may arise from the student loan portfolio. A provision for possible loan losses, which is a charge against earnings, is added to bring the allowance to a level that, in management's judgment, is adequate to absorb losses in the portfolio. Management performs an ongoing assessment of the loan portfolio in order to determine the appropriate level of the allowance. The factors considered in this evaluation include, but are not necessarily limited to, extreme delinquencies and violations of due diligence requirements 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 external loan servicers.

I. Interfund Transactions

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

J. Capital Assets

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

K. 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.

L. Compensated Absences

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

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

M. Bond Premiums, Discounts, and Issuance Costs

Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Amortization expense is reported as a component of interest expense in the financial statements.

N. Revenue Bonds Payable

Revenue bonds payable are stated at face value net of bond premiums and discounts.

O. Net Assets

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

Restricted - result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

Note 2. Summary of Significant Accounting Policies (Continued)

O. Net Assets (Continued)

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

P. 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.

Note 3. Deposits and Investments

A. Permitted Deposits and Investments

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

The Public Funds Investment Act (Act) also restricts the investment of funds under the control of IDAPP. These restrictions apply to any funds, which are not restricted by the terms of a bond document. Permitted deposits and investments under the Act include (subject to various restrictions and limitations) direct federal obligations of the United States of America, federal guaranteed obligations, participation interests in federal obligations, federal affiliated institutions, certificates of deposit, time deposits, and other bank deposits which are fully insured by the Federal Deposit Insurance Corporation or similar federal agency or which are fully collateralized, money market funds, repurchase agreements, investment agreements with financial institutions, commercial paper, State or municipal bonds, and bankers acceptances.

B. Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State law (30 ILCS 230/26) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. IDAPP has no policy that would further limit the requirements under the law.

Deposits of locally held funds are not exposed to custodial credit risk as of June 30, 2007.

The State Treasury is the custodian of the State's cash and cash equivalents for IDAPP maintained in the State Treasury. IDAPP independently manages cash and cash equivalents maintained outside the State Treasury. Deposits in the custody of the State Treasurer totaled $1,282,017 at June 30, 2007. These deposits 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 addressed as to custodial credit risk because IDAPP 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.

Note 3. Deposits and Investments (Continued)

C. Investments

Interest Rate Risk

IDAPP's investments are correlated to future cash needs for operations and are generally short-term in nature. A minimal amount of GNMA securities held have longer maturities, ranging from 8 to 10 years. These GNMA securities equal approximately 0.18% of the investments held. IDAPP's investment policy generally limits investment maturities to within two years from the date of purchase. Investments matched to a specific cash flow may exceed this limitation. The portfolio's maturity characteristics at June 30, 2007 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
GNMA Securities	$ 70,466	7.630
Other U.S. Agency Obligations (FNMA, FHLB, FHLMC)	38,225,821	0.390
U.S. Government Money Market Funds	136,259,691	0.093
Total	$ 174,555,978	
Portfolio weighted average maturity		0.161

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, 2007, IDAPP's investments were subject to credit risk as follows:

		Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's
Other U.S. Agency Obligations (FNMA, FHLB, FHLMC)	$ 38,225,821	AAA	Aaa
U.S. Government Money Market Funds	136,259,691	AAA	Aaa

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Custodial Credit Risk

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

The Illinois Designated Account Purchase Program investments include $38,225,821 of uninsured, uncollateralized and unregistered investments for which the securities are held by IDAPP's agent but not in IDAPP's name.

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

Concentration of Credit Risk

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

As of June 30, 2007, the following investments (other than U.S. government securities, and securities explicitly guaranteed by the U.S. government) exceed 5% of IDAPP's total investment portfolio.

Investment	Fair Value	of Portfolio
Federal Home Loan Bank (FHLB)	$ 11,272,156	29%
Federal Home Loan Mortgage Co. (FHLMC)	11,963,040	31%
Federal National Mortgage Association (FNMA)	14,990,625	39%

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, 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.

Foreign Currency Risk

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

Note 4. Notes Receivable

IDAPP may make 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 shall be pledged by the borrowing institution to IDAPP to secure such institution's obligation to IDAPP. The institutions are contractually committed to selling such loans to IDAPP after the loans reach a certain aging status. The total amount of IDAPP's receivable outstanding with such educational lenders approximated $83,000,000 as of June 30, 2007.

Note 5. Student Loans Receivable

IDAPP's student loans receivable balance is comprised of two types of student loans: loans that are originated or purchased as part of the Federal Family Education Loan Program (FFELP) and loans that are originated as part of IDAPP's Alternative Loan Program. All FFELP loans originated or purchased by IDAPP are guaranteed at 98% by certain Guarantors in accordance with the Higher Education Act (100% for loans disbursed before October 1, 1993 and are reinsured by the United States Department of Education (ED)). Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by ED. Alternative Loans are credit-based and a provision for loan loss is set aside for the full amount of the loan when a loan becomes 120 days delinquent. The total amount of Alternative Loans outstanding approximated $480,545,000 at June 30, 2007.

ED has issued detailed loan servicing requirements, which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. Management has identified loan-servicing deficiencies, which may result in loans, which will not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $11,962,226 as of June 30, 2007, which includes the amount collected from borrowers as an insurance fee for the Alternative Loans.

In addition, the net student loans receivable at June 30, 2007 of $3,414,955,270 includes $12,030,656 that IDAPP has classified as defaulted loans. These loans have been submitted to, but have not been reimbursed by, the guarantee agencies as of June 30, 2007.

For servicing contracts established with outside vendors, contractual provisions require the contractors to indemnify IDAPP for losses due to their negligence in loan servicing. Such recoveries will be recognized as income when received.

Included in the amount of student loans originated and purchased during fiscal year 2007 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 $50,000 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.

