State of Illinois
Illinois Student Assistance Commission

Financial Audit
For the Year Ended June 30, 2012

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

State of Illinois
Illinois Student Assistance Commission
Financial Audit
For the Year Ended June 30, 2012

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State of Illinois
Illinois Student Assistance Commission

Agency Officials

Executive Director (through July 8, 2011)	Andrew Davis
Interim Executive Director (July 8, 2011 – February 21, 2012)	John Sinsheimer
Executive Director (February 21, 2012 – Current)	Eric Zarnikow
Chief Financial Officer	Shoba Nandhan
Chief Investment Officer (July 1, 2011 – December 27, 2011)	Vacant
Chief Investment Officer (December 27, 2011 - Current)	Kent Custer
General Counsel	Annie Pike

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified matters involving the Commission's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying schedule of findings listed in the table of contents as finding 12-1 (Budget Not Properly Approved).

The auditors also identified an instance of noncompliance and other matters. The instance of noncompliance and other matters is described in the accompanying schedule of findings listed in the table of contents as finding 12-2 (Debt Covenant Violation).

Exit Conference

In correspondence received from Shoba Nandhan, Chief Financial Officer, on November 29, 2012 the Commission elected to waive an exit conference. The responses to the recommendations were provided by Shoba Nandhan in a letter dated December 19, 2012.

McGladrey

Independent Auditors' Report

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission) as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the Commission are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2012, and its changes in financial position and where applicable, 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Commission, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8.E., the Illinois Prepaid Tuition Program Fund has adopted a change in its methodology for estimating contracts receivable, tuition obligation and related revenues and expenses.

As discussed in Note 9, the Commission is in default of certain conditions of its Revolving Credit Facility.

As further discussed in Note 13, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2012 of $420 million. The amount of the fund deficit is highly dependent on the actuarial assumptions used to calculate the present value of future tuition benefits obligation.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 7, 2013, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the Budgetary Comparisons Schedule – Major Governmental Fund – General Fund – Budgetary Basis on page 65 and related notes on page 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining and individual fund financial statements as listed in the table of contents as supplementary information, and the actuarial soundness report as listed in the table of contents as other information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of Commission management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The actuarial soundness report has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

McGladrey LLP

Schaumburg, Illinois
February 7, 2013

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
June 30, 2012
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 5,935	$ -	$ 5,935
Cash and cash equivalents	714	71,812	72,526
Investments	-	122,450	122,450
Receivables			
Contracts	-	38,671	38,671
Intergovernmental	-	30,908	30,908
Accrued interest on investments	-	19	19
Other	400	-	400
Securities lending collateral	-	25,654	25,654
Due from other State funds	-	91	91
Due from State of Illinois component units	-	8	8
Due from other ISAC funds	1	(1)	-
Total current assets - unrestricted	7,050	289,612	296,662
Restricted			
Cash and cash equivalents	-	48,672	48,672
Receivables			
Student loans	-	113,317	113,317
Accrued interest on loans	-	15,209	15,209
Accrued interest on investments	-	4	4
Other	-	171	171
Total current assets - restricted	-	177,373	177,373
Non-current			
Unrestricted			
Investments	-	948,058	948,058
Contracts receivable	-	66,455	66,455
Notes receivable	7,231	-	7,231
Capital assets, net of accumulated depreciation	11,629	1,809	13,438
Total non-current assets - unrestricted	18,860	1,016,322	1,035,182
Restricted			
Student loans receivable, net	-	696,092	696,092
Unamortized debt issuance costs	-	6,015	6,015
Total non-current assets - restricted	-	702,107	702,107
Total assets	$ 25,910	$ 2,185,414	$ 2,211,324

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
June 30, 2012
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 4,920	$ 20,060	$ 24,980
Accrued interest payable	-	1,523	1,523
Federal special allowance and interest subsidy	-	2,174	2,174
Due to other State funds	14	355	369
Due to State of Illinois component units	1,504	7,259	8,763
Securities lending collateral obligation	-	25,654	25,654
Intergovernmental payable	-	8,006	8,006
Due to U.S. Department of Education	356	-	356
Compensated absences	-	241	241
Installment purchase obligation	1,845	-	1,845
Tuition obligation	-	145,583	145,583
Line of credit	-	275,957	275,957
Total current liabilities	8,639	486,812	495,451
Non-current			
Revenue bonds and notes payable, net	-	590,704	590,704
Compensated absences	-	2,070	2,070
Tuition obligation	-	1,449,074	1,449,074
Total non-current liabilities	-	2,041,848	2,041,848
Total liabilities	8,639	2,528,660	2,537,299
Net Assets			
Invested in capital assets, net of related debt	9,784	1,809	11,593
Restricted for debt service	-	9,303	9,303
Restricted for federal programs	-	42,569	42,569
Unrestricted	7,487	(396,927)	(389,440)
Total net assets	$ 17,271	$ (343,246)	$ (325,975)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Governmental activities			
Education			
Scholarships, awards and grants	$ 407,201	$ -	$ 6,157
Interest	188	-	-
Total governmental activities	407,389	-	6,157
Business-type activities			
Education			
Student loan purchase program	41,425	35,918	-
Prepaid tuition	193,524	610	34,684
Loan guarantee program	250,543	37,860	182,872
Total business-type activities	485,492	74,388	217,556
Total Commission	$ 892,881	$ 74,388	$ 223,713

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

Change in net assets

Net assets (deficit) July 1, 2011

Net assets (deficit) June 30, 2012

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
$ (401,044)	$ -	$ (401,044)
(188)	-	(188)
(401,232)	-	(401,232)
-	(5,507)	(5,507)
-	(158,230)	(158,230)
-	(29,811)	(29,811)
-	(193,548)	(193,548)
(401,232)	(193,548)	(594,780)
406,915	-	406,915
(1,273)	-	(1,273)
(1,969)	-	(1,969)
-	262	262
196	-	196
1,944	(1,944)	-
405,813	(1,682)	404,131
4,581	(195,230)	(190,649)
12,690	(148,016)	(135,326)
$ 17,271	$ (343,246)	$ (325,975)

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2012
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 5,935	$ -	$ 5,935
Cash and cash equivalents	1	713	714
Due from other ISAC funds	1	-	1
Other receivables	165	235	400
Notes receivable, net of allowance of $14,572	7,231	-	7,231
Total assets	$ 13,333	$ 948	$ 14,281
Liabilities			
Accounts payable and accrued liabilities	$ 4,720	$ 200	$ 4,920
Due to other ISAC funds	99	(99)	-
Due to other State funds	-	14	14
Due to State of Illinois component units	1,378	126	1,504
Due to U.S. Department of Education	-	356	356
Total liabilities	6,197	597	6,794
Fund Balances			
Nonspendable - notes receivable	7,231	-	7,231
Committed	-	351	351
Unassigned	(95)	-	(95)
Total fund balances	7,136	351	7,487
Total liabilities and fund balances	$ 13,333	$ 948	$ 14,281

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets
June 30, 2012
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds		$ 7,487
Amounts reported for governmental activities in the Statement of Net Assets are different due to:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 2,700	
Buildings	18,311	
Equipment	509	
Accumulated depreciation	(9,891)	
Total capital assets		11,629
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Installment purchase obligation		(1,845)
Net assets of governmental activities		$ 17,271

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 6,157	$ 6,157
Other	3	193	196
Total revenues	3	6,350	6,353
Expenditures			
Education			
Scholarships, awards and grants	400,415	6,327	406,742
Debt Service			
Principal	-	1,755	1,755
Interest	-	188	188
Total expenditures	400,415	8,270	408,685
Deficiency of revenues over expenditures	(400,412)	(1,920)	(402,332)
Other sources (uses) of financial resources			
Appropriations from State resources	406,865	50	406,915
Lapsed appropriations	(1,273)	-	(1,273)
Receipts remitted to State Treasury	(1,969)	-	(1,969)
Transfers in	1	2,167	2,168
Transfers out	(224)	-	(224)
Net other sources (uses) of financial resources	403,400	2,217	405,617
Net change in fund balance	2,988	297	3,285
Fund balance, July 1, 2011	4,148	54	4,202
Fund balance, June 30, 2012	$ 7,136	$ 351	$ 7,487

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$ 3,285
Amounts reported for governmental activities in the Statement of Activities are different due to:	
Governmental funds report capital outlays as expenditures while the Statement of Activities reports depreciation expense to allocate those expenditures over the life of the assets.	(459)
Payment of principal on installment purchases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,755
Change in net assets of governmental activities	$ 4,581

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets
Enterprise Funds
June 30, 2012
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Assets				
Current				
Unrestricted				
Cash and cash equivalents	$ 9,356	$ 7,417	$ 55,039	$ 71,812
Investments	6,996	115,454	-	122,450
Receivables				
Contracts	-	38,671	-	38,671
Intergovernmental	-	-	30,908	30,908
Accrued interest on investments	-	1	18	19
Securities lending collateral	-	-	25,654	25,654
Due from other State funds	-	-	91	91
Due from State of Illinois component units	-	-	8	8
Due from other ISAC funds	(3,396)	-	3,396	-
Total current assets - unrestricted	12,956	161,543	115,114	289,613
Restricted				
Cash and cash equivalents	48,672	-	-	48,672
Receivables				
Student loans receivable, net of allowance of $5,978	113,317	-	-	113,317
Accrued interest on loans	15,209	-	-	15,209
Accrued interest on investments	4	-	-	4
Other	171	-	-	171
Due from other ISAC funds	181	(175)	(6)	-
Total current assets - restricted	177,554	(175)	(6)	177,373
Noncurrent				
Unrestricted				
Investments	-	948,058	-	948,058
Contracts receivable	-	66,455	-	66,455
Capital assets, net of accumulated depreciation	4	-	1,805	1,809
Total noncurrent assets - unrestricted	4	1,014,513	1,805	1,016,322
Restricted				
Student loans receivable, net of allowance of $36,725	696,092	-	-	696,092
Unamortized debt issuance costs	6,015	-	-	6,015
Total noncurrent assets - restricted	702,107	-	-	702,107
Total assets	$ 892,621	$ 1,175,881	$ 116,913	$ 2,185,415

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Assets (Continued)
Enterprise Funds
June 30, 2012
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 617	$ 1,349	$ 18,094	$ 20,060
Accrued interest payable	1,523	-	-	1,523
Tuition obligation	-	145,583	-	145,583
Federal special allowance and interest subsidy	2,174	-	-	2,174
Due to other ISAC funds	-	-	1	1
Due to other State funds	-	-	355	355
Due to State of Illinois component units	-	198	7,061	7,259
Securities lending collateral obligation	-	-	25,654	25,654
Intergovernmental payable	-	-	8,006	8,006
Compensated absences	20	16	205	241
Revolving credit line	275,957	-	-	275,957
Total current liabilities	280,291	147,146	59,376	486,813
Noncurrent				
Tuition obligation	-	1,449,074	-	1,449,074
Revenue bonds and notes payable, net	590,704	-	-	590,704
Compensated absences	182	49	1,839	2,070
Total noncurrent liabilities	590,886	1,449,123	1,839	2,041,848
Total liabilities	871,177	1,596,269	61,215	2,528,661
Net Assets				
Invested in capital assets	4	-	1,805	1,809
Restricted for debt service	9,303	-	-	9,303
Restricted for federal grant programs	-	-	42,569	42,569
Unrestricted	12,137	(420,388)	11,324	(396,927)
Total net assets	21,444	(420,388)	55,698	(343,246)
Total liabilities and net assets	$ 892,621	$ 1,175,881	$ 116,913	$ 2,185,415

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Operating revenues				
Investment income				
Interest - student loans	$ 35,201	$ -	$ -	$ 35,201
Income - investments (net of investment management fees of $3,472)	343	34,543	-	34,886
Interest - other	-	141	-	141
Total investment income	35,544	34,684	-	70,228
Other operating revenues				
Fees	717	610	-	1,327
Portfolio maintenance fees	-	-	3,467	3,467
Direct consolidation cost	-	-	10,059	10,059
Licenses and fees	-	-	2	2
Collections on student loans previously reimbursed by the U.S. Department of Education	-	-	23,686	23,686
Other	-	-	646	646
Total other operating revenues	717	610	37,860	39,187
Total operating revenues	36,261	35,294	37,860	109,415
Operating expenses				
Interest and other student loan expenses				
Interest expense				
Revenue bonds and notes	6,097	-	-	6,097
Amortization of loan premiums and fees	2,586	-	-	2,586
Other student loan fees	2,430	-	-	2,430
Provision for loan losses	15,475	-	-	15,475
Total interest and other student loan expenses	26,588	-	-	26,588

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds (Continued)
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Other operating expenses				
Salaries and employee benefits	$ 1,806	$ 2,836	$ 23,809	$ 28,451
Loan guarantee	-	-	189,251	189,251
External loan servicing	2,141	-	-	2,141
Accreted tuition expenses	-	184,400	-	184,400
Occupancy expense	2	-	-	2
Investment management fees	-	1,493	-	1,493
Investment advisory fees	-	2,572	-	2,572
Management and professional services	1,570	2,223	3,983	7,776
MAP and other State grants	-	-	33,396	33,396
Depreciation	7	-	104	111
Other	232	-	-	232
Total other operating expenses	5,758	193,524	250,543	449,825
Total operating expenses	32,346	193,524	250,543	476,413
Operating income (loss)	3,915	(158,230)	(212,683)	(366,998)
Non-operating revenues (expenses)				
Federal government special allowance and interest subsidy	(9,422)	-	-	(9,422)
Federal government	-	-	182,872	182,872
Interest revenue	-	-	262	262
Total non-operating revenues (expenses)	(9,422)	-	183,134	173,712
Income (loss) before transfers	(5,507)	(158,230)	(29,549)	(193,286)
Transfers out	-	(27)	(1,917)	(1,944)
Change in net assets	(5,507)	(158,257)	(31,466)	(195,230)
Net assets (deficit), July 1, 2011	26,951	(262,131)	87,164	(148,016)
Net assets (deficit), June 30, 2012	$ 21,444	$ (420,388)	$ 55,698	$ (343,246)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Cash flows from operating activities				
Cash received from fees and other charges	$ -	$ 610	$ 122,979	$ 123,589
Cash payments for tuition	-	(92,957)	-	(92,957)
Cash payments to suppliers for goods and services	(5,253)	(2,488)	(2,229)	(9,970)
Cash payments to employees for services	(1,826)	(2,861)	(21,812)	(26,499)
Cash payments for loan guarantees	-	-	(189,411)	(189,411)
Cash receipts from student loans and fees	157,575	-	-	157,575
Cash receipts from prepaid tuition contracts	-	45,376	-	45,376
Cash payments for MAP grants	-	-	(25,460)	(25,460)
Cash payments for student loans	(9,819)	-	-	(9,819)
Cash payments for refund of contracts	-	(39,618)	-	(39,618)
Cash received from other operating activities	-	-	1,267	1,267
Cash payments for other operating activities	-	-	(87,806)	(87,806)
Net cash provided (used) by operating activities	140,677	(91,938)	(202,472)	(153,733)
Cash flows from noncapital financing activities				
Principal paid on revenue bonds and other borrowings	(147,997)	-	-	(147,997)
Interest paid on revenue bonds and other borrowings	(9,309)	-	-	(9,309)
Special allowance and interest subsidy	(9,788)	-	-	(9,788)
Transfers in	-	-	63,635	63,635
Transfers out	-	(27)	(32,054)	(32,081)
Federal government grants	-	-	185,827	185,827
Net cash provided (used) by noncapital financing activities	(167,094)	(27)	217,408	50,287
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	-	-	(1,220)	(1,220)
Cash flows from investing activities				
Purchase of investment securities	(8,000)	(348,337)	-	(356,337)
Proceeds from sales and maturities of investment securities	24,858	419,608	-	444,466
Interest and dividends on investments	214	21,771	248	22,233
Cash paid to investment managers	-	(1,493)	-	(1,493)
Net cash provided by investing activities	17,072	91,549	248	108,869
Increase (decrease) in cash and cash equivalents	(9,345)	(416)	13,964	4,203
Cash and cash equivalents, July 1, 2011	67,373	7,833	41,075	116,281
Cash and cash equivalents, June 30, 2012	$ 58,028	$ 7,417	$ 55,039	$ 120,484

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds (Continued)
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ 3,915	$ (158,230)	$ (212,683)	$ (366,998)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	7	-	104	111
Investment income	(343)	(30,619)	-	(30,962)
Interest expense	6,097	-	-	6,097
Amortization of student loan premiums and fees	2,586	-	-	2,586
Accreted tuition expense	-	184,400	-	184,400
Provision for loan losses	15,475	-	-	15,475
Change in assets and liabilities				
Contracts receivable	-	(105,126)	-	(105,126)
Student loans receivable	112,379	-	-	112,379
Accounts receivable	-	-	(15)	(15)
Intergovernmental receivables	-	-	83	83
Accrued interest - loans and notes	2,001	-	-	2,001
Due from other ISAC funds	(179)	-	1,069	890
Due from other funds	-	-	14	14
Due from State of Illinois component units	-	-	(8)	(8)
Other receivables	(171)	-	-	(171)
Accounts payable and accrued liabilities	86	(524)	1,724	1,286
Intergovernmental payables	-	-	215	215
Due to other ISAC funds	-	175	3	178
Due to other State funds and component units	(1,155)	84	7,102	6,031
Tuition obligation	-	17,928	-	17,928
Compensated absences	(21)	(26)	(76)	(123)
Other	-	-	(4)	(4)
Total adjustments	136,762	66,292	10,211	213,265
Net cash provided (used) by operating activities	$ 140,677	$ (91,938)	$ (202,472)	$ (153,733)
Supplemental disclosure of noncash transactions:				
Net appreciation in fair value of investments	$ 251	$ 10,469	$ -	$ 10,720

See Notes to Financial Statements.