Failure to perform due diligence on certain student loans and the subsequent loss of guaranteed status on these loans may be interpreted as an event of default under various provisions of the bond resolutions. US Bank & Trust of Minneapolis acts as Bond Trustee for Taxable Variable Rate Demand Student Loan Revenue Bonds Series D. The bank of New York acts as Bond Trustee on all other outstanding financings. The Bond Trustees have not currently notified IDAPP of any events of default. Should the Bond Trustees declare an event of default as defined in the bond resolutions, the Bond Trustees, or holders representing not less than 25% in aggregate principal amount outstanding bonds are entitled to declare the principal of all bonds outstanding to be due and payable immediately.

Note 5. Student Loans Receivable (Continued)

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 for this fund include reinsurance receipts from ED.

The cash balance in this fund as of June 30, 2007 as reported by ISAC was $39,232,086. The accrual basis deferred revenue, which includes $26,791,712 of claims in process, was $47,961,290. If the federal reinsurance percentage were 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 $3,414,955,270 at June 30, 2007 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 Subsidies

The Federal government pays IDAPP 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 receivable at June 30, 2007 was approximately $11,200,000 and related revenue was approximately $45,100,000 for the year ended June 30, 2007.

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. The special allowance payments receivable at June 30, 2007 were approximately $9,200,000 and related revenue was approximately $52,600,000 for the year ended June 30, 2007.

Note 7. Interfund Balances and Activity

Balances Due from/to Other Funds

The following balances at June 30, 2007 represent amounts due from other ISAC funds.

Fund	Amount	Description/Purpose
Federal Student Loan Fund (#663)	$ 788,420	Claim payments. Collection of these funds is anticipated in fiscal year 2008.

Note 7. Interfund Balances and Activity (Continued)

Balances Due from/to Other Funds (Continued)

The following balances at June 30, 2007 represent amounts due to other ISAC funds.

Fund	Amount	Description/Purpose
Federal Student Loan Fund (#663)	$ 19,582	For refunds.
Student Loan Operating fund (#664)	27,000,000	For MAP grants and MAP Plus programs.
	$ 27,019,582	

Transfers to Other Funds

During fiscal year 2007, IDAPP transferred $53,529,500 to the ISAC Student Loan Operating Fund to cover the MAP Plus awards and grants. $26,500,000 of this amount is included in “Due to other funds” on the Statement of Net Assets as of year-end. IDAPP also transferred $2,000,000 for default payments. An amount of $768,987 was also transferred to the ISAC COP Debt Service Fund for lease payments.

Note 8. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Equipment	Accumulated Depreciation	Capital Assets, Net
Balance, July 1, 2006	$ 499,953	$ (435,077)	$ 64,876
Additions	14,219	(35,158)	(20,939)
Deletions	-	-	-
Balance, June 30, 2007	$ 514,172	$ (470,235)	$ 43,937

Note 9. Long-Term Obligations Payable

Revenue bonds and notes and demand revenue bonds payable are as follows:

Revenue Bonds and Notes*		Demand Revenue Bonds*		
Resolution Issues	Amount Outstanding	Resolution Issues	Amount Outstanding	Total
A(1)	$ 936,674,009	B(1)	$ 49,858,225	
A(2)	868,242,533	B(2)	15,100,000	
A(3)	1,427,100,422	B(3)	40,927,952	
		B(4)	42,181,193	
		B(5)	99,489,903	
	$ 3,232,016,964		$ 247,557,274	$ 3,479,574,238

* Reported net of unamortized discounts.

A. Revenue Bonds and Notes Payable

1. On December 4, 1995, ISAC adopted a general resolution and adopted supplemental resolutions on December 4, 1995, November 4, 1996, July 20, 1998, September 8, 2000, November 13, 2000, September 17, 2001 and November 8, 2002 authorizing the issuance of Education Loan Revenue Notes, Notes 1 and 2, Note 3, Note 4, Notes 5 and 6, Note 7, Note 8, Notes 9 and 10, and Notes 11 and 12, respectively. All notes are at a variable rate of interest. Any subsequent notes issued under this resolution are issued on parity and the assets acquired and revenues generated under these note issues serve as collateral for all of these issues.

2. On November 9, 2001, ISAC adopted a general resolution and adopted supplemental resolutions on November 9, 2001, April 11, 2003, and January 24, 2005 authorizing the issuance of Student Loan Revenue Bonds, Series 2001A and 2001B, Series 2003A and 2003B, and Series 2005B, 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.

3. 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.

All of the above General Resolution Bonds are auction rate certificates. The General Resolution Bonds - Series 6, Series 1996A, Series 1997A, Series 1998A, Series 1999A, Series 2001A, Series 2003A and Series 2003 III are tax-exempt. Bonds not specifically referred to in this paragraph are taxable. The variable interest rate for tax exempt debt is reset every 35 days based on the 90-day Treasury Bill rate. The variable interest rate for taxable debt is reset every 28 days, based on the one-month LIBOR rate. The variable interest rate for tax-exempt debt at June 30, 2007 was 3.95%. The variable interest rate for taxable debt at June 30, 2007 was 5.37%.

Note 9. Long-Term Obligations Payable (Continued)

B. Demand Revenue Bonds Payable

1. On June 14, 1993, ISAC adopted a resolution authorizing the issuance of Taxable Variable Rate Demand Student Loan Revenue Bonds Series D. 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 $50,000,000 of Taxable Variable Rate Demand Student Loan Revenue bonds, Series D, has a final maturity of September 1, 2023.

2. On January 19, 1996, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1996A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1996B. 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 $6,900,000 of Variable Rate Demand Student Loan Revenue Bonds, Series 1996A had a final maturity of March 1, 2006 and the $15,100,000 of Series 1996B have a March 1, 2016 maturity.

3. On February 1, 1997, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1997A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1997B. 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 $41,100,000 of Variable Rate Demand Student Loan Revenue Bonds, Series 1997A and 1997B have a final maturity date of September 1, 2031.

4. On February 1, 1998, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1998A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1998B. 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 $42,400,000 of Variable Rate Demand Student Loan Revenue Bonds, Series 1998A and 1998B have a final maturity date of September 1, 2032.

5. On November 15, 1999, ISAC adopted a resolution authorizing the issuance of Variable Rate Demand Student Loan Revenue Bonds, Series 1999A and Taxable Variable Rate Demand Student Loan Revenue Bonds, Series 1999B. 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 $100,000,000 of Variable Rate Demand Student Loan Revenue Bonds, Series 1999A and 1999B have a final maturity date of September 1, 2034.

The Variable Rate Demand Student Loan Revenue Bonds Series D, 1996B, 1997A, 1997B, 1998A, 1998B, 1999A and 1999B totaling approximately $248,600,000 are currently in a Weekly Rate Mode with the interest rate changing weekly as determined by the Remarketing Agent and are secured by letters of credit or bond insurance (see Note 9.C). These bonds may be converted to a Fixed Interest Rate Mode at the option of the Bond Trustee.

Note 9. Long-Term Obligations Payable (Continued)

B. Demand Revenue Bonds Payable (Continued)

The bonds may be redeemed prior to the conversion date (as defined) at the principal amount plus accrued interest to the date of redemption. The variable interest rate for tax-exempt debt is reset weekly based on market conditions. The variable interest rate for taxable debt is reset weekly based on market conditions. As of June 30, 2007, interest rates were 3.80% for tax-exempt debt and 5.35% for taxable debt.

The bonds may be redeemed after the conversion date at various premiums, dependent upon the remaining length of maturity of the bonds, as outlined in the bond agreements.

C. Demand Revenue Bonds Payable – Other Terms and Agreements

IDAPP had $247,557,275 in demand bonds payable (net of unamortized discount) as of June 30, 2007. The demand bonds are described in Note 9 items B1-B5. These demand bonds do not constitute a debt, liability or obligation of the State of Illinois or a pledge of the full faith and credit of the State of Illinois. Neither IDAPP nor ISAC have taxing power. These demand bonds are limited obligations of IDAPP, payable from the revenues to be derived from student loans purchased or originated, and from other assets within the trust estate. The bonds were issued for the purpose of providing IDAPP with monies to originate or acquire eligible loans.

The bonds are required to be purchased upon demand of its holder on any business day upon not less than seven days' prior written notice. Once such a notice is given by a bondholder, the bondholder will be required to tender the bond. The bonds are subject to mandatory tender in an amount equal to their principal amount plus accrued interest.

IDAPP has reported principal amounts totaling $41,100,000, as current liabilities (Series 1997A and B bonds) because the takeout agreement expires during fiscal year 2008. Remaining amounts are reported as non-current because IDAPP entered into take-out agreements to convert bonds "put" but not resold into other forms of long-term obligations. The details of these arrangements are described below, by issue.

Series D Bonds

Under an irrevocable, transferable direct pay letter of credit issued by Bank of America, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit will expire on February 28, 2009.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 8.25% as of June 30, 2007. The take-out agreement expires February 28, 2009.

IDAPP is required to pay Bank of America a quarterly commitment fee for the letter of credit. Quarterly commitment fees currently in effect range from .450% to .550% of the available amount of the letters of credit. IDAPP has not paid a take-out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2007, IDAPP had not drawn any funds under its existing letter of credit agreements.

Note 9. Long-Term Obligations Payable (Continued)

C. Demand Revenue Bonds Payable – Other Terms and Agreements (continued)

Series 1996A and 1996B Bonds

Under a standby bond purchase agreement issued by Bank of America, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The standby bond purchase agreement will expire on February 28, 2009.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 8.25% as of June 30, 2007. The take-out agreement expires on February 28, 2009.

IDAPP is required to pay Bank of America a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take-out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2007, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Series 1997A and 1997B Bonds

Under an irrevocable, transferable direct pay letter of credit issued by JP Morgan Chase, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letter of credit will expire on February 25, 2008. The entire amount of $41,100,000 has been shown as a current liability as of June 30, 2007.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with JP Morgan Chase to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 6.07% as of June 30, 2007. The take-out agreement expires on February 25, 2008.

IDAPP is required to pay JP Morgan Chase a quarterly commitment fee for the letter of credit. Quarterly commitment fees currently in effect range from .450% to .550% of the available amounts of the letter of credit. IDAPP has not paid a take-out agreement fee to JP Morgan Chase. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2007, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Series 1998A and 1998B Bonds

Under a standby bond purchase agreement issued by Bank of America, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The standby bond purchase agreement will expire on April 1, 2010.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with Bank of America to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 8.25% as of June 30, 2007. The take-out agreement expires on April 1, 2010. IDAPP is required to pay Bank of America a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts.

Note 9. Long-Term Obligations Payable (Continued)

C. Demand Revenue Bonds Payable – Other Terms and Agreements (Continued)

Series 1998A and 1998B Bonds (Continued)

IDAPP has not paid a take-out agreement fee to Bank of America. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2007, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Series 1999A and 1999B Bonds

Under a standby bond purchase agreement issued by JP Morgan Chase, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The standby bond purchase agreement will expire on December 9, 2008.

If the remarketing agent is unable to resell the bonds that are "put," IDAPP has a take-out agreement with JP Morgan Chase to convert the bonds to an installment loan payable over the term of the agreement bearing an adjustable interest rate equal to 9.25% as of June 30, 2007. The take-out agreement expires December 9, 2008.

IDAPP is required to pay JP Morgan Chase a quarterly commitment fee for the liquidity facility. Quarterly commitment fees currently in effect range from .165% to .200% of the liquidity facility amounts. IDAPP has not paid a take-out agreement fee to JP Morgan Chase. In addition, the remarketing agent receives a quarterly fee ranging from .075% to .100% of the outstanding principal amount of the bonds. As of June 30, 2007, IDAPP had not drawn any funds under its existing liquidity facility agreements.