Note 1. Organization

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

ISAC was established through the Higher Education Student Assistance Act in 1957. The agency is governed by the Commission, a board of ten persons appointed by the Governor, who serve without compensation for a term of six years, except for one member who serves for a term of two years. It employs and provides direction to an Executive Director who is responsible for overseeing and implementing the Commission's day-to-day operations. The Commission's operations office is at 1755 Lake Cook Road in Deerfield, with additional offices located at 500 West Monroe in Springfield and 100 West Randolph in Chicago.

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

A. Monetary Award Program (MAP)

This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provides up to $4,968 in fiscal year 2012 for the payment of tuition and mandatory fees. The program is usually funded by the General Fund appropriation**.**

B. Illinois Veteran Grant

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

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

C. Illinois Incentive for Access Program

The Illinois Incentive for Access (IIA) Program provides grant assistance to freshmen that have limited financial resources with which to pay for college. The purpose of the program is to provide access and retention for this population while reducing their loan debt. A qualified applicant may receive a one-time $500 grant. The IIA program was not funded in fiscal year 2012.

Note 1. Organization (Continued)

D. Illinois National Guard Grant

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

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

E. Illinois Future Teacher Corps Scholarships

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

F. Illinois Scholars Program

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

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

G. Minority Teachers Scholarship Program

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

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

Note 1. Organization (Continued)

H. Nurse Educator Scholarship Program

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

Scholarships are awarded to eligible applicants enrolled or accepted for enrollment on at least a half-time basis in an approved program of professional or practical nursing education at the graduate level at an Illinois institution of higher learning. In exchange the recipient pledges to work as an educator in an approved program of professional nursing education in Illinois or an approved program of practical nursing education in Illinois, as certified by an authorized individual at the approved Illinois institution, for a period of not less than five years. This program was not funded in fiscal year 2012.

I. Ancillary Award Programs

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

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

* These programs were not funded in fiscal year 2012.

J. Federal Family Education Loan Program (FFELP)

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

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

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

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

Note 1. Organization (Continued)

K. Higher Education License Plate Grant Program

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

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

L. *College Illinois!®*

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

For additional information, refer to the Illinois Prepaid Tuition Program Financial Audit, for the year ended June 30, 2012.

M. Illinois Designated Account Purchase Program (IDAPP)

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

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

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

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

For additional information, refer to the Illinois Designated Account Purchase Program financial audit, for the year ended June 30, 2012.

Note 1. Organization (Continued)

N. Alternative Loan Program

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

Note 2. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

2) Fiscal dependency on the primary government.

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are clearly identifiable with a specific function, including each activity's share of allocated (shared) costs. Interest expense related to borrowing for student loaning activities (business-type activities) totaling $8,683 (including amortization) is included in student loan purchase program expense in the Statement of Activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all appropriations, are presented as general revenues.

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

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

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

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

For fiscal year 2012, the Commission did not receive appropriations through the General Fund - Educational Assistance Account. This account is a shared account and its activity (if any) attributed to the operations of the Commission is combined with the General Revenue Account for report presentation purposes. Any monies received by this fund are held in the State Treasury.

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

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

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

Additionally, the Commission administers the following fund types:

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

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

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

C. Basis of Accounting

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

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

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

D. Shared Fund Presentation

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

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

Unexpended Appropriation

This "asset" account represents lapse period warrants issued between July and December for fiscal year 2012 in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

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

Lapsed Appropriations

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

Receipts Remitted to State Treasury

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

Note 2. Summary of Significant Accounting Policies (Continued)

D. Shared Fund Presentation (Continued)

Amount of SAMS Transfer In

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

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

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

G. Investments

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

H. Contracts Receivable

Contracts receivable represents the amount *College Illinois!* expects to receive from contract holders for contracts purchased on an installment basis. The actuarially determined present value of future contributions was $105,126 as of June 30, 2012. The program expects to receive contributions totaling $38,671 in fiscal year 2013. This amount has been classified as current contracts receivable on the Statement of Net Assets. The total contract receivable balance is expected to be received over the next thirteen years.

Note 2. Summary of Significant Accounting Policies (Continued)

I. Student Loans Receivable/Premiums

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

J. Allowance for Possible Loan Losses

The allowance for possible loan losses is a reserve for estimated credit losses arising from the student loan portfolio. A provision for possible loan losses, which is shown as an operating expense, is added to bring the allowance to a level that, in management's judgment, is adequate to absorb losses in the portfolio. Management performs a monthly assessment of the loan portfolio in order to determine the appropriate level of the allowance. The factors in this evaluation include, but are not necessarily limited to, delinquencies over 120 days, loan servicing deficiencies and the amount of unguaranteed reimbursement from the United States Department of Education as discussed in Note 4.

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

K. Interfund Transactions

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

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

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

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

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

(All dollar amounts are expressed in thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

L. Capital Assets

Capital assets, which include property and equipment, are reported at cost. Capital assets are depreciated using the straight-line method. Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	$100	N/A
Buildings	100	10-60
Building Improvements	25	10-45
Equipment	5	3-25
Internally Generated Software	1,000	10

M. 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.

N. Encumbrances

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

O. Compensated Absences

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

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

P. Debt Premiums, Discounts, and Issuance Costs

In the government-wide and proprietary fund financial statements, debt deferred refunding amounts, debt premiums and discounts, as well as issuance costs are deferred and amortized over the life of the debt using the straight-line method, which approximates the effective interest rate method. Bonds and notes payable are reported net of the applicable deferred refunding amount, premium or discount.

Note 2. Summary of Significant Accounting Policies (Continued)

P. Debt Premiums, Discounts, and Issuance Costs (Continued)

Debt issuance costs are reported as deferred charges and amortized over the term of the related debt. Current year amortization expense is included in student loan expense in the Statement of Activities.

Q. Tuition Obligation

The tuition obligation in the Illinois Prepaid Tuition Program represents the net contract face value for the 50,163 contracts held by the fund as of June 30, 2012, plus the actuarially-determined present value of future benefits the Program expects to provide to contract holders for all contracts.

R. Fund Balances

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

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

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

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

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

Unassigned – This includes the residual fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund.

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

S. Net Assets

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

S. Net Assets (Continued)

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

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

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

T. 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.

U. Funding and Actuarial Assistance

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

Note 3. Deposits and Investments

A. Authorized Deposits and Investments

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

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

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

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

Note 3. Deposits and Investments (Continued)

B. Custodial Credit Risk - Deposits

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

C. Investments

Other than the securities lending program administered by the State Treasurer, in which the Commission participates, all investments held by the Commission as of June 30, 2012, pertain to the Illinois Designated Account Purchase Program (IDAPP), and the Illinois Prepaid Tuition Program (*College Illinois!*®) fund, both of which are major enterprise funds.

Funds in the custody of the State Treasurer, or in transit, totaled $61,809 at June 30, 2012. These amounts are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to custodial credit risk because the Commission does not own individual securities. Funds held by the State Treasurer are not rated for credit risk and the interest rate risk cannot be determined because the weighted average maturity information for these amounts is not available for individual funds. Details on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report. As of June 30, 2012, locally held deposits were not exposed to custodial credit risk.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP)

Interest Rate Risk

IDAPP invests its funds in a manner that meets its cash flow needs while conforming to state statutes governing the investment of funds, including without limitation the Investment Act and all requirements/limitations of the various documents applicable to bonds and other securities issued by ISAC. The portfolio's maturity characteristics at June 30, 2012 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Government securities (U.S. treasury bills)	$ 6,996	0.7

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, 2012, IDAPP's investments were subject to credit risk (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk) as follows:

		Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's
Money market funds	$ 49,183	AAAm	Aaa

Custodial Credit Risk

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

The investment policy authorizes IDAPP to utilize a third party custodian (Trustee) to safe-keep the assets of the fund and to provide reports on a monthly basis to all necessary parties. The custodian is responsible for sweeping all interest and dividend payments and any other un-invested cash into a short-term government money market fund. IDAPP has no investments subject to custodial credit risk at June 30, 2012.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Concentration of Credit Risk

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

As of June 30, 2012, there were no investments that exceed 5% or more of IDAPP's total investment portfolio.

Foreign Currency Risk

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

Illinois Prepaid Tuition Program

ISAC is required annually to adopt a comprehensive investment plan to invest the funds received through contract payments. The Commission approved the Illinois Prepaid Tuition Program's most recent revision to the investment plan in June 2012, with minor revisions in September 2012.

The comprehensive investment plan specifies the investment policies to be utilized by the Commission in its administration of the Illinois Prepaid Tuition Program. The Commission may direct that assets of the Program be invested in a manner that will provide the investment return and risk level consistent with the actuarial return requirements and risk levels and cash flow demands of the Program. The investments should be in compliance with all applicable federal and state laws and other statutes governing the investment of Illinois Prepaid Tuition Program resources.

The Commission is required to adopt a sound asset allocation that is reviewed at least once every three years. The asset allocation establishes target weights for each asset class and is designed to maximize the long-term expected return of the Program within an acceptable risk tolerance while providing liquidity to meet Program liabilities.

The table below establishes the interim and long-term asset allocation targets. In order to minimize trading costs and market risk associated with transitioning to the long-term targets, Program cash flows will be used to move gradually toward the long-term target weights. Interim target weights are established for purposes of calculating the policy benchmark and for rebalancing controls.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

	Targets		Rebalancing Range	
Asset Allocation	**Interim**	**Long-term**	**Lower Limit**	**Upper Limit**
U.S. Equity	22.00%	26.00%	17.00%	29.00%
Non-U.S. Equity	12.00%	22.00%	10.00%	22.0%
Fixed Income	20.00%	25.00%	15.00%	25.00%
Real Estate	17.00%	10.00%	10.00%	21.00%
Infrastructure	5.00%	0.00%	0.00%	8.00%
Absolute Return	10.00%	10.00%	5.00%	15.00%
Private Equity	13.00%	7.00%	0.00%	16.00%
Cash	1.00%	0.00%	0.00%	4.00%

The primary benchmark (the “Policy Benchmark”) for evaluating the performance of the Program is a Target Index consisting of a market index or equivalent for each asset class, weighted in accordance with the target allocation (or interim target allocation if applicable). Over a three to five year period the Program is expected to generate returns, after payment of all fees and expenses, which exceed the returns of the Target Index. The Target Index components are as follows.

Asset Class	Index	Weight
U.S. Equity	Russell 3000	22.00%
Non-U.S. Equity	MSCI EAFE	12.00%
Fixed Income	Barclays U.S. Aggregate	20.00%
Real Estate	NCREIF ODCE	17.00%
Infrastructure	90-day T Bills +4%	5.00%
Absolute Return	90-day T Bills +4%	10.00%
Private Equity	Russell 3000 + 3%	13.00%
Cash	90-day T-Bills	1.00%

The Commission has established investment guidelines for the investment managers and conducts thorough due diligence before the appointment of all investment managers. ISAC has retained State Street Global Advisors, Income Research Management, RhumbLine Advisors, Pugh Capital, C.S. McKee Investment, LSV Asset Management, Piedmont Investment, Security Capital Research, Alinda Infrastructure, Portfolio Advisors, JP Morgan AIRRO, Morgan Stanley, Balestra Capital, Neuberger Berman, Pinnacle Natural Resource, Reynoso Asset, Ativo, Madison Square, Harris/Pyrford, Camelot Secondary, Kennedy Wilson, Lyrical-Antheus, Mesirow Value, and DDJ Distressed Fund as investment managers to assist with the investment of the Program assets for the Illinois Prepaid Tuition Program. Use of funds invested on behalf of the Illinois Prepaid Tuition Program by the investment managers is restricted to the payout of tuition and fee benefits for Program beneficiaries and the administrative costs of running the program.

As of June 30, 2012, 20.0% of the funds were invested in Domestic Equities, 20.8% in Domestic Fixed Income, 9.4% in International Equities, 4.6% in Infrastructure Funds, 14.2% in Hedge Funds,11.4% in Private Equity Funds, 17.6% in Real Estate, .3% in illiquid securities and 1.7% in cash and equivalents. Investments of the Program, other than alternative investments and real estate, are recorded at fair value based on quoted market prices.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Investments owned are reported at fair value as follows:

(1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities;

(2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities - (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices;

(3) Money Market Instruments – average cost which approximates fair values;

(4) Real Estate Investments – fair values as determined by the Program in conjunction with its investment managers and investment advisors;

(5) Alternative Investments (Private Equity, Hedge Funds and Infrastructure Funds) – fair values as determined by the Program in conjunction with its investment managers and investment advisors.

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

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

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

Investment Commitments

Private equity, real estate and infrastructure investment portfolios consist of passive interests in non-publicly traded companies. The Program had outstanding unfunded commitments of approximately $8,700 to private equity partnerships, $34,000 to real estate and $37,000 to infrastructure funds as of June 30, 2012.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2012 are presented below at fair value by investment type and by investment manager:

Investment Managers
Asset Allocation
June 30, 2012

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Core	C.S. Mckee	$ 72,357	6.75%
Fixed Income-Core	Piedmont	36,053	3.37%
Fixed Income-Core	Pugh Capital	45,447	4.24%
Fixed Income-Intermediate	Income Research Management	68,593	6.41%
Total Fixed Income Portfolio		**222,450**	**20.77%**
Real Estate-Debt/Equity	SCM Capital Stable Income	40,860	3.81%
Real Estate-Preferred	SCM Capital Preferred Growth	52,265	4.88%
Real Estate-Value Added	Kennedy Wilson Property III	23,734	2.22%
Real Estate-Value Added	Kennedy Wilson Property IV	41,393	3.87%
Real Estate-Opportunistic	Lyrical-Antheus Realty III	20,692	1.93%
Real Estate-Value Added	Mesirow Value	9,952	0.93%
Total Real Estate		**188,896**	**17.64%**
Large-Cap Core Equity	RhumbLine Advisors	81,857	7.65%
All-Cap Core Equity	RhumbLine Advisors	132,276	12.35%
Total Domestic Equity		**214,133**	**20.00%**
International Large-Cap Equity	Ativo	27,661	2.58%
International Large-Cap Equity	Madison Square	28,479	2.66%
International Large-Cap Equity	Harris/Pyrford	30,805	2.88%
International Core Equity	SSgA MSCI EAFE	13,845	1.29%
International Core Equity	LSV Asset Management	6	0.00%
Total International Equity		**100,796**	**9.41%**
Infrastructure	Alinda Capital II	30,513	2.85%
Infrastructure	J.P. Morgan AIRRO Fund	18,704	1.75%
Total Infrastructure		**49,217**	**4.60%**
Hedge FoFs	Balestra Spectrum II	50,130	4.67%
Hedge FoFs	NB Diversified Arbitrage	26,516	2.48%
Hedge FoFs	Pinnacle Natural Resources	61,350	5.73%
Hedge Fund-Market Neutral	Reynoso	14,515	1.36%
Total Hedge Fund		**152,511**	**14.24%**
Private Equity FoFs Secondary	Camelot Secondary Fund	18,818	1.75%
Private Equity Co-Invst	CASO Co-Investment*	3,960	0.37%
Private Equity FoFs Secondary	Morgan Stanley Secondary Fund	17,324	1.62%
Private Equity FoFs Secondary	Portfolio Advisors Secondary Fund	17,419	1.63%
Private Equity Distressed	DDJ Distressed Fund	64,683	6.04%
Total Private Equity		**122,204**	**11.41%**
Illiquid Securities Liquidating Trust	U.S. Bank (Custodian)	2,872	0.27%
Total Illiquid Securities Liquidating Trust		**2,872**	**0.27%**
Cash and Equivalents	Northern Trust	10,433	0.97%
Investment Cash Equivalents		**10,433**	**0.97%**
Total Investments		**1,063,512**	**99.31%**
Cash and Equivalents	Illinois Treasury and lock box	7,417	0.69%
Total Cash Equivalents		**7,417**	**0.69%**
TOTAL PORTFOLIO		**$ 1,070,929**	**100%**

* The CASO Co-invest fund was written down by $10,800 to reflect the anticipated loss of value associated with a dilutive capital raise in September 2012 by a portfolio company.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Investment Management Fees

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

For investment managers who invest moneys in publicly held securities the Program pays an investment management fee for investment management services. The investment management fee is based upon contractually agreed upon conditions and provisions. Investment management fees expense for investments in publicly held securities amounted to $1,493 for the year ended June 30, 2012 and is accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets.