Debt Service Requirements – Take Out Agreements

The debt service requirements that would be necessary if the take-out agreements are exercised are as follows (amounts in thousands):

	Series D		Series 1996A and 1996B		Series 1997A and 1997B	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 28,571	$ 3,298	$ 8,629	$ 996	$ 41,100	$ 2,250
2009	21,429	800	6,471	272	-	-
2010	-	-	-	-	-	-
Total	$ 50,000	$ 4,098	$ 15,100	$ 1,268	$ 41,100	$ 2,250

	Series 1998A and 1998B		Series 1999A and 1999B	
Year	Principal	Interest	Principal	Interest
2008	$ -	$ 3,554	$ -	$ 9,402
2009	-	3,544	-	9,376
2010	-	3,544	20,000	8,327
2011	8,480	3,342	20,000	6,452
2012	8,480	2,641	20,000	4,705
2013-2016	25,440	3,910	40,000	3,527
Total	$ 42,400	$ 20,535	$ 100,000	$ 41,789

Note 9. Long-Term Obligations Payable (Continued)

D. Changes in Long-term Obligations Payable

Changes in long-term obligations payable for the year ended June 30, 2007 were as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
Compensated absences payable	$ 819,110	$ 501,292	$ (599,351)	$ 721,051	$ 116,705
Revenue bonds payable	4,222,515,000	-	(730,315,000)	3,492,200,000	41,100,000
Unamortized discounts	(16,505,860)	-	3,880,098	(12,625,762)	(619,308)
	$ 4,206,828,250	$ 501,292	$ (727,034,253)	$ 3,480,295,289	$ 40,597,397

E. Bond Covenant Non-compliance

Certain bond indentures require IDAPP to deliver to bond trustees audited financial statements within 120 days (150 days for two bond series) after its fiscal year ended June 30, 2007. Although IDAPP is not in compliance with either the 120 day or 150 day filing requirements, there has been no notice of nonperformance of this provision by the bond trustees and, therefore, no event of default. IDAPP would have 30 days after receiving notice to remedy the condition.

In July and August, 2007, IDAPP retired all remaining debt subject to the bond covenant noncompliance, refer to Note 17.

Note 9. Long-Term Obligations Payable (Continued)

F. Future Maturities of Revenue Bonds and Notes Payable

IDAPP issues bonds and notes to provide funds for student loan originations and purchases. IDAPP pledges the income derived from its asset 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
2008	$ 41,100,000	$ 184,875,320	$ 225,975,320
2009	1,700,000	183,639,187	185,339,187
2010	-	183,628,420	183,628,420
2011	82,650,000	182,303,528	264,953,528
2012	-	179,653,745	179,653,745
2013-2017	75,100,000	883,229,592	958,329,592
2018-2022	-	878,119,475	878,119,475
2023-2027	50,000,000	867,865,308	917,865,308
2028-2032	105,000,000	851,587,975	956,587,975
2033-2037	1,087,100,000	700,918,098	1,788,018,098
2038-2042	900,000,000	422,586,808	1,322,586,808
2043-2045	1,149,550,000	119,018,890	1,268,568,890
	3,492,200,000	$ 5,637,426,346	$ 9,129,626,346
Less:			
Demand revenue bonds	41,100,000		
Long-term principal outstanding	3,451,100,000		
Less:			
Unamortized bond discounts	(12,006,454)		
Net long-term principal outstanding	$ 3,439,093,546		

Note 9. Long-Term Obligations Payable (Continued)

F. Future Maturities of Revenue Bonds and Notes Payable (Continued)

Approximately 99% of IDAPP's debt outstanding is comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the current interest rate of 3.95% on tax-exempt variable rate demand note debt, 5.37% on tax-exempt auction rate debt, 3.8 % on taxable variable rate demand note debt, and 5.32% on taxable auction rate debt. Actual interest paid in future years could be materially different.

Note 10. Pension Plan

Substantially all of ISAC's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. 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 SERS for fiscal year 2007 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007. SERS issues a separate CAFR that may be obtained by writing to 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 SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

IDAPP pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. IDAPP's required and actual contributions for fiscal year 2007, 2006 and 2005 were $853,909, $575,840 and $1,197,259, respectively. For fiscal year 2007, 2006 and 2005, the employer contribution rate was 11.5%, 7.8% and 16.1%, respectively.

Note 11. Post-Employment Benefits

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to $5,000 per annuitant age 60 and older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2007. However, post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual fund or State agency is not available. Payments are made on a "pay-as-you-go" basis.

Note 12. Risk Management

IDAPP, through the Commission, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Commission's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and, accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2007.

Note 13. Commitments and Contingencies

The Internal Revenue Code requires that an issuer of tax-exempt bonds rebate to the United States any excess investment earnings made with the gross proceeds of an issue over the amount which would have been earned had such proceeds been invested at a rate equal to the yield on the issue. Accordingly, IDAPP has accrued $230,194 as of June 30, 2007 for amounts potentially due to the government and has treated this as a reduction to investment income.

IDAPP has entered into a number of contracts with lenders, to act as IDAPP's agents and facilitate the purchase of Federal Family Education Loan Program (FFELP) student loans for IDAPP. FFELP loans are guaranteed by the Federal Department of Education. IDAPP is committed to disbursing the funds for the FFELP loans purchased by these lenders. The total amount of the purchase commitment is not specified in the individual contracts. IDAPP's obligation under these purchase agreements is estimated to range from $0.3 to $37 million. The total amount of loans purchased by IDAPP with all lenders in FY2007 was approximately $150 million.

Letters of credit and liquidity facilities in the amount of $252,954,848 have been established with financial institutions in support of the Student Loan Revenue Bonds, Series D, Series 1996A and 1996B, Series 1997A and 1997B, Series 1998A and 1998B, and Series 1999A and 1999B, for liquidity and credit enhancement purposes. IDAPP has drawn $0 on the letters of credit as of June 30, 2007.

Note 14. New Governmental Accounting Standards

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

Statement No. 48*, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to ascertain whether the proceeds received in exchange for an interest in their expected cash flows from collecting specific receivables or specific future revenues should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. This Statement also requires disclosures pertaining to future revenues that have been pledged or sold and is intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. The Commission is required to implement this Statement for the year ending June 30, 2008.

Note 14. New Governmental Accounting Standards (Continued)

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

Note 15. Short-Term Revolving Credit Line

On June 22, 2006 ISAC/IDAPP executed a $500,000,000 short-term revolving credit agreement with Bank of America, N.A. The revolving credit line was used to purchase eligible student loans (guaranteed or insured or is an eligible loan under the Higher Education Act), and was due to expire on June 21, 2007. The line was extended to October 21, 2007. US Bank is the Trustee for this credit line. Changes in the revolving credit line are as follows:

Balance, July 1, 2006	Additions	Deletions	Balance, June 30, 2007
$ -	$ 195,170,107	$ -	$ 195,170,107

The terms of the credit line are as follows:

Loans on the credit line are drawn at the applicable rate per annum equal to either (a) with respect to Base rate loans, 0%, (b) with respect to LIBOR Loans, .30%. For the unused portion of the credit line, the commitment fee is .05%.

Loans may be at Base Rate Loans or LIBOR loans and are used (i) solely for the purchase or origination by or on behalf of the Borrower of the principal of, and accrued interest on eligible loans and (ii) for advances by the borrower under a school as lender loan agreement.

Base Rate means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds rate plus ½ of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by the Bank of America as its “prime rate.”

LIBOR means, for any day, a fluctuating rate of interest equal to the one (1) month London Interbank Offered Rate as published in the “Money Rates” section of the Wall Street Journal.

As of June 30, 2007 there was $195,170,107 outstanding under this line. This amount was retired (paid) August 29, 2007.

Note 16. Special Item

A. Sale of Student Loans

On January 26, 2007 the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of $662.5 million for $670.8 million. The loans receivable constituted 11% of IDAPP's total student loan portfolio as of the date of the sale.

The gross premium from the sale of $37,086,286 less the expenses related to the sale of $1,445,995, and the corresponding write-off of unamortized premiums, origination and default fees of $28,828,099 are reported as special items in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

$26.5 million of the proceeds from the sale were transferred to ISAC's Student Loan Operating Fund to fund the expenditures associated with the MAP Plus scholarships.

B. Early Extinguishment of Related Debt

ISAC also retired $690,180,000 in revenue bonds associated with the student loan portfolio which was sold in January 2007. Expenses related to the early extinguishment of $3,464,597, and write-offs of unamortized bond discounts of $3,364,446 are reported as special items in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Details of the amount reported as a special item are as follows:

Special Item	
Sale of student loan portfolio	
Premium from sale of loans	$ 37,086,286
Expenses related to sale of loans	(1,445,995)
Gain from loan sale, net of direct expenses	35,640,291
Write-off of capitalized premiums, origination, and default fees	(28,828,099)
Net gain from sale of student loans	6,812,192
Early extinguishment of debt	
Expenses related to retirement of bonds	(3,464,597)
Write-off of unamortized discounts for bonds retired	(3,364,446)
Net loss related to early extinguishment of debt	(6,829,043)
Net special item	$ (16,851)

Note 17. Subsequent Events

On July 31, 2007 the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of $1.41 billion for $1.46 billion. The loans receivable constituted 41% of IDAPP's total student loan portfolio as of the date of the sale. ISAC retired approximately $2.1 billion in revenue bonds associated with the portfolio that was sold. $27 million of the remaining proceeds from the sale were transferred to the Student Loan Operating Fund to fund expenditures associated with the Monetary Award Program scholarship of the State of Illinois.

On August 31, 2007 the Illinois Student Assistance Commission sold student loans receivable from the Illinois Designated Account Purchase Program Fund with a carrying amount of $1.09 billion for $1.12 billion. The loans receivable constituted 52% of IDAPP's total student loan portfolio as of the date of the sale. ISAC retired approximately $515 million in revenue bonds associated with the portfolio that was sold. The remaining proceeds from the loan sale were used to fund new Illinois based student loans.

Effective October 1, 2007 the Federal Government passed the College Cost Reduction and Access Act (CCRAA). The CCRAA resulted in significant reductions to the Illinois Student Assistance Commission's (ISAC) revenue streams. As a result, in November 2007, ISAC implemented a plan of restructuring. The restructuring plan will focus on making student loans primarily to Illinois students, and students attending Illinois schools. As a result of the restructuring, approximately 67 budgeted positions, including 17 vacancies, were eliminated. Of these, 16 positions and 6 vacancies were from IDAPP. Employees laid off were compensated according to State Universities Civil Service System rules and Federal regulations. Lump sum amounts paid for compensated absences for sick and vacation are accrued in the Statement of Revenues, Expenses and Changes in Fund Net Assets as current liabilities.

After the bond retirement discussed above ($2.6 billion total), all remaining IDAPP outstanding bonds are auction rate certificates issued under a General Resolution adopted on July 29, 2002 which was supplemented and amended for additional bond issues (such document as amended and supplemented is hereinafter referred to as the "2002 Resolution"). Starting in August 2007 and continuing through February, 2008, the bond markets experienced severe disruption. As a result, an auction held on February 13, 2008 for $70 million of bonds issued under the 2002 Resolution failed to attract enough bidders. While the market remains unpredictable, management believes that it is highly likely that subsequent auctions on the remaining $815 million of outstanding bonds under the Resolution will fail as well. A "failed auction" results in the bonds being priced at the "maximum rate" which, as defined in the 2002 Resolution, can be no more than LIBOR plus 1.5%. Auctions of bonds continue during this period of failed auctions; with the difference between the maximum rate and that rate set by the market (should it be higher than the maximum rate), classified as "Carryover Interest." Carryover interest is payable under certain conditions as defined in the 2002 Resolution and its supporting documents. After analysis of these documents by legal counsel, management has concluded that it is improbable that these conditions will be met. As a result, management believes that the carryover interest will not become due and payable.