For investment managers of alternative investments (not publicly held securities) the Program pays an investment advisory fee. The investment advisory fees are calculated based upon the terms and conditions agreed upon with each individual contractual agreement and are recognized as investment advisory fees expense in the Statement of Revenues, Expenses, and Changes in Net Assets. Investment advisory expense as reflected in the Statement of Revenues, Expenses, and Changes in Net Assets for FY 2012 amounts to $2,572.

For certain alternative investment managers of private equity, infrastructure and real estate which are closed end funds and ISAC is a limited partner the investment advisory fee is reflected in a slightly different way. If the investment management fees are outside of the Limited Partner's capital account then the fees are included as part of the investment advisory fees expense in the Statement of Revenues, Expenses, and Changes in Net Assets. If the closed-end fund accounts for management fees within the Limited Partner's capital account, then management fee expense is included in the Net Asset Value calculation and would therefore be included in the unrealized gain/loss on the Statement of Revenues, Expenses, and Changes in Net Assets.

Investment managers who fall into the last category are listed below:

- Kennedy Wilson
- Lyrical Antheus
- Mesirow
- Alinda
- JPM Asia Infrastructure
- Camelot
- Portfolio Advisors
- Morgan Stanley Secondary fund

Approximately $3,472 in investment advisory fees are included in the amount reported for income from investments for the fiscal year ending June 30, 2012 in the Statement of Revenues, Expenses, and Changes in Net Assets. Additionally, these amounts are reflected in the carrying value on the Statement of Net Assets.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Illinois Prepaid Tuition Program's policy for managing interest rate risk is to ensure that the investment managers comply with its investment policy guidelines.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Per the investment policy:

- No more than 20% of the portfolio may be invested in un-hedged non-dollar bonds.
- Obligations of national governments other than U.S. are limited to 10% per issuer.
- Private mortgage backed and asset backed securities are limited to 10% per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer.
- Obligations of other issuers are subject to a 5% per issuer limit excluding investments in commingled vehicles.

As of June 30, 2012, all portfolios are within the guidelines permitted by the investment policy.

The duration of the portfolios, by Manager, for the fixed income securities (excluding real estate portfolio), compared to the benchmark index(s) is as follows:

Fixed Income Portfolio Manager	Portfolio Average Duration	BarCap Aggregate Index	BarCap Int. Government/ Credit Index
Income Research Management	3.8 Years	N/A	3.9 Years
C.S. McKee	4.7 Years	5.1 Years	N/A
Piedmont	4.6 Years	5.1 Years	N/A
Pugh Capital	4.7 Years	5.1 Years	N/A

Portfolio Weighted Average Maturity

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Negotiable certificates of deposit	$ 1,221	4.5
U.S. treasury bills	609	0.2
U.S. treasury notes	28,065	5.6
U.S. treasury bonds	4,604	25.9
U.S. agency obligations	22,902	13.4
Index linked government bonds (U.S. Treasuries)	11,458	2.3
Municipal/provincial bonds	6,967	12.3
Canada government note	822	4.6
Corporate debt securities	102,406	5.8
U.S. agency asset-backed securities	4,039	15.9
Corporate convertible bonds	5,651	15.8
Corporate asset-backed securities	8,875	3.7
Mortgage backed securities (MBS):		
Government agencies	38,075	25.1
Commercial	20,401	30.5
Total Fair Value	**$ 256,095**	
Portfolio weighted average maturity		**12.0**

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The operational guidelines for actively-managed bond managers set forth in the Illinois Prepaid Tuition Program investment policy are:

- The weighted average credit quality of portfolio holding will not fall below A- or equivalent.
- No more than 20% of the portfolio will be invested in issues rated below Baa3 or BBB-, A2 or P2.
- No more than 10% in non-U.S. securities (dollar and non-dollar) rated below investment grade.
- Should a security be downgraded to a rating of "B" or below, the investment manager will determine the appropriate action (sell or hold) based on the perceived risk and expected return of the position and will inform the CIO and the Investment Consultant in writing of the action taken.

The following tables indicate credit ratings, as of June 30, 2012, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

Credit Ratings (Excludes Multiple-Rated Securities)
June 30, 2012

	Total Fair Value	Credit Rating* Standard & Poor's
Money market mutual funds	$ 12,165	AAA
Illinois Funds	1,172	AAA
Mortgage backed securities - government agencies	38,075	NR

*NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Multiple-Rated Securities)

June 30, 2012

Rating Agency	Investment Type	Credit Rating*	Fair Value
Standard and Poor's:	Corporate debt securities	AAA	$ 201
	Corporate debt securities	AA	12,382
	Corporate debt securities	A	37,540
	Corporate debt securities	BBB	47,829
	Corporate debt securities	BB	2,283
	Corporate debt securities	NR	2,171
			102,406
Standard and Poor's:	Corporate asset-backed securities	AAA	3,864
	Corporate asset-backed securities	AA	416
	Corporate asset-backed securities	A	203
	Corporate asset-backed securities	NR	4,392
			8,875
Standard and Poor's:	Municipal/provincial bonds	AAA	987
	Municipal/provincial bonds	AA	3,184
	Municipal/provincial bonds	A	2,796
			6,967
Standard and Poor's:	Commercial mortgage-backed	AAA	8,649
	Commercial mortgage-backed	AA	1,264
	Commercial mortgage-backed	A	2,815
	Commercial mortgage-backed	BBB	965
	Commercial mortgage-backed	NR	6,708
			20,401
Standard and Poor's:	Corporate convertible bonds	A	663
	Corporate convertible bonds	NR	4,988
			5,651
Standard and Poor's:	U.S. agency obligations	AAA	592
	U.S. agency obligations	AA	22,310
			22,902
Standard and Poor's:	U.S. agency asset backed	AAA	3,402
	U.S. agency asset backed	AA	517
	U.S. agency asset backed	NR	120
			4,039
Standard and Poor's:	Canada government note	AAA	822

* NR - not rated

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Illiquid Trust

During fiscal year June 30, 2010, the Illinois Prepaid Tuition Program exited from its securities lending program. As of June 30, 2012, the value of the remaining illiquid trust at U.S. Bank was $2,872.

Custodial Credit Risk

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

During fiscal year June 30, 2010, the Program exited its securities lending program. The counterparty continues to hold uninsured investments of $2,872 in the Program's name. These investments are subject to custodial credit risk.

Concentration of Credit Risk

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

The operational guidelines as set forth in the Illinois Prepaid Tuition Program's investment policy indicate:

- For fixed income managers no more than 5% of the fixed income portfolio at time of purchase may be invested in any one company, except for government or agency issues.
- For investments in international equity, investment in any one issuer shall not exceed five percent of the market value of the portfolio at the time of purchase. No more than ten percent of the market value of the portfolio may be held in any one issuer at any time. Investment in any one company in the portfolio may be no more than ten percent of the total market value of that company.
- For investments in domestic equity, investment in any one issuer shall not exceed five percent of the market value of the portfolio at the time of purchase. No more than ten percent of the market value of the portfolio may be held in any one issuer at any time. Investment in any one company in the portfolio may be no more than ten percent of the total market value of that company.

Foreign Currency Risk

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

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Foreign Currency Risk (Continued)

The Illinois Prepaid Tuition Program's investments in international equity are in compliance with the guidelines of the investment policy. As of June 30, 2012, 9.41% is invested in international equities. Certain alternative investments also hold investments located outside of the United States. Fluctuations in foreign exchange rates between the U.S. dollar and other currencies could have an effect on the amounts realized in U.S. dollars involving these investments. The Program has the following investments denominated in foreign currency.

Investments in Foreign Currency
June 30, 2012

Deposit or Investment Type	Foreign Currency Denomination	Fair Value in U.S. Dollars
Equities, cash and cash equivalents	Australian dollar	$ 3,036
Equities, cash and cash equivalents	British pound sterling	17,082
Equities, cash and cash equivalents	Canadian dollar	3,992
Equities, cash and cash equivalents	Czech koruna	434
Equities, recoverable taxes, cash and cash equivalents	Danish krone	1,861
Equities, recoverable taxes, cash and cash equivalents	Euro	20,825
Equities, cash and cash equivalents	Hong Kong dollar	5,045
Equities	Indonesian rupiah	335
Equities, cash and cash equivalents	Japanese yen	7,675
Equities	Malaysian ringgit	1,178
Equities	New Israeli shekel	902
Equities	Norwegian krone	1,390
Equities, cash and cash equivalents	Singapore dollar	1,776
Equities, cash and cash equivalents	South African rand	411
Equities, cash and cash equivalents	Swedish krona	3,108
Equities, recoverable taxes, cash and cash equivalents	Swiss franc	6,558
Equities, cash and cash equivalents	Thai baht	467
Total		$ 76,075

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

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

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

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

During fiscal year 2012, Deutsche Bank Group lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investment made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. For the portion related to the Commission's non-major proprietary funds, namely the Federal Student Loan Fund and the Student Loan Operating Fund, securities lending collateral was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2012 were $16,199 and $9,455, respectively.

Note 4. Student Loans Receivable

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

All FFELP loans originated or purchased by IDAPP prior to October 1, 1993 are guaranteed at 100% by Guarantors in accordance with the Higher Education Act. For loans disbursed between October 1, 1993 and prior to July 1, 2006 the loans are guaranteed at 98%. Loans disbursed after July 1, 2006 are guaranteed at 97%. All guaranteed loans are reinsured by the United States Department of Education (ED). ED has issued detailed loan servicing requirements, which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. For servicing contracts established with outside vendors, contractual provisions require the contractors to indemnify IDAPP for losses due to their negligence in loan servicing. Such recoveries will be recognized as income when received. There is $1,730 of student loans receivable that IDAPP has classified as defaulted loans under the FFEL Program. These loans have been submitted to, but have not been reimbursed by, the guarantee agencies as of June 30, 2012.

Alternative Loans are not guaranteed by Guarantors and are not eligible for reinsurance by ED. Alternative Loans are credit-based and a provision for loan loss is set aside for the full amount of the loan when a loan becomes 120 days delinquent. The total amount of Alternative Loans outstanding was $262,024 at June 30, 2012. Of this amount, $37,798 was over 120 days old.

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

Management has identified loans that may not be reimbursed by the guarantor or collected from the student. Accordingly, management has established an allowance for possible loan losses totaling $42,703 as of June 30, 2012, which includes the amount collected from borrowers as an insurance fee for the Alternative Loans.

Federal Student Loan Fund

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

The cash balance in this fund as of June 30, 2012 as reported by ISAC was $36,352. Restricted net assets, which include $30,076 of claims in process, was $42,569. If the federal reinsurance percentage applied to guarantors was temporarily reduced from 97% to either 85% or 75% (for loans disbursed after October 1, 1998) due to excessive default claims and if the State's pledge of full faith and credit were found to be ineffective, then the full collectability of the non-federal reinsurance amount (i.e. 3% to 25%) of the IDAPP's net FFELP student loans receivable of $587,449 at June 30, 2012 is subject to the adequacy of the annual appropriation from the Illinois Student Assistance Commission Federal Student Loan Fund and the reserve funds of the other Guarantors to pay defaulted loan claims. However, based on past loan default experience, management believes that material losses will not be incurred.

Note 5. Federal Special Allowance and Interest Subsidy

The Federal government pays IDAPP (interest subsidy) or IDAPP owes the federal government (excess interest) an interest amount on certain student loans during the time that the student is enrolled in an eligible educational institution or qualifies for deferment status. The federal interest payable at June 30, 2012 was $2,174.

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

Federal Interest Benefits	$	3,619
Special Allowance Payments (Interest Subsidy)		227
Excess Interest		(13,268)
Net Expense Incurred to DOE	$	(9,422)

(All dollar amounts are expressed in thousands)

Note 6. Interfund Balances and Activity

A. Balances Due To/From Other Funds

The balances at June 30, 2012 represent amounts due from other ISAC and State of Illinois funds and component units as follows:

	Due from Primary Government Funds		Due from Component	
Fund	**ISAC**	**Other State**	**Units**	**Description/Purpose**
General	$ 1	$ -	$ -	Due from Student Loan Operating Fund for share of defaulted collections.
	1	-	-	
Illinois Designated Account Purchase Program	175	-	-	Due from Illinois Prepaid Tuition Fund for expense reimbursement.
	6	-	-	Due from Student Loan Operating Fund for program expense reimbursement.
	181	-	-	
Nonmajor Enterprise -				
Student Loan Operating	3,396	-	-	Due from IDAPP Fund for shared services.
	-	85	-	Due from Governor's Office of Management and Budget for refund of personnel costs.
	-	-	8	Due from Illinois Medical District Commission for refund of personnel costs.
	-	6	-	Due from State Board of Education for refund of overpayment.
	3,396	91	8	
Nonmajor Governmental -				
Illinois Future Teacher Corps	74	-	-	Due from General Fund for interfund borrowings.
University Grant	25	-	-	Due from General Fund for interfund borrowings.
	99	-	-	
	$ 3,677	$ 91	$ 8	

(All dollar amounts are expressed in thousands)

Note 6. Interfund Balances and Activity (Continued)

A. Balances Due To/From Other Funds (Continued)

The balances at June 30, 2012 represent amounts due to other ISAC and State of Illinois funds and component units as follows:

Fund	Due to Primary Government Funds ISAC	Due to Primary Government Funds Other State	Due to Component Units	Description/Purpose
General	$ 74	$ -	$ -	Due to Illinois Future Teacher Corps Fund interfund borrowings.
	25	-	-	Due to University Grant Fund for interfund borrowings.
	-	-	1,378	Due to State universities for scholarship and MAP grants.
	99	-	1,378	
Illinois Designated Account Purchase Program	3,396	-	-	Due to Student Loan Operating Fund for shared services.
Nonmajor Governmental - College Access Challenge Grant	-	12	-	Due to Central Management Services for communications.
	-	2	-	Due to State Police for services rendered.
	-	-	126	Due to State universities for refund of expenses.
	-	14	126	
Nonmajor Enterprise - Student Loan Operating	-	355	-	Due to Central Management Services for EDP, communications, and garage fund.
	6	-	-	Due to IDAPP for refund for program expense reimbursement.
	1	-	-	Due to General Fund for share of defaulted collections.
	-	-	7,061	Due to State universities for scholarship and MAP grants.
	7	355	7,061	
Illinois Prepaid Tuition Program	-	-	198	Due to State universities for payment of tuition contracts.
	175	-	-	Due to IDAPP for reimbursement of expenses.
	175	-	198	
	$ 3,677	$ 369	$ 8,763	

(All dollar amounts are expressed in thousands)

Note 6. Interfund Balances and Activity (Continued)

B. Transfers To/From Other Funds

Interfund transfers in for the year ended June 30, 2012 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General	$ 1	Transfer from Student Loan Operating Fund for share of receivable collections.
Nonmajor Governmental - University Grant	51	Transfer from the General Fund for student scholarships.
Future Teachers Corps	173	Transfer from the General Fund for teacher scholarships.
Nonmajor Governmental- ISAC COP Debt Service	1,943	Transfer from the Student Loan Operating Fund and *College Illinois!* for lease payments.
	$ 2,168	

Interfund transfers out for the year ended June 30, 2012 were as follows:

Fund	Transfers Out To Other ISAC Funds	Description/Purpose
General	$ 224	Transfers to University Grant and Future Teachers Corp. funds for student and teacher scholarships.
Illinois Prepaid Tuition Program	27	Transfer to Debt Service Fund for lease payments.
Nonmajor Enterprise - Student Loan Operating	1	Transfer to General Revenue Fund for share of receivable collections.
	1,916	Transfer to Debt Service Fund for lease payments.
	$ 2,168	

(All dollar amounts are expressed in thousands)

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	509	-	-	509
Total capital assets being depreciated	18,820	-	-	18,820
Less accumulated depreciation:				
Buildings	(8,929)	(458)	-	(9,387)
Equipment	(503)	(1)	-	(504)
Total accumulated depreciation	(9,432)	(459)	-	(9,891)
Total capital assets being depreciated, net	9,388	(459)	-	8,929
Governmental activities capital assets, net	$ 12,088	$ (459)	$ -	$ 11,629
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 529	$ -	$ (97)	$ 432
Less accumulated depreciation:				
Equipment	(518)	(7)	97	(428)
Total capital assets being depreciated, net	11	(7)	-	4
Nonmajor Enterprise Funds:				
Capital assets not being depreciated:				
Construction-in-progress	569	1,158	(1,441)	286
Capital assets being depreciated:				
Equipment and automobiles	958	62	(179)	841
Internally generated software	-	1,441	-	1,441
Less accumulated depreciation:				
Equipment and automobiles	(838)	(32)	179	(691)
Internally generated software	-	(72)	-	(72)
Total capital assets being depreciated, net	120	1,399	-	1,519
Business-type activities capital assets, net	$ 700	$ 2,550	$ (1,441)	$ 1,809

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2012 amounted to $459. Of that amount, 100% was charged to the Scholarships, awards and grants function.

Note 8. Long-Term Obligations Payable

A. Revenue Bonds and Notes Payable and Pledged Revenues

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

The general resolution bonds are auction rate certificates and are taxable. The variable interest rate for the debt is reset every 28 days, based on the one-month LIBOR rate. Starting in August 2007, the bond markets experienced severe disruption. As a result, an auction held on February 13, 2008 for $70,000 of bonds issued under the 2002 Resolution failed to attract enough bidders. All subsequent auctions also failed and continue to do so. A “failed auction” results in the bonds being priced at the “maximum auction rate” which, as defined in the Resolution, can be no more than the lesser of the rolling twelve-month 90 day U.S. Treasury rate plus 1.2% (for “AAA” rated bonds), 1.5% (for “A” rated bonds), 1.75% (for bonds rated below the lowest category of “A”) and one-month LIBOR plus 1.5%. The maximum rate at June 30, 2012 was 1.33%.

In connection with the issuance of the LIBOR Floating Rate Notes (LIBOR FRN) in October 2010 (described below) and by using existing cash in the trust, $849,950 of the Student Loan Revenue Bonds were redeemed. As a condition of the rating agency confirmation in connection with the purchase and cancellation of certain bonds issued under the 2002 resolution, IDAPP was required to retire $11,000 of the outstanding bonds at par plus accrued interest in November 2011. In addition IDAPP retired an additional $4,000 of the outstanding bonds at par plus accrued interest in November 2011. The remaining balance of bonds outstanding issued under the resolutions is $19,450 as of June 30, 2012.

IDAPP has pledged future student loan revenues, net of specified operating expenses, to repay the outstanding principal for these student loan revenue bonds. The bonds are payable solely from principal and interest revenues under the related student loans and are payable through the final maturity of the bonds in 2045. Annual principal and interest payments on the bonds are expected to require all of the student loan revenues from the underlying portfolio. The total principal and interest remaining to be paid on the bonds is approximately $27,900.

Interest paid for the current year was approximately $200 and total related student loan principal and interest received were approximately $2,900 and $400, respectively.

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

IDAPP has pledged future student loan revenues, net of specified operating expenses, to repay the outstanding principal for these Student Loan Revenue Bonds, Series 2009 (State Guaranteed). The bonds are payable solely from principal and interest revenues under the related student loans and are payable through the final maturity of the bonds in 2014. $9,500 of the bonds were redeemed during the fiscal year. The remaining balance of bonds outstanding is $40,500 as of June 30, 2012. Annual principal and interest payments on the bonds are expected to require most of these student loan revenues. The total principal and interest remaining to be paid on the bonds is approximately $43,100. Interest paid for the current year was approximately $1,600 and total related student loan principal and interest received were approximately $5,300 and $700, respectively.

Note 8. Long-Term Obligations Payable (Continued)

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

On October 27, 2010, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell $604,000 Student Loan Asset Backed Notes, Series 2010-1 (LIBOR Floating Rate Notes). The Notes were issued in three tranches. The Class A-1 tranche is $181,000 maturing April 25, 2017 with a rate of 3-Month LIBOR plus 0.48%, The Class A-2 tranche is $269,000 maturing April 25, 2022 with a rate of 3-Month LIBOR plus 1.05% and the Class A-3 tranche is $154,000 maturing July 25, 2045 with a rate of 3-Month LIBOR plus 0.90%. The variable interest rate for the debt is reset every quarter. The proceeds from the sale of the Notes were used to make the initial deposits to the Capitalized Interest Fund, the Reserve Fund, a portion of the initial deposit to the Loan Fund, and to pay acquisition costs. The remaining proceeds were transferred to the 2002 Resolution Trust (described above) and were used with cash from the Trust to purchase and cancel certain bonds outstanding thereunder. The FFELP loans released from the 2002 Resolution Trust were deposited into the Loan Fund. Annual principal and interest payments on the bonds are expected to require approximately 92.9% percent of these student loan collections. The total principal and interest remaining to be paid on the bonds is approximately $475,000. Principal and interest paid for the current year were approximately $84,997 and $6,800, respectively. Total related student loan principal and interest received were approximately $92,500 and $13,600, respectively.

As a result of the issuance of the LIBOR Floating Rate Notes and the purchase and cancellation of certain of the 2002 bonds during fiscal year 2011, a deferred amount on refunding of $70,320 was recorded. This amount will be amortized over the weighted average life of the LIBOR Floating Rate Notes of 16 years. The portion attributable to fiscal year 2012 is $4,418. Amortization is included as a reduction of interest expense on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

(All dollar amounts are expressed in thousands)

Note 8. Long-Term Obligations Payable (Continued)

B. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2012, were as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Other long-term obligations:					
Installment purchase obligation	$ 3,600	$ -	$ (1,755)	$ 1,845	$ 1,845
Business-type activities:					
Illinois Designated Account Purchase Program :					
Revenue bonds/notes payable	$ 644,645	$ -	$ (109,497)	$ 535,148	$ -
Unamortized discounts	(7,368)	-	335	(7,033)	-
Unamortized deferred amount on refunding	67,006	-	(4,417)	62,589	-
Other long-term obligations:					
Compensated absences	223	118	(139)	202	20
Total Illinois Designated Account Purchase Program	704,506	118	(113,718)	590,906	20
Illinois Prepaid Tuition Program :					
Compensated absences	91	66	(92)	65	16
Tuition obligation	1,392,329	334,903	(132,575)	1,594,657	145,583
Total Illinois Prepaid Tuition Program	1,392,420	334,969	(132,667)	1,594,722	145,599
Nonmajor Enterprise Fund:					
Compensated Absences	2,120	1,469	(1,545)	2,044	205
Total business-type activities	$ 2,099,046	$ 336,556	$ (247,930)	$ 2,187,672	$ 145,824

(All dollar amounts are expressed in thousands)

Note 8. Long-Term Obligations Payable (Continued)

C. Future Maturities of Revenue Bonds and Notes

IDAPP issued bonds and notes to provide funds for student loan originations and purchases. IDAPP pledges the income derived from its assets to pay debt service. The majority of IDAPP's outstanding revenue bonds and notes are comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the interest rate in effect on June 30, 2012. Actual interest paid in future years could be materially different.

Annual debt service requirements to maturity for revenue bonds and notes are as follows:

Year Ending June 30	Principal	Interest	Total
2013	$ -	$ 8,208	$ 8,208
2014	40,500	8,208	48,708
2015	-	6,932	6,932
2016	-	6,932	6,932
2017	52,198	6,842	59,040
2018-2022	269,000	31,447	300,447
2023-2027	-	11,809	11,809
2028-2032	-	11,809	11,809
2033-2037	-	11,809	11,809
2038-2042	100	11,809	11,909
2043-2045	173,350	5,033	178,383
	535,148	$ 120,838	$ 655,986
Plus (minus):			
Unamortized discounts	(7,033)		
Unamortized deferred amount on refunding	62,589		
Net long-term principal outstanding	$ 590,704		

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(All dollar amounts are expressed in thousands)

Note 8. Long-Term Obligations Payable (Continued)

D. Tuition Obligation

The tuition obligation is management's estimate of the present value of the estimated tuition payments to be made and is expected to be financed from investments of prepaid tuition contracts. The estimate for the future tuition obligation is based on a closed group projection for existing contracts assuming no new contract sales after June 30, 2012. See actuarial assumptions and additional information in Note 13 B.

Tuition obligation activity for the year ended June 30, 2012, is as follows:

Balance as of July 1, 2011	$ 1,392,329
Add:	
Contributions received in FY2012	45,377
Contracts receivable, at present value*	105,126
Adjust tuition obligation based on actuarial valuation	184,400
Less:	
Return of contributions	(39,618)
Tuition payments	(92,957)
Balance as of June 30, 2012	$ 1,594,657
Reported as:	
Current	$ 145,583
Noncurrent	1,449,074
	$ 1,594,657

* See Note 8.E. Discount rate used in determining fair value was 7.25%.

The accreted tuition expense is calculated at least annually by the Commission's actuary. Accreted tuition expense is reflected as an expense in the Statement of Revenues, Expenses, and Changes in Net Assets and as an increase to the tuition obligation on the Statement of Net Assets.

Note 8. Long-Term Obligations Payable (Continued)

E. Change in Estimates

Effective July 1, 2011, Commission management changed its methodology for estimating contracts receivable, tuition obligation, contract revenues, and accreted tuition expense for the Program. The primary reason for the change in methodology was to address the significant difference between the estimated unfunded liability in the program as reflected in the financial statements and a market based actuarial unfunded liability at year end as determined based on an Actuarial Soundness Report which expanded the variables used in the determination of the liability related to tuition contracts and funded status.

Commission management believes that this change in methodology for estimating contracts receivable, tuition obligation, contract revenues and accreted tuition expense improves the consistency and clarity of financial information reported in the financial statements and more accurately represents the net financial position of the Program, as well as its annual revenues and expenses.

The change in accounting estimate is accounted for prospectively in the current year ended June 30, 2012. The tuition obligation in the Statement of Net Assets and the accreted tuition expense in the Statement of Revenues, Expenses, and Changes in Net Assets were increased by approximately $100 million in fiscal year 2012 compared to the increase that would have been recorded under the previous methodology. In addition, contracts receivable of $105 million were recorded on the Statement of Net Assets, with a corresponding increase to the tuition obligation as of June 30, 2012. There were no new contract sales in fiscal year 2012 so an adjustment to revenues was not necessary.

F. Installment Purchase Obligation

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

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

(All dollar amounts are expressed in thousands)

Note 8. Long-Term Obligations Payable (Continued)

F. Installment Purchase Obligation (Continued)

The cost of the building and land acquired was $18,311 and $2,700, respectively. The book value of the building at June 30, 2012 was $8,924. Future commitments under the installment purchase contract as of June 30, 2012, are as follows:

Year Ending June 30	Principal	Interest	Total
2013	$ 1,845	$ 97	$ 1,942

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

On July 27, 2007, ISAC entered into a Three-Year Asset Backed Revolving Credit Facility (the "Facility") through an affiliate of Citibank (the "Lender") pursuant to which ISAC has borrowed funds for the purpose of purchasing certain student loans. Advances made under the Facility are secured by a portfolio of student loans, which loans were largely financed with proceeds of the advances (the "Collateral"). Amounts due under the Facility constitute limited obligations of ISAC, payable solely and only from the Collateral and the revenues derived therefrom. The costs of borrowing under the Program will not exceed Citibank's commercial paper rate. The rate at June 30, 2012 was 0.23875%.

On July 27, 2010, the Facility became due and payable. Due to conditions currently existing in the credit markets, ISAC has been unable to refinance this debt and is currently in default under the Facility. In addition, IDAPP is in breach of the coverage condition and default ratios, as defined in the indenture. The breaches qualify as an Event of Termination under which Citibank would be eligible for remedies under the indenture. Citibank has not exercised its remedies to date. Conversations are ongoing with Citibank to resolve the issues mentioned.

Under the terms of the agreement all revenues generated by the underlying student loan portfolio are transferred to a trust. The trust pays all expenses related to the debt service and student loan servicing costs (capped at 65 basis points of the outstanding average balance in the portfolio). During fiscal year 2012 there was approximately $32,500 in principal and $8,800 in interest collected all of which was transferred to the trust. During the same period the trust paid $1,900 for interest expense and other professional fees and $2,100 for servicing fees.

Changes in the revolving credit line are as follows:

	Balance, July 1, 2011	Additions	Deletions	Balance, June 30, 2012	Amounts Due Within One Year
Citibank	$ 314,457	$ -	$ (38,500)	$ 275,957	$ 275,957

Note 10. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Commission's risk management activities for workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Commission and accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2012.

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

Note 11. Pension Plan

Substantially all of the Commission's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

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

The Commission pays employer contributions based upon an actuarially determined percentage of their payrolls. For fiscal years 2012, 2011 and 2010, the employer contribution rate was 34.2%, 28.0% and 28.4%, respectively. For fiscal years 2012, 2011 and 2010, the required and actual contribution was $5,690, $5,205 and $5,665, respectively.

(All dollar amounts are expressed in thousands)

Note 12. Post-Employment Benefits

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

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

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

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

Note 13. Fund Balances and Net Assets

A. Deficit in Fund Net Assets

As of June 30, 2012, the Illinois Prepaid Tuition Program has a deficit in net assets of $420,388. The table below details a reconciliation of the fund deficit in the financial statements to the fund deficit in the Actuarial Soundness Report as of June 30, 2012.

Unfunded liability per actuarial soundness report	$	(467,405)
Present value of accrued future administrative expense		48,804
Other accrued liabilities		(1,787)
Fund deficit per Statement of Net Assets	$	(420,388)

Note 13. Fund Balances and Net Assets (Continued)

B. Program Risks and Actuarial Data

The Illinois Prepaid Tuition Program's ability to honor existing and future contracts depends primarily upon three factors: (i) continued contract sales within projections; (ii) achieving a projected annual net return on Program investments; and (iii) actual tuition/fee increases being within projected amounts.

Gabriel, Roeder, Smith and Company, the independent actuarial firm retained by *College Illinois!*, has performed an actuarial soundness valuation of *College Illinois!*®, the State's section 529 prepaid tuition program, as of June 30, 2012 to evaluate the financial viability of the program as of June 30, 2012. The complete Actuarial Soundness Report as of June 30, 2012 is included in the Other Information Section.

The Program is not supported by the full faith and credit of the State of Illinois, nor is it guaranteed by the State's general fund. The Program is a moral obligation of the State of Illinois requiring the Governor to request an appropriation from the State General Assembly in case the Commission and the Governor determine that the Program does not have adequate assets to meet its contractual obligations in an upcoming fiscal year. While the General Assembly has fulfilled other moral obligations of the State of Illinois in the past, it is not obligated to appropriate, and no assurances can be made that the General Assembly will appropriate sufficient moneys to meet the Program's contractual obligations.

If it is determined by the Commission, with the concurrence of the Governor, that the Program is financially infeasible, the Commission may prospectively discontinue the Program. Pursuant to the prepaid tuition statute, if the Program is discontinued, beneficiaries who are or will enroll within five years at an eligible institution shall be entitled to exercise the complete benefits specified in the contract; all other contract holders shall receive an appropriate refund of all contributions and accrued interest up to the time the Program is discontinued.

(All dollar amounts are expressed in thousands)

Note 13. Fund Balances and Net Assets (Continued)

B. Program Risks and Actuarial Data (Continued)

The following is a summary of the actuarial present value (APV) of the future benefits obligation, funded ratio, and significant assumptions used.

APV of future benefits obligation*	$ 1,594,657
Funded ratio	71.6 %
Actuarial assumptions:	
Actuarial valuation date	June 30, 2012
Assumed net investment return	7.25 %
Rates of cancellations	12.5 %
Tuition increases by contract type:	
Legacy:	
Through June 30, 2017	7.25 %
June 30, 2018 through June 30, 2022	6.75
June 30, 2023 and beyond	5.00
University Plus:	
Through June 30, 2017	7.50 %
June 30, 2018 through June 30, 2022	7.25
June 30, 2023 and beyond	5.00
University:	
Through June 30, 2017	7.00 %
June 30, 2018 through June 30, 2022	6.50
June 30, 2023 and beyond	5.00
Community College:	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00

* For all existing contracts as of June 30, 2012

Note 13. Fund Balances and Net Assets (Continued)

C. Restrictions and Commitments

As of June 30, 2012, the Commission reported the following net assets restrictions and fund balance commitments:

The Illinois Designated Account Purchase Program reported $9,303 of net assets restricted for debt service. The Federal Student Loan Fund reported $42,569 of net assets restricted for federal programs (loan guarantees). The ISAC Accounts Receivable Fund, the Future Teacher Corp Fund and the University Grant Fund reported $35, $234, and $82, respectively, in fund balance committed for scholarships, awards and grants.

Note 14. Operating Leases

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

Expenses for all operating leases amounted to $139 in 2012. There are no future minimum rental commitments for non-cancelable operating leases to be satisfied by future Commission appropriations.

Note 15. New Governmental Accounting Standards

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

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

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

Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations. The Commission is required to implement this Statement for the year ending June 30, 2014.

Note 15. New Governmental Accounting Standards (Continued)

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was established to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The Commission is required to implement this Statement for the year ending June 30, 2014.

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

Note 16. Subsequent Event

Loan Sale and Bond Redemption/Defeasance

ISAC completed a competitive bidding process to sell certain FFELP student loan portfolios and entered into loan sale agreements with Educational Services of America, Inc. and SLM Education Credit Finance Corporation on November 16, 2012. The two parties purchased loans with a principal amount of $50,028 plus accrued interest of $691. The average sales price of $98.65 resulted in a discount of $667. The proceeds of the sale and available cash on hand were used to redeem/defease two outstanding bond issues. The $40,500 of Student Loan Revenue Bonds, Series 2009 (state guaranteed) were redeemed on December 3, 2012 at par plus accrued interest. The $19,450 of Student Loan Revenue Bonds, Series II and Series VIII and IX were defeased on December 3, 2012 with a redemption date of December 13, 2012. The bonds were redeemed at par plus accrued interest.