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Schedule of Bonds Outstanding
June 30, 2007

A summary of bonds and notes outstanding at June 30, 2007 is presented as follows:

	1995 Series Note 1 and 2	1997 Series Note 3	1999 Series Note 4	2000 Series Note 5 and 6
Original amount	$ 50,000,000	$ 60,000,000	$ 105,000,000	$ 75,000,000
Principal retirements	-	-	-	-
Unamortized discount	(79,440)	(126,531)	(355,372)	(273,929)
Balance at June 30, 2007	$ 49,920,560	$ 59,873,469	$ 104,644,628	$ 74,726,071
Effective interest rate (1)	Variable	Variable	Variable	Variable
Date of bonds	12/12/95	12/5/97	1/15/99	09/26/00
Interest dates	Varies	Varies	Varies	Varies
Paying agents	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY
Optional call feature beginning:	At issuance 100%	At issuance 100%	At issuance 100%	At issuance 100%
Taxable/ Tax-exempt	Taxable	Taxable	Taxable	Note 5 - Taxable Note 6 - Tax-exempt

(1) As of June 30, 2007 variable interest rates were 3.80% for tax-exempt variable rate demand debt, 5.35% for taxable variable rate demand debt, 3.95% for tax-exempt auction rate securities debt and 5.37% for taxable auction rate securities debt.

Schedule of Bonds Outstanding (Continued)
June 30, 2007

Summary of bonds and notes outstanding at June 30, 2007 (Continued)

	2000 Series Note 7 and 8	2001 Series Note 9 and 10	2002 Series Note 11 and 12	Series 2001A and Series 2001B	Series 2003A and Series 2003B
Original amount	$ 250,000,000	$ 200,000,000	$ 200,000,000	$ 250,000,000	$ 300,000,000
Principal retirements	-	-	-	(28,600,000)	-
Unamortized discount	(961,203)	(814,640)	(714,877)	(879,579)	(1,100,566)
Balance at June 30, 2007	$ 249,038,797	$ 199,185,360	$ 199,285,123	$ 220,520,421	$ 298,899,434
Effective interest rate (1)	Variable	Variable	Variable	Variable	Variable
Date of bonds	11/17/00	09/28/01	11/19/02	01/09/02	5/1/03
Interest dates	Varies	Varies	Varies	Varies	Varies
Paying agents	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY
Optional call feature beginning:	At issuance 100%	At issuance 100%	At issuance 100%	At issuance 100%	At issuance 100%
Taxable/ Tax-exempt	Taxable	Taxable	Taxable	2001A - Tax-exempt 2001B- Taxable	2003A - Tax-exempt 2003B - Taxable

(1) As of June 30, 2007 variable interest rates were 3.80% for tax-exempt variable rate demand debt, 5.35% for taxable variable rate demand debt, 3.95% for tax-exempt auction rate securities debt and 5.37% for taxable auction rate securities debt.

Schedule of Bonds Outstanding (Continued)
June 30, 2007

Summary of bonds and notes outstanding at June 30, 2007 (Continued)

	Series 2005B	Series 2002 I and Series 2002II	Series 2003 III 2003IV and 2003V	Series 2004 VI and 2004 VII	Series 2005 VIII and 2005 IX
Original amount	$ 350,000,000	$ 250,000,000	$ 350,000,000	$ 250,000,000	$ 600,000,000
Principal retirements	-	-	(17,800,000)	-	-
Unamortized discount	(1,177,322)	(947,781)	(1,237,204)	(928,261)	(1,986,332)
Balance at June 30, 2007	$ 348,822,678	$ 249,052,219	$ 330,962,796	$ 249,071,739	$ 598,013,668
Effective interest rate (1)	Variable	Variable	Variable	Variable	Variable
Date of bonds	02/04/05	8/20/02	10/2/03	4/21/04	7/19/05 12/08/05
Interest dates	March 1 and September 1	Varies	Varies	Varies	Varies
Paying agents	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY
Optional call feature beginning:	At issuance 100%	At issuance 100%	At issuance 100%	At issuance 100%	At issuance 100%
Taxable/ Tax-exempt	Taxable	Taxable	Series III - Tax-exempt Series IV, V - Taxable	Taxable	Taxable

(1) As of June 30, 2007 variable interest rates were 3.80% for tax-exempt variable rate demand debt, 5.35% for taxable variable rate demand debt, 3.95% for tax-exempt auction rate securities debt and 5.37% for taxable auction rate securities debt.

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Schedule of Bonds Outstanding (Continued)
June 30, 2007

Summary of bonds and notes outstanding at June 30, 2007 (Continued)

	1993 Series Series D	Series 1996A and Series 1996B	Series 1997A and Series 1997B	Series 1998A and Series 1998B	Series 1999A and Series 1999B
Original amount	$ 50,000,000	$ 65,000,000	$ 63,700,000	$ 60,000,000	$ 100,000,000
Principal retirements	-	(49,900,000)	(22,600,000)	(17,600,000)	-
Unamortized discount	(141,775)	-	(172,048)	(218,807)	(510,095)
Balance at June 30, 2007	$ 49,858,225	$ 15,100,000	$ 40,927,952	$ 42,181,193	$ 99,489,905
Effective interest rate (1)	Variable	Variable	Variable	Variable	Variable
Date of bonds	9/22/93	2/28/96	2/26/97	2/25/98	12/09/99
Interest dates	Monthly, Quarterly, Semiannual (dependent upon interest mode)	Monthly, Quarterly, Semiannual (dependent upon interest mode)	Monthly, Quarterly, Semiannual (dependent upon interest mode)	Monthly, Quarterly, Semiannual (dependent upon interest mode)	Monthly, Quarterly, Semiannual (dependent upon interest mode)
Paying agents	US Bank & Trust Minneapolis, MN	Bank of New York New York, NY	Bank of New York New York, NY	Bank of New York New York, NY	Bank One Chicago, IL
Optional call feature beginning:	After conversion date (as defined)	Prior to, or after conversion date (as defined)	At issuance conversion date (as defined)	At issuance conversion date (as defined)	Prior to, or after conversion date (as defined)
Taxable/ Tax-exempt	Taxable	1996A - Tax-exempt 1996B - Taxable	1997A - Tax-exempt 1997B - Taxable	1998A - Tax-exempt 1998B - Taxable	1999A - Tax-exempt 1999B - Taxable

(1) As of June 30, 2007 variable interest rates were 3.80% for tax-exempt variable rate demand debt, 5.35% for taxable variable rate demand debt, 3.95% for tax-exempt auction rate securities debt and 5.37% for taxable auction rate securities debt.