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Budgetary Comparisons Schedule - Major Governmental Fund - General Fund - Budgetary Basis
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Budgeted Amounts		Actual	Actual Amounts	Variance from
	Original	Final	Amount	GAAP Basis	Final Budget
Revenues (inflows)					
Appropriations from State resources and other revenues					
General Revenue Account	$ 386,680	$ 386,680	$ 384,243	$ 384,243	$ (2,437)
Education Assistance Account	20,185	20,185	19,384	19,384	(801)
Combined totals	406,865	406,865	403,627	403,627	(3,238)
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General Revenue Account	386,680	386,680	381,031	381,031	5,649
Education Assistance Account	20,185	20,185	19,384	19,384	801
Combined totals	406,865	406,865	400,415	400,415	6,450
Excess (deficiency) of revenues over expenditures	-	-	3,212	3,212	3,212
Other sources (uses) of financial resources					
Transfers out	-	-	(224)	(224)	(224)
Net change in fund balance	$ -	$ -	2,988	2,988	$ 2,988
Fund balance, July 1, 2011			4,148	4,148	
Fund balance, June 30, 2012			$ 7,136	$ 7,136	

State of Illinois
Illinois Student Assistance Commission

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

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

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

Actual revenue amounts on the budgetary basis	$ 384,243
Total revenues on the GAAP basis	$ 384,243

State of Illinois
Illinois Student Assistance Commission

Combining Schedule of Accounts
General Fund
June 30, 2012
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Assets			
Unexpended appropriations	$ (161)	$ 6,096	$ 5,935
Cash and cash equivalents	1	-	1
Due from other ISAC funds	1	-	1
Other receivables	165	-	165
Notes receivable, net of allowance of $14,572	7,231	-	7,231
Total assets	$ 7,237	$ 6,096	$ 13,333
Liabilities			
Accounts payable and accrued liabilities	$ 2	$ 4,718	$ 4,720
Due to other ISAC funds	99	-	99
Due to State of Illinois component units	-	1,378	1,378
Total liabilities	101	6,096	6,197
Fund Balances			
Nonspendable - notes receivable	7,231	-	7,231
Unassigned	(95)	-	(95)
Total fund balances	7,136	-	7,136
Total liabilities and fund balances	$ 7,237	$ 6,096	$ 13,333

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Revenues			
Other	$ 3	$ -	$ 3
Expenditures			
Education			
Scholarships, awards and grants	381,031	19,384	400,415
Deficiency of revenues over expenditures	(381,028)	(19,384)	(400,412)
Other sources (uses) of financial resources			
Appropriations from State resources	386,680	20,185	406,865
Lapsed appropriations	(422)	(851)	(1,273)
Receipts remitted to State Treasury	(2,019)	50	(1,969)
Transfer in	1	-	1
Transfers out	(224)	-	(224)
Net other sources (uses) of financial resources	384,016	19,384	403,400
Net change in fund balance	2,988	-	2,988
Fund balance, July 1, 2011	4,148	-	4,148
Fund balance, June 30, 2012	$ 7,136	$ -	$ 7,136

State of Illinois
Illinois Student Assistance Commission

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Incentive Trust	**Federal Congressional Teacher Scholarship**	**I S A C Accounts Receivable**	**College Access Challenge Grant**
Assets				
Cash and cash equivalents	$ -	$ 356	$ 35	$ -
Receivables				
Due from other ISAC funds	-	-	-	-
Other	-	-	-	225
Total assets	$ -	$ 356	$ 35	$ 225
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 85
Due to other State funds	-	-	-	14
Due to State of Illinois component units	-	-	-	126
Due to U.S. Department of Education	-	356	-	-
Total liabilities	-	356	-	225
Fund balances				
Committed	-	-	35	-
Total liabilities and fund balances	$ -	$ 356	$ 35	$ 225

Special Revenue Funds						
					Debt Service Fund	Total
John R. Justice Grant	Future Teacher Corp	University Grant	Optometric Education	Total	I S A C COP	Nonmajor Governmental Funds
$ 105	$ 160	$ 57	$ -	$ 713	$ -	$ 713
-	74	25	-	99	-	99
10	-	-	-	235	-	235
$ 115	$ 234	$ 82	$ -	$ 1,047	$ -	$ 1,047
$ 115	$ -	$ -	$ -	$ 200	$ -	$ 200
-	-	-	-	14	-	14
-	-	-	-	126	-	126
-	-	-	-	356	-	356
115	-	-	-	696	-	696
-	234	82	-	351	-	351
$ 115	$ 234	$ 82	$ -	$ 1,047	$ -	$ 1,047

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Special Revenue Funds			
	Federal Student Incentive Trust	**Federal Congressional Teacher Scholarship**	**I S A C Accounts Receivable**	**College Access Challenge Grant**
Revenues				
Federal government	$ 273	$ 1,019	$ -	$ 4,667
Licenses, fees, and other	-	-	66	-
Total revenues	273	1,019	66	4,667
Expenditures				
Education				
Scholarships, awards and grants	273	1,019	45	4,667
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	273	1,019	45	4,667
Excess (deficiency) of revenues over expenditures	-	-	21	-
Other sources of financial resources				
Appropriations from State resources	-	-	-	-
Transfers in	-	-	-	-
Net other sources of financial resources	-	-	-	-
Net change in fund balance	-	-	21	-
Fund balance, July 1, 2011	-	-	14	-
Fund balance, June 30, 2012	$ -	$ -	$ 35	$ -

Special Revenue Funds							
						Debt Service Fund	Total
John R. Justice Grant	Future Teacher Corp	University Grant	Optometric Education	Total		I S A C COP	Nonmajor Governmental Funds
$ 198	$ -	$ -	$ -	$ 6,157		$ -	$ 6,157
-	46	81	-	193		-	193
198	46	81	-	6,350		-	6,350
198	-	75	50	6,327		-	6,327
-	-	-	-	-		1,755	1,755
-	-	-	-	-		188	188
198	-	75	50	6,327		1,943	8,270
-	46	6	(50)	23		(1,943)	(1,920)
-	-	-	50	50		-	50
-	173	51	-	224		1,943	2,167
-	173	51	50	274		1,943	2,217
-	219	57	-	297		-	297
-	15	25	-	54		-	54
$ -	$ 234	$ 82	$ -	$ 351		$ -	$ 351

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2012
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Assets				
Current				
Cash and cash equivalents	$ 18,687	$ 36,352	$ -	$ 55,039
Receivables				
Intergovernmental	832	30,076	-	30,908
Accrued interest on investments	7	11	-	18
Securities lending collateral	9,455	16,199	-	25,654
Due from other State funds	91	-	-	91
Due from State of Illinois component units	8	-	-	8
Due from other ISAC funds	3,396	-	-	3,396
Due from Federal Student Loan fund	1,607	-	(1,607)	-
Due from Student Loan Operating fund	-	223	(223)	-
Total current assets	34,083	82,861	(1,830)	115,114
Noncurrent				
Capital assets, net of accumulated depreciation	1,805	-	-	1,805
Due from Student Loan Operating fund - Deferred charges	-	2,336	(2,336)	-
Total noncurrent assets	1,805	2,336	(2,336)	1,805
Total assets	$ 35,888	$ 85,197	$ (4,166)	$ 116,919
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 1,278	$ 16,816	$ -	$ 18,094
Due to Federal Student Loan fund	223	-	(223)	-
Due to Student Loan Operating fund	-	1,607	(1,607)	-
Due to other ISAC funds	7	-	-	7
Due to other State funds	355	-	-	355
Due to State of Illinois component units	7,061			7,061
Securities lending collateral obligation	9,455	16,199	-	25,654
Due to U.S. Department of Education	-	8,006	-	8,006
Compensated absences	205	-	-	205
Total current liabilities	18,584	42,628	(1,830)	59,382
Noncurrent				
Due to Federal Student Loan fund - deferred revenue	2,336	-	(2,336)	-
Compensated absences	1,839	-	-	1,839
Total noncurrent liabilities	4,175	-	(2,336)	1,839
Total liabilities	22,759	42,628	(4,166)	61,221

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Assets
Nonmajor Enterprise Funds (Continued)
June 30, 2012
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Net Assets				
Invested in capital assets	$ 1,805	$ -	$ -	$ 1,805
Restricted	-	42,569	-	42,569
Unrestricted	11,324	-	-	11,324
Total net assets	13,129	42,569	-	55,698
Total liabilities and net assets	$ 35,888	$ 85,197	$ (4,166)	$ 116,919

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses and Changes in Net Assets -
Nonmajor Enterprise Funds
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Operating revenues			
Portfolio maintenance fees	$ 3,467	$ -	$ 3,467
Direct consolidation fees	10,059	-	10,059
Licenses and fees	-	2	2
Collections on student loans previously reimbursed by the U.S. Department of Education	-	23,686	23,686
Other	646	-	646
Total operating revenues	14,172	23,688	37,860
Operating expenses			
Salaries and employee benefits	23,809	-	23,809
Loan guarantees	-	189,251	189,251
Management and professional services	3,983	-	3,983
MAP and other State grants	33,396	-	33,396
Depreciation	104	-	104
Total operating expenses	61,292	189,251	250,543
Operating loss	(47,120)	(165,563)	(212,683)
Non-operating revenues			
Federal government	-	182,872	182,872
Interest revenue	95	167	262
	95	183,039	183,134
Income (loss) before transfers	(47,025)	17,476	(29,549)
Transfers out to other ISAC funds	(1,917)	-	(1,917)
Transfers for:			
Collection retention fees	6,241	(6,241)	-
Repurchases/Rehabilitations/Consolidation Retention fees	18,521	(18,521)	-
Direct Consolidation fee refund	(4,595)	4,595	-
Default aversion fees	1,284	(1,284)	-
Net transfers	19,534	(21,451)	(1,917)
Change in net assets	(27,491)	(3,975)	(31,466)
Net assets, July 1, 2011	40,620	46,544	87,164
Net assets, June 30, 2012	$ 13,129	$ 42,569	$ 55,698

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ 9,717	$ 113,262	$ 122,979
Cash payments to suppliers for goods and services	(2,229)	-	(2,229)
Cash payments to employees for services	(21,812)	-	(21,812)
Cash payments for loan guarantees	-	(189,411)	(189,411)
Cash payments for MAP grants	(25,460)	-	(25,460)
Cash received from other operating activities	1,267	-	1,267
Cash payments for other operating activities	-	(87,806)	(87,806)
Net cash used in operating activities	(38,517)	(163,955)	(202,472)
Cash flows from noncapital financing activities			
Federal government grants	-	185,827	185,827
Transfers in	58,878	4,757	63,635
Transfers out	(6,676)	(25,378)	(32,054)
Net cash provided by noncapital financing activities	52,202	165,206	217,408
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(1,220)	-	(1,220)
Cash flows from investing activities			
Interest and dividends on investments	92	156	248
Net increase in cash and cash equivalents	12,557	1,407	13,964
Cash and cash equivalents, July 1, 2011	6,130	34,945	41,075
Cash and cash equivalents, June 30, 2012	$ 18,687	$ 36,352	$ 55,039

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds (Continued)
Year Ended June 30, 2012
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	$ (47,120)	$ (165,563)	$ (212,683)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	104	-	104
Change in assets and liabilities			
Accounts receivable	-	(15)	(15)
Intergovernmental receivables	83	-	83
Due from other ISAC funds	1,069	-	1,069
Due from other State funds	8	6	14
Due from State of Illinois component units	(8)	-	(8)
Accounts payable and accrued liabilities	321	1,403	1,724
Intergovernmental payables	-	215	215
Due to other State funds and component units	7,102	-	7,102
Due to other ISAC funds	4	(1)	3
Compensated absences	(76)	-	(76)
Other	(4)	-	(4)
Total adjustments	8,603	1,608	10,211
Net cash used in operating activities	$ (38,517)	$ (163,955)	$ (202,472)

Gabriel Roeder Smith & Company
Consultants & Actuaries

COLLEGE ILLINOIS!® PREPAID TUITION PROGRAM
ACTUARIAL SOUNDNESS VALUATION REPORT
AS OF JUNE 30, 2012

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

20 North Clark Street
Suite 2400
Chicago, IL 60602-5111

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

November 16, 2012

Mr. Eric Zarnikow, Executive Director
Illinois Student Assistance Commission
James R. Thompson Center
100 W. Randolph, Suite 3-200
Chicago, IL 60601-3293

Re: College Illinois!® Prepaid Tuition Program Actuarial Valuation as of June 30, 2012

Dear Mr. Zarnikow:

In accordance with the request of the Illinois Student Assistance Commission ("ISAC"), Gabriel, Roeder, Smith & Company ("GRS") has performed an actuarial soundness valuation of the College College Illinois!® Prepaid Tuition Program ("CIPTP") as of June 30, 2012. The purpose of this actuarial valuation is to evaluate the financial status of the program as of June 30, 2012.

This report presents the principal results of the actuarial valuation of the CIPTP including the following:

- A comparison of the actuarial present value of the obligations for prepaid tuition contracts purchased through June 30, 2012 with the value of the assets associated with the program as of that same date;
- An analysis of the factors which caused the deficit/surplus to change since the prior actuarial valuation; and
- A summary of the actuarial assumptions and methods utilized in the actuarial calculations.

This report was prepared at the request of the Illinois Student Assistance Commission and is intended for use by the Commission and those designated or approved by the Commission. This report may be provided to parties other than the Commission only in its entirety and only with the permission of the Commission. This report should not be relied on for any purpose other than the purpose described above.

The valuation results set forth in this report are based upon data and information, furnished by ISAC, concerning program benefits, financial transactions, and beneficiaries of the CIPTP. We reviewed this information for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the Illinois Student Assistance Commission. Further, the data and information provided is through June 30, 2012, and do not reflect subsequent market volatility.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The valuation results reflect changes to the investment return assumption and the tuition and fee increase assumption. The major actuarial assumptions used in this analysis were provided by and are the responsibility of ISAC. We are unable to judge the reasonableness of some of these assumptions without performing a substantial amount of additional work beyond the scope of the assignment.

Given the current asset allocation and liquidity requirements, the net investment rate of return assumption of 7.25 percent, appears to be consistent with applicable Actuarial Standards of Practice.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law. We have performed an analysis of the sensitivity of certain changes in future assumptions.

We believe that the actuarial methods used in this report are reasonable and appropriate for the purpose for which they have been used. In addition, because it is not possible or practical to consider every possible contingency, we may use summary information, estimates or simplifications of calculations to facilitate the modeling of future events. We may also exclude factors or data that are deemed to be immaterial.

To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the College Illinois!® Prepaid Tuition Program as of June 30, 2012. All calculations have been made in conformity with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements.

The undersigned are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

The signing actuaries are independent of the ISAC.

Respectfully submitted,

Gabriel, Roeder, Smith and Company

Alex Rivera

Alex Rivera, FSA, EA, MAAA
Senior Consultant

Lance J. Weiss

Lance J. Weiss, EA, MAAA, FCA
Senior Consultant

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SECTION A

EXECUTIVE SUMMARY

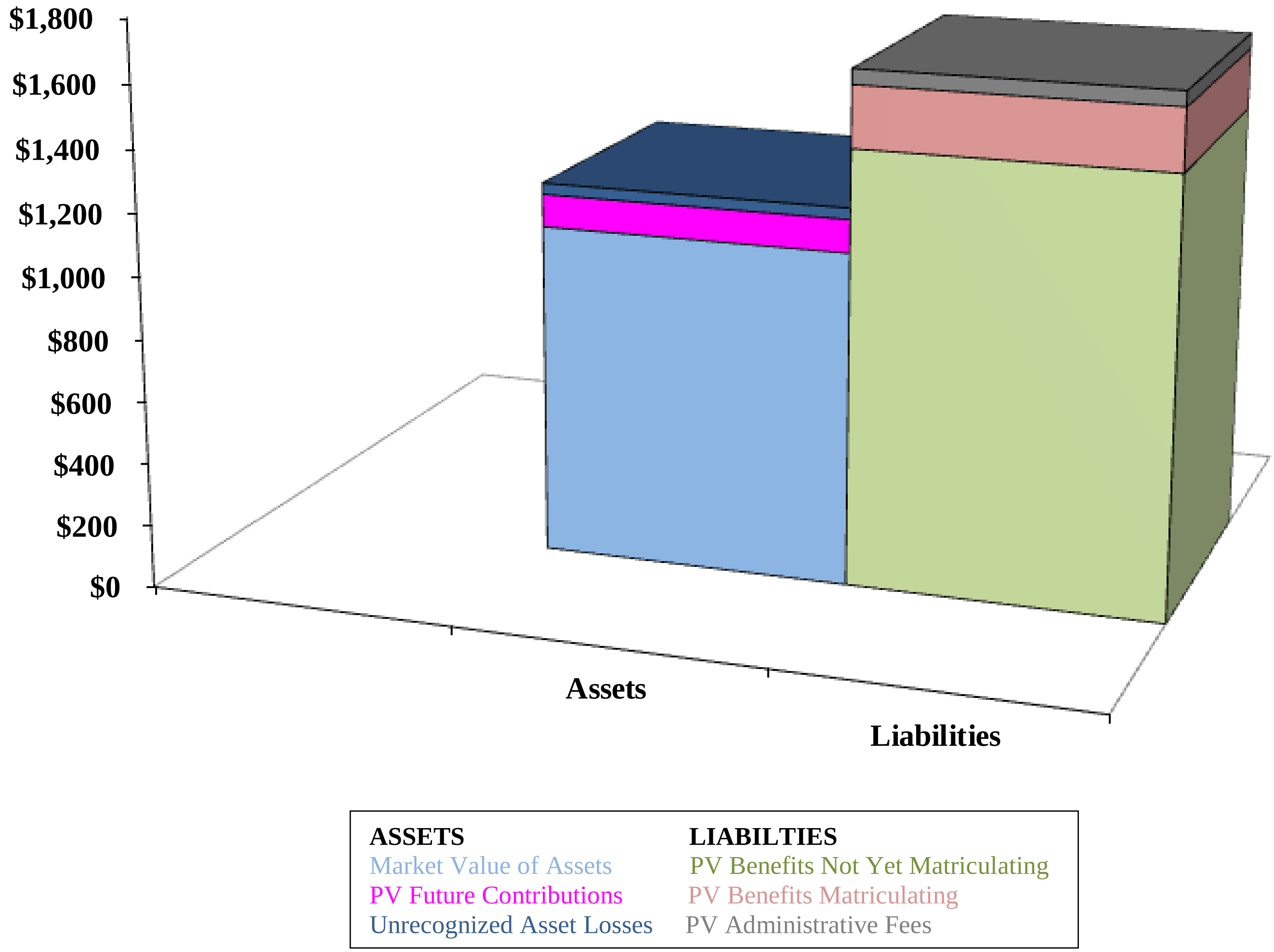
SUMMARY OF RESULTS

Principal Valuation Results

Valuation Date:	June 30, 2012	June 30, 2011
Membership Summary:		
Counts		
Not yet Matriculating	40,229	44,778
Matriculating	9,934	8,866
Total	50,163	53,644
Average years until Enrollment if Not yet Matriculating	5.8	6.3
Assets [1]		
· Market Value of Assets (MVA)	$1,176,055,767	$1,282,010,412
· Actuarial Value of Assets (AVA)	$1,211,920,275	$1,339,658,873
· Estimated Return on MVA	2.82%	16.88%
· Estimated Return on AVA	0.78%	2.81%
· Ratio – AVA to MVA	103.0%	104.5%
Actuarial Liabilities (Present Value of Future Tuition Payments, Fees, and Administrative Expenses)	$1,643,460,352	$1,818,347,534
Unfunded Liabilities (Based on Actuarial Value of Assets)	$431,540,077	$478,688,662
Unfunded Liabilities (Based on Market Value of Assets)	$467,404,585	$536,337,123
Funded Ratio		
· Based on Actuarial Value	73.7%	73.7%
· Based on Market Value	71.6%	70.5%

[1] *Asset values include present value of expected future contributions from current members.*

SUMMARY OF ASSETS AND LIABILITIES AS OF JUNE 30, 2012
$ IN MILLIONS



Funded Status as of June 30, 2012 (Based on Market Value of Assets)

	June 30, 2012
Actuarial Present Value of Future Tuition Payments, Fees and Expenses	$1,643,460,352
Market Value of Assets (Including the Present Value of Installment Contract Receivables)	$1,176,055,767
Deficit/(Surplus) as of June 30, 2012	$467,404,585

Funded Status as of June 30, 2012 (Based on Actuarial Value of Assets)

	June 30, 2012
Actuarial Present Value of Future Tuition Payments, Fees and Expenses	$1,643,460,352
Actuarial Value of Assets (Including the Present Value of Installment Contract Receivables)	$1,211,920,275
Deficit/(Surplus) as of June 30, 2012	$431,540,077

Gain/Loss Summary

	Unfunded Liability (Market Value of Assets)
Values at June 30, 2011	$ 536,337,122
Projected Values at June 30, 2012	$ 585,357,342
(Gain)/Loss Due to:	
Investment Experience	$ 50,941,188
Change in Tuition Increase Assumption	(110,864,607)
Change in Discount Rate	29,429,444
Tuition/Fee Inflation and Other	(87,458,782)
Total	$ (117,952,757)
Actual Values at June 30, 2012	$ 467,404,585

DISCUSSION

Actuarial Valuation

Gabriel, Roeder, Smith & Company ("GRS") has performed an actuarial soundness valuation of the College Illinois!® Prepaid Tuition Program ("CIPTP") as of June 30, 2012.

The primary purposes of the actuarial soundness valuation are to:

- determine the actuarial present value of the obligations for prepaid tuition contracts purchased through June 30, 2012 and compare such liabilities with the value of the assets associated with the program as of that same date; and
- analyze the factors which caused the deficit/surplus to change since the prior actuarial valuation.

This report summarizes those results and also presents the results of a continuing business model. Finally the report also presents the impact of variances in the rate of tuition and fee increases as well as the rate of investment return on assets.

In addition, the report provides summaries of the member data, financial data, plan provisions, and actuarial assumptions and methods.

The actuarial assumptions and methods, with the exception of the discount rate and the tuition and fees increase assumptions used for this June 30, 2012, actuarial soundness valuation are consistent with the assumptions and methods used for the June 30, 2011, actuarial soundness valuation. The changes in assumptions are discussed below.

Background

Legislation authorizing ISAC to administer an Illinois Prepaid Tuition Program was passed in November 1997. The purpose of the program is to provide Illinois families with an affordable tax-advantaged method to pay for college. CIPTP is open to all Illinois residents and non-Illinois residents purchasing for Illinois-resident beneficiaries. CIPTP contracts may allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at expected projected costs, which may be more stable than actual future costs.

Benefits of the program can also be used at private and out-of-state colleges and universities. Contracts can be purchased in a lump sum or in installments. As a Section 529 plan, CIPTP earnings are 100 percent exempt from state and federal income taxes.

The first CIPTP contracts were offered for sale in 1998. As of June 30, 2012, the CIPTP had 50,163 contracts in force.

Actuarial Assumptions

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The actuarial assumptions used in this analysis were provided by and are the responsibility of ISAC.

Key Actuarial Assumptions – Changes Since Prior Valuation

The net investment return assumption of 7.25 percent was provided to us by ISAC. This represents a decrease from the 7.50 percent rate used in the June 30, 2011, valuation. Given the current asset allocation and expected liquidity requirements, the net investment rate of return assumption of 7.25 percent appears to be a reasonable assumption consistent with applicable Actuarial Standards of Practice.

The tuition increase assumption was changed from a flat percent for all years in perpetuity to a select and ultimate arrangement. Under the select and ultimate arrangement, tuition increases are expected to be high initially, and then grade down until an ultimate rate of 5.0% per year is reached in the year 2023.

The prior assumption for increases in tuition and fees assumed a flat rate of increase for all years into the future. In the process of setting the tuition and fee increase assumption for this year, we compared the growth in general inflation, wages, tuition costs, and other goods and services. If tuition increases are assumed to continue to increase by the flat rates assumed in the prior year, while the costs for other goods and services increase at a lower rate, then in the long run the general economy would include a disproportionate share of expenditures allocated to tuition payments. In other words, the flat rates of tuition increases assumed in the prior year are not sustainable in the long term. Therefore we changed to a select and ultimate arrangement.

Tuition and Fee Increase Assumption - June 30, 2011, Actuarial Valuation				
Effective date	**Legacy**	**University**	**University Plus**	**Community College**
6/30/2013 and Beyond	8.00%	7.50%	8.50%	6.50%
Tuition and Fee Increase Assumption - June 30, 2012, Actuarial Valuation				
Effective date	**Legacy**	**University**	**University Plus**	**Community College**
6/30/2013 through 6/30/2017	7.25%	7.00%	7.50%	6.50%
6/30/2018 through 6/30/2022	6.75%	6.50%	7.25%	5.75%
6/30/2023 and Beyond	5.00%	5.00%	5.00%	5.00%

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law. We have performed an analysis of the sensitivity of certain changes in future assumptions.

Financial Status of Program as of June 30, 2012

As of June 30, 2012, the present value of all future tuition obligations under contracts outstanding (and including future administrative expenses) at that date is $1,643,460,352. Fund assets as of June 30, 2012, including the actuarial value of program assets and the present value of installment contract receivables, is $1,211,920,275. Fund assets, including the market value of program assets and the present value of installment contract receivables, is $1,176,055,767.

The difference between the present value of future tuition obligations and the value of assets as of June 30, 2012, represents a program deficit of $431,540,077 on an actuarial value of assets basis, and $467,404,585 on a market value of assets basis. The comparable program deficit as of the last valuation as of June 30, 2011, was $478,688,662 on an actuarial value of assets basis, and $536,337,123 on a market value of assets basis.

The following table summarizes the deficit of the CIPTP as of June 30, 2012, with comparable figures from the prior actuarial valuations as of June 30, 2011.

CIPTP Deficit (Unfunded Liabilities)

Deficit based on:	June 30, 2012	June 30, 2011
Actuarial Value of Assets	$431,540,077	$478,688,662
Market Value of Assets	$467,404,585	$536,337,123

Gain/Loss Analysis

As described above, the program deficit decreased from $536.3 million as of June 30, 2011 to $467.4 million as of June 30, 2012, based on the market value of assets. Based on the actuarial assumptions, the deficit was expected to increase to $585.3 million. The primary factors which caused the expected deficit to decrease by $117.9 million include the change in the tuition increase assumption, tuition and fee increases less than expected, and other demographic gains. These gains were partially offset by the change in the net investment return assumption and investment losses.

The funded ratio on a market value of assets basis increased from 70.5 percent as of June 30, 2011, to 71.6 percent as of June 30, 2012.

Benefit Provisions

The basic terms and conditions of the College Illinois!® Prepaid Tuition Program (the "Program") are included in the Illinois Prepaid Tuition Act, 110 ILCS 979 (the "Act") and ISAC Administrative Rules (23 Ill. Adm. Code 2775, et. seq.) ("ISAC Rules").

We understand there were no changes in the program provisions since the last actuarial valuation as of June 30, 2011.

Sales of new contracts were suspended between September of 2011 and September of 2012. The CIPTP started selling new contracts on October 1, 2012.

Assets

CIPTP assets are held in trust. ISAC provided the asset information used in the June 30, 2012 actuarial valuation.

This report contains several exhibits summarizing the plan's assets, including a summary of the market value of assets broken down by asset category, a reconciliation of the assets from the last valuation date to the current valuation date and a development of the actuarial value of assets. The approximate return on market value was 2.82 percent.

The actuarial value of assets is a smoothed market value. A smoothed value is used in order to dampen some of the year-to-year fluctuations in the deficit/surplus which occurs due to year to year fluctuations in market value. The smoothing method used phases in differences between the actual and expected market returns over five years.

The actuarial value is currently 103.0 percent of the market value. Over any short time period, a disparity between actuarial value and market value may appear, but in the long-run, we would expect the actuarial value and the market value to continue to track each other fairly closely. As of June 30, 2012, the plan has $35,864,508 in deferred asset losses (the difference between the market and actuarial values) that will be recognized over the next four valuations.

Open Group Ongoing Business Scenario

Exhibits III, IV, V, and VI present the results of an open group scenario assuming the sale of additional new contracts.

Exhibit III illustrates the program results based on an investment return assumption of 7.25 percent and an assumption of 3,500 new contract sales each year. Under this new contract sales assumption, the CIPTP is projected to have a funded status of 100 percent in 16 years by 2028.

Exhibit IV illustrates the program results based on an investment return assumption of 7.25 percent and an assumption of 2,500 new contract sales each year. Under this moderate new contract sales assumption, the CIPTP funded status is projected to stay fairly level at about 70 to 80 percent for a number of years before gradually improving to 100 percent in 2035.

Finally, Exhibits V and VI illustrate the program results based on an investment return assumption of 7.25 percent and an assumption of 1,000 and 500 new contract sales each year. Under these more conservative new contract sales assumptions, member payments, fund principal and investment income are projected to be insufficient to make the required tuition payments and additional funds will be required for a period of time.

The level of contribution premium over the expected costs can significantly impact the future sales assumption. The projection scenarios are for illustrative purposes only and do not consider how increases in the member's required contribution can impact future sales.[a]

Closed Group (Run-Off) Scenario

While the closing of the program has not occurred, in Exhibit VII, we have provided a closed group projection for illustration purposes (i.e., run off scenario) assuming no new contract sales after June 30, 2012. Under this scenario, member payments, fund principal and investment income are projected to be insufficient to make the required tuition payments by the year 2022 and additional funds will be required to maintain solvency ($1.2 billion for the period 2022 to 2037). Under this scenario, the shortfall is expected to grow from the current level of $467 million until it reaches a high of $903 million in 2022.

[a]*This report is not a recommendation to anyone to participate or not participate in the CIPTP. GRS makes no representations or warranties to any person participating in or considering participation in the CIPTP.*

SECTION B
VALUATION RESULTS

Exhibit I
Principal Valuation Results

		June 30, 2012	June 30, 2011
1	Number of Members		
	a. Not yet Matriculating:	40,229	44,778
	b. Matriculating:	9,934	8,866
	c. Total	50,163	53,644
	Average Years until Enrollment if Not Yet Matriculating	5.8	6.3
2	Assets		
	a. Market Value of Assets (in Trust)	$ 1,070,929,809	$ 1,132,275,368
	b. PV Future Member Contributions	105,125,958	149,735,044
	c. Unrecognized Gains and (Losses)	(35,864,508)	(57,648,461)
	d. Total Actuarial Value of Assets (AVA) (2a + 2b - 2c)	$ 1,211,920,275	$ 1,339,658,873
3	Actuarial Results		
	Liabilities		
	a. Not yet Matriculating - Tuition and Fees	$ 1,396,422,771	$ 1,578,458,389
	b. Matriculating - Tuition and Fees	198,233,820	168,061,383
	c. Present Value of Future Administrative Expenses	48,803,761	71,827,762
	d. Total	$ 1,643,460,352	$ 1,818,347,534
	Unfunded Liability (Based on AVA)	$ 431,540,077	$ 478,688,662
	Unfunded Liability (Based on MVA)	$ 467,404,585	$ 536,337,123
	Funded Ratio		
	Actuarial Value of Assets	73.7%	73.7%
	Market Value of Assets	71.6%	70.5%

Exhibit II
Gain/Loss Summary

	Present Value of Benefits	Market Value of Assets	Unfunded Liability (Market Value of Assets)
Values at June 30, 2011	$1,818,347,534	$1,282,010,412	$ 536,337,122
Projected Values at June 30, 2012	$1,811,719,205	$1,226,361,863	$ 585,357,342
(Gain)/Loss Due to:			
Investment Experience	$ -	$ 50,941,188	$ 50,941,188
Change in Tuition Increase Assumption	($110,864,607)	-	(110,864,607)
Change in Discount Rate	30,064,536	635,092	29,429,444
Tuition/Fee Inflation and Other	(87,458,782)	-	(87,458,782)
Total	$ (168,258,853)	$ 51,576,280	$ (117,952,757)
Actual Values at June 30, 2012	$1,643,460,352	$1,176,055,767	$ 467,404,585

Exhibit III
Continuing Business Model – Current Year Assumptions – New Contract Sales of 3,500 Per Year