Schedule of Bonds Outstanding (Continued)
June 30, 2007

Summary of bonds and notes outstanding at June 30, 2007 (Continued)

		Total
Original amount	$	3,628,700,000
Principal retirements		(136,500,000)
Unamortized discount		(12,625,762)
Balance at June 30, 2007	$	3,479,574,238

Debt outstanding per Statement of Net Assets			Debt classified as taxable v. tax-exempt		
Current portion of :					
Revenue bonds payable	$	-	Tax-exempt	$	119,250,000
Demand revenue bonds payable		40,927,952	Taxable		3,372,950,000
Long-term revenue bonds payable, net		3,438,646,286	Unamortized discount		(12,625,762)
Total debt outstanding	$	3,479,574,238		$	3,479,574,238

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Schedule of Principal Maturities
June 30, 2007

Principal maturity requirements are as follows (in 000's)

	Bond Series	2008	2009	2010	2011	2012	2013
(1)	Note1 and 2	$ -	$ -	$ -	$ 50,000	$ -	$ -
(1)	Note 3	-	-	-	-	-	60,000
(1)	Note 4	-	-	-	-	-	-
(1)	Note 5 and 6	-	-	-	-	-	-
(1)	Note 7 and 8	-	-	-	-	-	-
(1)	Note 9 and 10	-	-	-	-	-	-
(1)	Note 11 and 12	-	-	-	-	-	-
(1)	Series 2001A & 2001B	-	-	-	-	-	-
(1)	Series 2003A & 2003B	-	-	-	-	-	-
(1)	Series 2005B	-	-	-	-	-	-
(1)	Series 2002I & 2002II	-	-	-	-	-	-
(1)	Series 2003 III,IV,V	-	-	-	32,650	-	-
(1)	Series 2004 VI, VII	-	-	-	-	-	-
(1)	Series 2005 VIII, IX	-	-	-	-	-	-
(2)	Series D	-	-	-	-	-	-
(2)	Series 1996A & 1996B	-	-	-	-	-	-
(2)	Series 1997A & 1997B	41,100	-	-	-	-	-
(2)	Series 1998A & 1998B	-	1,700	-	-	-	-
(2)	Series 1999A & 1999B	-	-	-	-	-	-
	Total	$ 41,100	$ 1,700	$ -	$ 82,650	$ -	$ 60,000

(1) Revenue bonds

(2) Demand revenue bonds

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Schedule of Principal Maturities (Continued)
June 30, 2007

Principal maturity requirements are as follows (in 000's)

	Bond Series	2014	2015	2016	Thereafter	Total
(1)	Note1 and 2	$ -	$ -	$ -	$ -	$ 50,000
(1)	Note 3	-	-	-	-	60,000
(1)	Note 4	-	-	-	105,000	105,000
(1)	Note 5 and 6	-	-	-	75,000	75,000
(1)	Note 7 and 8	-	-	-	250,000	250,000
(1)	Note 9 and 10	-	-	-	200,000	200,000
(1)	Note 11 and 12	-	-	-	200,000	200,000
(1)	Series 2001A & 2001B	-	-	-	221,400	221,400
(1)	Series 2003A & 2003B	-	-	-	300,000	300,000
(1)	Series 2005B	-	-	-	350,000	350,000
(1)	Series 2002I & 2002II	-	-	-	250,000	250,000
(1)	Series 2003 III,IV,V	-	-	-	299,550	332,200
(1)	Series 2004 VI, VII	-	-	-	250,000	250,000
(1)	Series 2005 VIII, IX	-	-	-	600,000	600,000
(2)	Series D	-	-	-	50,000	50,000
(2)	Series 1996A & 1996B	-	-	15,100	-	15,100
(2)	Series 1997A & 1997B	-	-	-	-	41,100
(2)	Series 1998A & 1998B	-	-	-	40,700	42,400
(2)	Series 1999A & 1999B	-	-	-	100,000	100,000
	Total	$ -	$ -	$ 15,100	$ 3,291,650	$ 3,492,200

(1) Revenue bonds

(2) Demand revenue bonds

McGladrey & Pullen
Certified Public Accountants

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

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois Designated Account Purchase Program of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2007 and have issued our report thereon dated February 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (findings 07-2 and 07-3).

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

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding 07-3 to be a material weakness.

Compliance and Other Matters

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

We are currently conducting a State compliance examination of the Illinois Student Assistance Commission, as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 14, 2008

Current Findings – ***Government Auditing Standards***

(Note: Audit Finding 07-1 is reported in the Illinois Student Assistance Commission – Illinois Prepaid Tuition Program financial audit. It is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

07-2 Internal Auditing

(Note: This finding is also reported in the Department-wide audit of the Illinois Student Assistance Commission and in the Illinois Prepaid Tuition Program financial audit of the Illinois Student Assistance Commission.)

The Illinois Student Assistance Commission (Commission) failed to perform internal audits of its major systems of internal accounting and administrative controls within the last two years.