Open Group Projections (Continuing Business Scenario)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
3,500 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions	Tuition Payments, Refunds, and Fees	Administrative Expenses	Net Investment Return	Market Value of Assets (EOY)	Total Present Value of Future Contributions	Total Fund Assets (MVA + PVFC)	Total Present Value of Future Benefits	Present Value of Future Admin Expenses	Total Present Value of Future Benefits, Fees, and Expenses	Unfunded Liability	Funded Ratio
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	3,500	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	193,382,576	1,226,628,337	1,639,771,896	50,184,495	1,689,956,391	463,328,054	72.6%
2014	7.25%	3,500	95,911,230	0	143,828,039	4,504,587	73,010,042	1,053,834,407	234,634,882	1,288,469,289	1,693,926,510	51,841,873	1,745,768,383	457,299,094	73.8%
2015	7.25%	3,500	104,688,245	0	146,286,126	4,653,354	74,726,387	1,082,309,559	276,160,601	1,358,470,160	1,753,667,009	53,670,204	1,807,337,213	448,867,053	75.2%
2016	7.25%	3,500	115,736,545	0	146,176,206	4,817,466	77,189,372	1,124,241,804	315,873,529	1,440,115,333	1,822,222,490	55,768,315	1,877,990,805	437,875,472	76.7%
2017	7.25%	3,500	128,564,643	0	164,032,046	5,005,793	80,040,377	1,163,808,985	352,172,334	1,515,981,319	1,881,875,991	57,593,984	1,939,469,975	423,488,656	78.2%
2018	7.25%	3,500	142,789,056	0	181,266,248	5,169,667	82,793,953	1,202,956,079	383,681,225	1,586,637,304	1,932,846,702	59,153,920	1,992,000,622	405,363,318	79.7%
2019	7.25%	3,500	151,993,144	0	193,163,845	5,309,687	85,529,402	1,242,005,093	415,643,805	1,657,648,898	1,980,296,637	60,606,104	2,040,902,741	383,253,843	81.2%
2020	7.25%	3,500	161,716,659	0	201,492,595	5,440,036	88,406,290	1,285,195,411	447,969,187	1,733,164,598	2,027,943,260	62,064,308	2,090,007,568	356,842,970	82.9%
2021	7.25%	3,500	172,817,012	0	210,514,024	5,570,925	91,608,205	1,333,535,679	479,592,716	1,813,128,395	2,075,302,793	63,513,725	2,138,816,518	325,688,123	84.8%
2022	7.25%	3,500	184,917,925	0	215,608,752	5,701,026	95,362,132	1,392,505,958	509,843,509	1,902,349,467	2,126,699,806	65,086,708	2,191,786,514	289,437,047	86.8%
2023	7.25%	3,500	197,573,989	0	219,931,282	5,842,217	99,934,450	1,464,240,898	538,608,899	2,002,849,797	2,183,600,737	66,828,136	2,250,428,873	247,579,077	89.0%
2024	7.25%	3,500	207,888,210	0	222,250,341	5,998,529	105,419,391	1,549,299,629	568,522,852	2,117,822,481	2,248,686,598	68,820,060	2,317,506,658	199,684,177	91.4%
2025	7.25%	3,500	218,640,743	0	222,756,735	6,177,325	111,951,090	1,650,957,402	599,853,728	2,250,811,130	2,324,850,687	71,151,029	2,396,001,716	145,190,586	93.9%
2026	7.25%	3,500	230,409,951	0	221,685,631	6,386,554	119,779,156	1,773,074,324	632,052,542	2,405,126,866	2,414,794,311	73,903,713	2,488,698,024	83,571,158	96.6%
2027	7.25%	3,500	243,040,799	0	218,487,609	6,633,637	129,197,472	1,920,191,349	664,863,475	2,585,054,824	2,522,101,862	77,187,814	2,599,289,676	14,234,852	99.5%
2028	7.25%	3,500	256,450,635	0	216,445,506	6,928,419	140,412,904	2,093,680,963	698,103,581	2,791,784,544	2,647,216,750	81,016,899	2,728,233,649	-63,550,894	102.3%
2029	7.25%	3,500	269,272,742	0	215,760,317	7,272,120	153,468,081	2,293,389,349	733,052,926	3,026,442,275	2,790,444,386	85,400,318	2,875,844,704	-150,597,571	105.2%
2030	7.25%	3,500	282,766,779	0	218,482,946	7,665,578	168,323,140	2,518,330,744	769,656,602	3,287,987,346	2,949,901,869	90,280,444	3,040,182,313	-247,805,033	108.2%
2031	7.25%	3,500	296,865,876	0	228,103,811	8,103,621	184,777,848	2,763,767,036	808,172,951	3,571,939,987	3,120,111,971	95,489,649	3,215,601,620	-356,338,368	111.1%
2032	7.25%	3,500	311,735,118	0	244,221,711	8,571,202	202,509,765	3,025,219,006	848,531,897	3,873,750,903	3,295,503,700	100,857,435	3,396,361,135	-477,389,767	114.1%
2033	7.25%	3,500	327,288,895	0	261,402,661	9,053,017	221,388,582	3,303,440,805	890,947,043	4,194,387,848	3,475,881,952	106,377,832	3,582,259,784	-612,128,064	117.1%
2034	7.25%	3,500	343,654,229	0	279,499,745	9,548,531	241,478,924	3,599,525,682	935,555,718	4,535,081,400	3,661,215,089	112,049,871	3,773,264,960	-761,816,440	120.2%
2035	7.25%	3,500	360,879,183	0	297,703,132	10,057,656	262,891,154	3,915,535,231	982,316,761	4,897,851,992	3,852,217,122	117,895,404	3,970,112,526	-927,739,466	123.4%
2036	7.25%	3,500	378,903,090	0	315,329,843	10,582,354	285,797,224	4,254,323,348	1,031,443,209	5,285,766,557	4,050,490,878	123,963,484	4,174,454,362	-1,111,312,194	126.6%
2037	7.25%	3,500	397,852,585	0	332,921,782	11,127,028	310,388,830	4,618,515,953	1,082,923,115	5,701,439,068	4,257,118,690	130,287,237	4,387,405,927	-1,314,033,141	130.0%

Exhibit IV
Continuing Business Model – Current Year Assumptions – New Contract Sales of 2,500 Per Year

Open Group Projections (Continuing Business Scenario)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
2,500 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions	Tuition Payments, Refunds, and Fees	Administrative Expenses	Net Investment Return	Market Value of Assets (EOY)	Total Present Value of Future Contributions	Total Fund Assets (MVA + PVFC)	Total Present Value of Future Benefits	Present Value of Future Admin Expenses	Total Present Value of Future Benefits, Fees, and Expenses	Unfunded Liability	Funded Ratio
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	2,500	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	158,905,606	1,192,151,367	1,616,825,117	49,482,219	1,666,307,336	474,155,969	71.5%
2014	7.25%	2,500	74,698,380	0	143,817,693	4,441,550	72,243,736	1,031,928,634	183,481,329	1,215,409,963	1,645,247,143	50,352,062	1,695,599,205	480,189,242	71.7%
2015	7.25%	2,500	79,438,394	0	145,980,670	4,519,628	72,238,832	1,033,105,562	209,450,805	1,242,556,367	1,676,462,817	51,307,404	1,727,770,221	485,213,854	71.9%
2016	7.25%	2,500	86,243,361	0	145,526,444	4,605,380	72,584,196	1,041,801,295	235,016,331	1,276,817,626	1,713,545,565	52,442,305	1,765,987,870	489,170,244	72.3%
2017	7.25%	2,500	94,698,742	0	162,568,303	4,707,249	72,899,685	1,042,124,170	258,646,602	1,300,770,772	1,738,942,280	53,219,560	1,792,161,840	491,391,069	72.6%
2018	7.25%	2,500	104,323,683	0	178,841,933	4,777,016	72,679,549	1,035,508,453	279,236,346	1,314,744,799	1,752,774,944	53,642,903	1,806,417,847	491,673,048	72.8%
2019	7.25%	2,500	110,361,119	0	189,472,911	4,815,015	72,032,016	1,023,613,662	300,609,603	1,324,223,265	1,760,273,085	53,872,380	1,814,145,465	489,922,200	73.0%
2020	7.25%	2,500	116,796,150	0	196,148,663	4,835,613	71,160,171	1,010,585,707	322,602,673	1,333,188,380	1,765,203,341	54,023,269	1,819,226,610	486,038,230	73.3%
2021	7.25%	2,500	124,390,013	0	203,169,303	4,849,157	70,235,933	997,193,193	344,413,248	1,341,606,441	1,767,254,762	54,086,051	1,821,340,813	479,734,373	73.7%
2022	7.25%	2,500	132,896,293	0	205,911,299	4,854,793	69,473,726	988,797,120	365,350,486	1,354,147,606	1,770,830,707	54,195,492	1,825,026,199	470,878,593	74.2%
2023	7.25%	2,500	141,777,403	0	207,759,752	4,864,616	69,119,589	987,069,744	385,268,967	1,372,338,711	1,777,171,254	54,389,541	1,831,560,795	459,222,084	74.9%
2024	7.25%	2,500	148,874,347	0	206,895,958	4,882,034	69,282,299	993,448,398	406,313,648	1,399,762,046	1,789,531,687	54,767,827	1,844,299,514	444,537,468	75.9%
2025	7.25%	2,500	156,359,391	0	203,648,459	4,915,989	70,132,576	1,011,375,917	428,464,615	1,439,840,532	1,811,016,467	55,425,359	1,866,441,826	426,601,294	77.1%
2026	7.25%	2,500	164,588,650	0	198,268,948	4,975,010	71,923,499	1,044,644,108	451,436,055	1,496,080,163	1,844,763,679	56,458,178	1,901,221,857	405,141,694	78.7%
2027	7.25%	2,500	173,587,981	0	190,550,496	5,067,716	74,938,102	1,097,551,979	474,951,675	1,572,503,654	1,894,393,636	57,977,081	1,952,370,717	379,867,062	80.5%
2028	7.25%	2,500	183,216,077	0	183,644,020	5,204,053	79,368,359	1,171,288,342	498,605,478	1,669,893,820	1,960,351,029	59,995,677	2,020,346,706	350,452,886	82.7%
2029	7.25%	2,500	192,307,350	0	177,488,301	5,385,244	85,260,380	1,265,982,527	523,592,991	1,789,575,518	2,043,456,575	62,539,086	2,105,995,661	316,420,143	85.0%
2030	7.25%	2,500	201,969,236	0	173,899,358	5,613,542	92,597,775	1,381,036,638	549,731,021	1,930,767,659	2,142,494,444	65,570,096	2,208,064,540	277,296,881	87.4%
2031	7.25%	2,500	212,037,679	0	175,922,048	5,885,607	101,220,995	1,512,487,657	577,275,539	2,089,763,196	2,253,188,784	68,957,848	2,322,146,632	232,383,435	90.0%
2032	7.25%	2,500	222,681,298	0	183,665,384	6,189,693	110,845,306	1,656,159,184	606,085,328	2,262,244,512	2,370,683,620	72,553,725	2,443,237,345	180,992,833	92.6%
2033	7.25%	2,500	233,771,090	0	193,149,950	6,512,461	121,307,980	1,811,575,843	636,457,535	2,448,033,378	2,494,115,386	76,331,300	2,570,446,686	122,413,308	95.2%
2034	7.25%	2,500	245,509,488	0	204,076,763	6,851,538	132,592,817	1,978,749,847	668,223,372	2,646,973,219	2,622,682,244	80,266,032	2,702,948,276	55,975,056	97.9%
2035	7.25%	2,500	257,739,461	0	215,704,436	7,204,722	144,721,962	2,158,302,112	701,683,850	2,859,985,962	2,756,505,713	84,361,640	2,840,867,353	-19,118,609	100.7%
2036	7.25%	2,500	270,664,883	0	227,306,294	7,572,346	157,774,154	2,351,862,509	736,725,933	3,088,588,442	2,896,319,945	88,640,593	2,984,960,538	-103,627,905	103.5%
2037	7.25%	2,500	284,165,432	0	239,174,612	7,956,427	171,852,529	2,560,749,431	773,574,093	3,334,323,524	3,042,754,682	93,122,163	3,135,876,845	-198,446,679	106.3%

Exhibit V
Continuing Business Model – Current Year Assumptions – New Contract Sales of 1,000 Per Year

Open Group Projections (Continuing Business Scenario)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
1,000 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions[2]	Tuition Payments, Refunds, and Fees	Administrative Expenses	Net Investment Return	Market Value of Assets (EOY)	Total Present Value of Future Contributions	Total Fund Assets (MVA + PVFC)	Total Present Value of Future Benefits	Present Value of Future Admin Expenses	Total Present Value of Future Benefits, Fees, and Expenses	Unfunded Liability	Funded Ratio
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	1,000	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	107,190,151	1,140,435,912	1,582,404,948	48,428,805	1,630,833,753	490,397,841	69.9%
2014	7.25%	1,000	42,879,104	0	143,802,176	4,346,995	71,094,278	999,069,972	106,714,798	1,105,784,770	1,572,203,998	48,116,609	1,620,320,607	514,535,837	68.2%
2015	7.25%	1,000	41,541,345	0	145,522,474	4,318,972	68,506,694	959,276,565	109,407,889	1,068,684,454	1,560,655,659	47,763,177	1,608,418,836	539,734,382	66.4%
2016	7.25%	1,000	42,023,520	0	144,551,503	4,287,248	65,675,499	918,136,833	113,693,301	1,031,830,134	1,550,502,993	47,452,459	1,597,955,452	566,125,318	64.6%
2017	7.25%	1,000	43,875,484	0	160,372,651	4,259,358	62,187,496	859,567,804	118,363,780	977,931,584	1,524,526,170	46,657,450	1,571,183,620	593,252,036	62.2%
2018	7.25%	1,000	46,634,857	0	175,204,662	4,187,997	57,506,195	784,316,197	122,607,547	906,923,744	1,482,679,358	45,376,747	1,528,056,105	621,132,361	59.4%
2019	7.25%	1,000	47,937,357	0	183,936,233	4,073,041	51,785,317	696,029,597	128,006,060	824,035,657	1,430,205,462	43,770,807	1,473,976,269	649,940,612	55.9%
2020	7.25%	1,000	49,377,159	0	188,132,155	3,928,891	45,289,855	598,635,565	134,606,179	733,241,744	1,371,105,815	41,962,088	1,413,067,903	679,826,159	51.9%
2021	7.25%	1,000	51,788,475	0	192,151,196	3,766,539	38,176,393	492,682,698	141,634,741	634,317,439	1,305,179,708	39,944,449	1,345,124,157	710,806,717	47.2%
2022	7.25%	1,000	54,851,891	0	191,364,980	3,585,435	30,640,924	383,225,098	148,534,492	531,759,590	1,236,971,472	37,856,966	1,274,828,438	743,068,847	41.7%
2023	7.25%	1,000	58,034,788	0	189,501,183	3,398,061	22,894,983	271,255,625	155,305,895	426,561,520	1,167,521,525	35,731,481	1,203,253,006	776,691,485	35.5%
2024	7.25%	1,000	60,394,339	0	183,863,626	3,207,277	15,074,007	159,653,068	162,922,141	322,575,209	1,100,737,228	33,687,577	1,134,424,805	811,849,596	28.4%
2025	7.25%	1,000	62,887,703	0	174,984,851	3,023,815	7,401,713	51,933,818	171,469,404	223,403,222	1,040,279,838	31,837,305	1,072,117,143	848,713,921	20.8%
2026	7.25%	1,000	65,922,111	46,326,631	163,141,571	2,857,733	1,816,744	0	180,567,150	180,567,150	989,755,122	30,291,018	1,020,046,140	839,478,990	17.7%
2027	7.25%	1,000	69,430,580	81,932,172	148,643,814	2,718,938	0	0	189,952,192	189,952,192	952,759,953	29,158,798	981,918,751	791,966,559	19.3%
2028	7.25%	1,000	73,270,004	63,786,997	134,439,692	2,617,309	0	0	199,449,987	199,449,987	930,068,124	28,464,324	958,532,448	759,082,461	20.8%
2029	7.25%	1,000	76,932,760	45,700,926	120,078,713	2,554,973	0	0	209,428,396	209,428,396	922,995,463	28,247,869	951,243,332	741,814,935	22.0%
2030	7.25%	1,000	80,783,040	28,775,247	107,022,743	2,535,544	0	0	219,898,575	219,898,575	931,432,818	28,506,090	959,938,908	740,040,333	22.9%
2031	7.25%	1,000	84,820,185	15,385,343	97,646,806	2,558,722	0	0	230,957,041	230,957,041	952,855,387	29,161,718	982,017,105	751,060,065	23.5%
2032	7.25%	1,000	89,100,207	6,347,398	92,830,034	2,617,571	0	0	242,449,610	242,449,610	983,512,250	30,099,958	1,013,612,208	771,162,598	23.9%
2033	7.25%	1,000	93,509,594	0	90,769,236	2,701,788	1,398	39,968	254,604,842	254,644,810	1,021,437,555	31,260,645	1,052,698,200	798,053,391	24.2%
2034	7.25%	1,000	98,210,922	0	90,942,773	2,805,972	164,652	4,666,797	267,233,899	271,900,696	1,064,886,790	32,590,390	1,097,477,180	825,576,484	24.8%
2035	7.25%	1,000	103,056,302	0	92,704,760	2,925,331	607,543	12,700,551	280,717,776	293,418,327	1,112,945,054	34,061,192	1,147,006,246	853,587,919	25.6%
2036	7.25%	1,000	108,302,029	0	95,273,866	3,057,351	1,282,232	23,953,595	294,701,300	318,654,895	1,165,109,696	35,657,668	1,200,767,364	882,112,469	26.5%
2037	7.25%	1,000	113,667,647	0	98,556,786	3,200,651	2,168,381	38,032,186	309,350,340	347,382,526	1,221,108,007	37,371,471	1,258,479,478	911,096,953	27.6%

[1] *Additional contributions in the amount of $288,254,714 are needed over the years 2026 through 2032 to maintain solvency.*

Exhibit VI
Continuing Business Model – Current Year Assumptions – New Contract Sales of 500 Per Year