Based on our examination of the Commission's internal audit program, we noted that the Commission did not audit 4 of its 12 (33%) major systems of internal accounting and administrative controls within the last two years. Specifically, the Commission failed to audit the following (last FY audited):

1. Revenues, Cash Receipt & Payment Posting (FY 2005)
2. US Department of Education - Reporting & Due Diligence:
    a. General (FY 2004)
    b. Default Prevention (FY 2004)
    c. Default Collection (FY 2004)

Good business practice requires that significant internal controls be periodically evaluated and assessed to determine that the controls are sufficient and operating effectively.

Per Commission management, the internal auditor position has been vacant since 2005. Although the Commission was able to complete some internal audits by using an outside public accounting firm, they were not able to complete all required audits.

Significant areas of internal control must be reviewed and evaluated regularly to maintain an effective internal control system. When internal audits are not completed timely and in accordance with an approved audit plan, the Commission may fail to detect weaknesses in its internal control in a timely manner. (Finding Code No. 07-2, 06-3).

<u>Recommendation</u>

We recommend the Commission complete an internal audit of all major systems of internal accounting and administrative control within a two-year period of time.

<u>Commission Response</u>

Agree. The Commission has contracted with an external public accounting firm to complete the internal audits on a timely basis. An internal audit plan has been put in place. The Commission is confident that by the end of FY 2008 audits of all major systems will be completed timely on a two-year cycle.

Current Findings – ***Government Auditing Standards (Continued)***

07-3 Financial Reporting

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

The Illinois Student Assistance Commission (Commission) does not have sufficient controls over the financial reporting process.

Numerous errors/adjustments were identified during the audit of the Illinois Designated Account Purchase Program (IDAPP) and review of underlying records. Some of the more significant adjustments/errors were as follows:

- The financial statements provided to the auditors required several corrections and revisions. Presentation of certain financial statement items was not accurate and several disclosures were missing and required the following revisions:
  - ✓ Unamortized bond issuance costs totaling approximately $1.4 million were inappropriately classified as unrestricted instead of restricted.
  - ✓ Approximately $0.7 million in accrued interest expense was included in the amount reported as accounts payable.
  - ✓ Restricted net assets were understated by approximately $1.1 million, and unrestricted net assets were overstated by the same amount.
  - ✓ Supplementary schedules of outstanding debt did not agree to the financial statements or footnotes. Debt relating to demand bonds ($41 million), reported as a current liability in the financial statements, was shown a non-current in the supplementary schedules. In addition, Series 1999 ($100 million) was omitted from the schedule of bonds outstanding in the original draft.
  - ✓ Disclosures required by GASB Statement 40 pertaining to money market accounts (approximately $77 million - reported as cash equivalents) were not included in the footnotes. These disclosures pertained to weighted average maturity of the accounts and the credit ratings.

- The Commission under-recorded its arbitrage rebate liability by approximately $3,133,000. The auditor's proposed adjustment was determined to be more than inconsequential but was not material to the fair presentation of the financial statements and therefore was not recorded in the final financial statements.

- Account reconciliations for notes receivable from several universities were not done for a period of 3 months. The amounts confirmed by the respective institutions did not agree to the amount recorded in the general ledger. This auditor's proposed adjustment for approximately $192,000 was determined to be more than inconsequential but was not material to the fair presentation of the financial statements and therefore was not recorded in the final financial statements.

- The Commission did not obtain the correct interest rates on its variable rate debt on a timely basis. This resulted in an inaccurate presentation of the schedule of bonds outstanding included in the financial statements. Total interest over the remaining life of the debt was originally understated by approximately $5.6 million. This was corrected on the final financial statements.

Current Findings – ***Government Auditing Standards***

07-3 Financial Reporting (Continued)

Per discussion with Commission management, IDAPP went through a major re-organization of personnel, including senior level management and also underwent a major restructuring of its student loan portfolio. This contributed to delays and inaccuracies in the preparation and reporting of financial statements.

Good internal controls should be designed and operated to allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements in the financial statements and the related disclosures.

Deficiencies in internal control allowed numerous errors in preparing the financial statements and related disclosures to go undetected by management in the normal course of performing their assigned functions. These inaccuracies resulted in significant delays in completing the audit and issuing the financial statements. (Finding Code No. 07-3)

Recommendation

We recommend that the Commission improve controls over financial reporting to ensure accurate presentation and disclosure in its financial statements. Specifically we recommend that:

- All significant accounts should be reconciled on a regular basis, preferably monthly, to the underlying documentation. The account reconciliations should be reviewed by a second Commission employee to ensure that supporting documentation agrees to the general ledger and trial balance.
- Calculations and disclosures pertaining to the Commission's variable rate debt should be based on the rates in effect as of the fiscal year end.
- All significant estimates, such as the arbitrage rebate liability, used in determining financial statement account balances and disclosures should be reviewed by management to ensure the estimates are based on reliable data and that the significant assumptions used in calculating the estimate are reasonable.

Commission Response

Agree. The Commission will ensure that processes and procedures are put in place to improve internal controls and prevent delays and inaccuracies in the financial reporting process. The Commission will implement quality control procedures to ensure that monthly reconciliations are reviewed on a timely basis.

(Note: Finding 07-4 is reported in the Department-wide audit of the Illinois Student Assistance Commission.)

Prior Findings Not Repeated – ***Government Auditing Standards***

Finding 07-5 Non-Compliance with Bond Indentures

During our prior audit, we noted the Illinois Designated Account Purchase Program (IDAPP) did not comply with several bond indentures that require IDAPP to deliver audited financial statements to the Trustees no later than 120 days after year-end (October 28th). (Finding Code No. 06-1, 05-2, 03-8, 01-3)

The bond issues which required audited financial statements prior to October 28th of each year have been retired as of the date of this report.

Finding 07-6 Posting of General Journal Entries to the General Ledger

During fiscal year 2006, the Illinois Designated Account Purchase Program (IDAPP) did not adequately review and approve general journal entries prior to posting them to the general ledger. (Finding Code No. 06-2)

Based on our sample testing in fiscal year 2007, general journal entries are being reviewed and approved prior to posting.