Open Group Projections (Continuing Business Scenario)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
500 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions[2]	Tuition Payments, Refunds, and Fees	Administrative Expenses	Net Investment Return	Market Value of Assets (EOY)	Total Present Value of Future Contributions	Total Fund Assets (MVA + PVFC)	Total Present Value of Future Benefits	Present Value of Future Admin Expenses	Total Present Value of Future Benefits, Fees, and Expenses	Unfunded Liability	Funded Ratio
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	500	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	89,951,666	1,123,197,427	1,570,931,558	48,077,667	1,619,009,225	495,811,798	69.4%
2014	7.25%	500	32,272,678	0	143,797,003	4,315,477	70,711,125	988,117,084	81,101,821	1,069,218,905	1,547,840,220	47,370,966	1,595,211,186	525,992,282	67.0%
2015	7.25%	500	28,894,146	0	145,369,735	4,252,043	67,262,112	934,651,564	76,074,770	1,010,726,334	1,522,052,694	46,581,750	1,568,634,444	557,908,111	64.4%
2016	7.25%	500	27,296,862	0	144,226,324	4,181,203	63,371,977	876,912,876	73,267,380	950,180,256	1,496,163,909	45,789,436	1,541,953,345	591,773,089	61.6%
2017	7.25%	500	26,942,683	0	159,640,755	4,110,084	58,616,888	798,721,608	71,582,680	870,304,288	1,453,044,729	44,469,792	1,497,514,521	627,210,233	58.1%
2018	7.25%	500	27,389,427	0	173,992,036	3,991,632	52,448,275	700,575,642	70,376,671	770,952,313	1,392,626,928	42,620,732	1,435,247,660	664,295,347	53.7%
2019	7.25%	500	27,118,382	0	182,090,504	3,825,660	45,035,314	586,813,174	70,506,394	657,319,568	1,320,191,788	40,403,887	1,360,595,675	703,276,106	48.3%
2020	7.25%	500	26,931,171	0	185,459,742	3,626,674	36,665,827	461,323,756	71,950,602	533,274,358	1,239,750,113	37,942,005	1,277,692,118	744,417,759	41.7%
2021	7.25%	500	27,589,740	0	188,478,252	3,405,694	27,490,307	324,519,857	74,032,670	398,552,527	1,151,153,813	35,230,554	1,186,384,367	787,831,840	33.6%
2022	7.25%	500	28,826,834	0	186,515,862	3,162,313	17,696,829	181,365,345	76,262,457	257,627,802	1,059,017,299	32,410,757	1,091,428,056	833,800,254	23.6%
2023	7.25%	500	30,120,676	0	183,414,991	2,909,207	7,486,610	32,648,433	78,652,522	111,300,955	964,304,522	29,512,114	993,816,636	882,515,681	11.2%
2024	7.25%	500	30,902,939	114,141,753	176,186,206	2,649,023	1,142,104	0	81,790,749	81,790,749	871,138,634	26,660,813	897,799,447	816,008,698	9.1%
2025	7.25%	500	31,730,244	136,092,630	165,429,785	2,393,089	0	0	85,822,939	85,822,939	783,380,565	23,975,016	807,355,581	721,532,642	10.6%
2026	7.25%	500	33,044,279	120,539,837	151,432,106	2,152,010	0	0	90,308,664	90,308,664	704,781,552	21,569,528	726,351,080	636,042,416	12.4%
2027	7.25%	500	34,726,708	101,884,515	134,675,131	1,936,092	0	0	94,993,784	94,993,784	638,929,113	19,554,143	658,483,256	563,489,472	14.4%
2028	7.25%	500	36,639,962	83,154,028	118,038,800	1,755,190	0	0	99,709,561	99,709,561	586,659,089	17,954,442	604,613,531	504,903,970	16.5%
2029	7.25%	500	38,451,964	64,102,152	100,942,516	1,611,600	0	0	104,706,512	104,706,512	549,527,839	16,818,057	566,345,896	461,639,384	18.5%
2030	7.25%	500	40,388,805	45,851,656	84,730,863	1,509,598	0	0	109,981,020	109,981,020	527,784,847	16,152,622	543,937,469	433,956,450	20.2%
2031	7.25%	500	42,431,813	30,574,232	71,556,177	1,449,868	0	0	115,448,850	115,448,850	519,399,192	15,895,983	535,295,175	419,846,324	21.6%
2032	7.25%	500	44,526,298	19,453,232	62,552,698	1,426,832	0	0	121,212,553	121,212,553	521,107,986	15,948,280	537,056,266	415,843,712	22.6%
2033	7.25%	500	46,749,803	11,325,005	56,643,282	1,431,526	0	0	127,301,585	127,301,585	530,530,331	16,236,646	546,766,977	419,465,392	23.3%
2034	7.25%	500	49,109,004	5,582,057	53,233,651	1,457,410	0	0	133,589,563	133,589,563	545,628,129	16,698,708	562,326,837	428,737,274	23.8%
2035	7.25%	500	51,514,098	1,690,290	51,705,503	1,498,885	0	0	140,393,309	140,393,309	565,095,757	17,294,506	582,390,263	441,996,954	24.1%
2036	7.25%	500	54,176,876	0	51,263,629	1,552,364	49,332	1,410,215	147,290,125	148,700,340	587,996,084	17,995,360	605,991,444	457,291,104	24.5%
2037	7.25%	500	56,791,950	0	51,686,103	1,615,273	228,774	5,129,563	154,766,858	159,896,421	613,968,716	18,790,241	632,758,957	472,862,536	25.3%

[1] *Additional contributions in the amount of $734,391,387 are needed over the years 2024 through 2035 to maintain solvency.*

Exhibit VII
Closed Group Business Model (Run Off Scenario) – Current Year Assumptions

Closed Group Projections (No New Contracts)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
0 New Contracts Per Year
Tuition and Fee Assumptions - Baseline

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions[2]	Tuition Payments, Refunds, and Fees	Administrative Expenses	Net Investment Return	Market Value of Assets (EOY)	Total Present Value of Future Contributions	Total Fund Assets (MVA + PVFC)	Total Present Value of Future Benefits	Present Value of Future Admin Expenses	Total Present Value of Future Benefits, Fees, and Expenses	Unfunded Liability	Funded Ratio
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	0	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	72,698,900	1,105,944,661	1,559,448,664	47,805,362	1,607,254,026	501,309,365	68.8%
2014	7.25%	0	21,657,467	0	143,791,826	4,533,974	70,318,591	976,896,019	55,540,756	1,032,436,775	1,523,504,933	46,575,795	1,570,080,728	537,643,953	65.8%
2015	7.25%	0	16,281,466	0	145,216,891	4,692,663	65,980,943	909,248,874	42,706,119	951,954,993	1,483,443,518	45,092,744	1,528,536,262	576,581,270	62.3%
2016	7.25%	0	12,539,932	0	143,901,488	4,856,907	60,982,624	834,013,035	32,815,761	866,828,796	1,441,805,165	43,332,079	1,485,137,244	618,308,448	58.4%
2017	7.25%	0	9,997,162	0	158,908,610	5,026,898	54,885,680	734,960,369	24,841,685	759,802,054	1,381,578,717	41,267,720	1,422,846,437	663,044,383	53.4%
2018	7.25%	0	8,174,845	0	172,779,684	5,202,840	47,129,098	612,281,788	18,176,708	630,458,496	1,302,604,004	38,871,487	1,341,475,491	711,016,994	47.0%
2019	7.25%	0	6,314,406	0	180,244,832	5,384,939	37,890,248	470,856,671	12,955,221	483,811,892	1,210,163,707	36,112,942	1,246,276,649	762,464,756	38.8%
2020	7.25%	0	4,444,389	0	182,787,462	5,460,902	27,474,215	314,526,911	9,291,795	323,818,706	1,108,385,272	33,075,734	1,141,461,006	817,642,300	28.4%
2021	7.25%	0	3,395,283	0	184,805,572	5,521,194	16,026,935	143,622,363	6,449,242	150,071,605	997,135,510	29,755,889	1,026,891,399	876,819,794	14.6%
2022	7.25%	0	2,818,173	35,629,850	181,667,138	5,427,431	5,024,184	1	3,998,268	3,998,269	881,074,091	26,292,457	907,366,548	903,368,280	0.4%
2023	7.25%	0	2,209,362	180,417,260	177,328,802	5,297,821	0	0	2,000,092	2,000,092	761,096,235	22,712,154	783,808,389	781,808,296	0.3%
2024	7.25%	0	1,408,365	172,134,591	168,508,644	5,034,312	0	0	686,574	686,574	641,564,786	19,145,172	660,709,958	660,023,383	0.1%
2025	7.25%	0	587,999	159,944,582	155,875,687	4,656,894	0	0	127,409	127,409	526,465,244	15,710,444	542,175,688	542,048,278	0.0%
2026	7.25%	0	131,947	143,765,884	139,723,495	4,174,336	0	0	0	0	419,767,689	12,526,443	432,294,132	432,294,132	0.0%
2027	7.25%	0	0	124,312,486	120,706,302	3,606,184	0	0	0	0	325,051,719	9,699,988	334,751,707	334,751,707	0.0%
2028	7.25%	0	0	104,674,111	101,637,617	3,036,494	0	0	0	0	243,239,385	7,258,596	250,497,981	250,497,981	0.0%
2029	7.25%	0	0	84,250,364	81,806,343	2,444,021	0	0	0	0	176,056,858	5,253,778	181,310,636	181,310,636	0.0%
2030	7.25%	0	0	64,304,461	62,439,051	1,865,410	0	0	0	0	124,083,741	3,702,829	127,786,570	127,786,570	0.0%
2031	7.25%	0	0	46,823,075	45,464,783	1,358,292	0	0	0	0	85,941,611	2,564,615	88,506,226	88,506,226	0.0%
2032	7.25%	0	0	33,238,679	32,274,457	964,222	0	0	0	0	58,709,997	1,751,987	60,461,984	60,461,984	0.0%
2033	7.25%	0	0	23,189,820	22,517,106	672,714	0	0	0	0	39,620,581	1,182,332	40,802,913	40,802,913	0.0%
2034	7.25%	0	0	15,985,422	15,521,700	463,722	0	0	0	0	26,400,068	787,814	27,187,882	27,187,882	0.0%
2035	7.25%	0	0	11,026,338	10,706,475	319,863	0	0	0	0	17,213,526	513,675	17,727,201	17,727,201	0.0%
2036	7.25%	0	0	7,471,283	7,254,548	216,735	0	0	0	0	10,939,941	326,463	11,266,404	11,266,404	0.0%
2037	7.25%	0	0	4,956,649	4,812,861	143,788	0	0	0	0	6,743,079	201,223	6,944,302	6,944,302	0.0%

[1] *Additional contributions in the amount of $1,212,124,855 are needed over the years 2021 through 2037 to maintain solvency.*

Exhibit VIII
Sensitivity Testing Results

The actuarial assumptions regarding future increases in tuition costs and fees and the future rate of investment return were provided to us by the ISAC. In our opinion, the assumptions provided to us are reasonable for the purpose of the measurement. However, no one really knows what the future holds with respect to economic and other contingencies. For example, while it is assumed that the assets of the fund will earn 7.25 percent each year throughout the life of the contracts, actual returns are expected to vary from year to year. Therefore, we have projected CIPTP results under alternative assumptions for future investment income, tuition increases, and fee increases.

1. Tuition increases are 100 basis points higher/lower in each future year than assumed in the baseline valuation (measurement of soundness).
2. Fee increases are 100 basis points higher/lower in each future year than assumed in the baseline valuation (measurement of soundness).
3. The investment return is 50 basis points higher/lower in each future year than assumed in the baseline valuation (measurement of soundness).

The impact of each of these scenarios on the principal valuation results is presented on the following page.

Exhibit VIII
Sensitivity Testing Results (Continued)

$ in Millions

		Current Valuation Assumptions	Assumed Tuition Increases +100 Basis Points	Assumed Tuition Increases -100 Basis Points	Assumed Fee Increases +100 Basis Points	Assumed Fee Increases -100 Basis Points	Assumed Investment Return +50 Basis Points	Assumed Investment Return -50 Basis Points
1	Assets							
	a. Market Value of Assets (in Trust)	$1,070.9	$1,070.9	$1,070.9	$1,070.9	$1,070.9	$1,070.9	$1,070.9
	b. PV Future Member Contributions	105.1	105.1	105.1	105.1	105.1	103.9	106.4
	c. Unrecognized Gains and (Losses)	-35.9	-35.9	-35.9	-35.9	-35.9	-35.9	-35.9
	d. Total Actuarial Value of Assets (AVA) (2a + 2b - 2c)	$1,211.9	$1,211.9	$1,211.9	$1,211.9	$1,211.9	$1,210.7	$1,213.2
2	Actuarial Results							
	Liabilities							
	a. Not yet Matriculating - Tuition and Fees	$1,396.4	$1,463.9	$1,334.3	$1,420.0	$1,374.8	$1,346.1	$1,449.5
	b. Matriculating - Tuition and Fees	198.2	198.3	198.2	198.6	197.9	197.2	199.3
	c. Present Value of Future Administrative Expenses	48.8	48.8	48.8	48.8	48.8	45.8	52.2
	d. Total	$1,643.4	$1,711.0	$1,581.3	$1,667.4	$1,621.5	$1,589.1	$1,701.0
	Unfunded Liability (Based on AVA)	$431.5	$499.1	$369.4	$455.5	$409.6	$378.4	$487.8
	Funded Ratio							
	Market Value of Assets	71.6%	68.7%	74.4%	70.5%	72.5%	73.9%	69.2%
	Actuarial Value of Assets	73.7%	70.8%	76.6%	72.7%	74.7%	76.2%	71.3%
	Difference From Current Assumptions							
	Unfunded Liability (Based on AVA)	$0.0	$67.6	-$62.1	$24.0	-$21.9	-$53.1	$56.3
	Funded Ratio (Based on AVA)	0.0%	-2.9%	2.9%	-1.0%	1.0%	2.5%	-2.4%

SECTION C

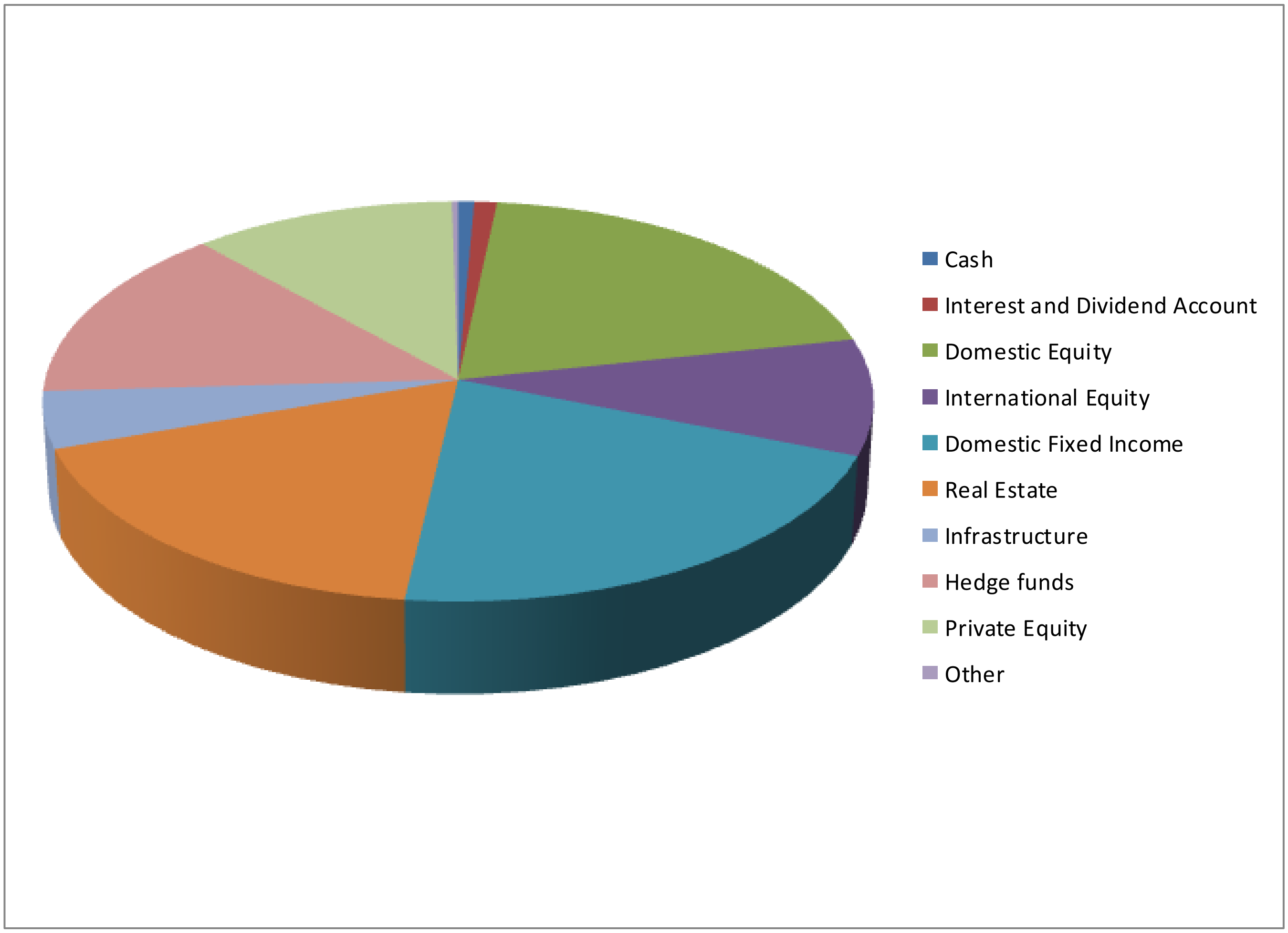
FUND ASSETS

STATEMENT OF PLAN ASSETS
(ASSETS AT MARKET OR FAIR VALUE)

College Illinois!® Prepaid Tuition Program
Statement of Plan Net Assets
Year ended June 30, 2012

Cash	$	7,417,280
Interest and Dividend Account	$	10,433,068
Investments		
Domestic Equity	$	214,132,884
International Equity		100,789,887
Domestic Fixed Income		222,450,501
Real Estate		188,896,198
Infrastructure		49,217,006
Hedge funds		152,511,150
Private Equity		122,203,797
Total Investments	$	1,050,201,423
Other		2,878,038
Total Assets	$	1,070,929,809

ALLOCATION OF ASSETS AT JUNE 30, 2012



RECONCILIATION OF PLAN ASSETS

College Illinois!® Prepaid Tuition Program
Statement of Changes in Plan Net Assets
Twelve Month Period ended June 30, 2012

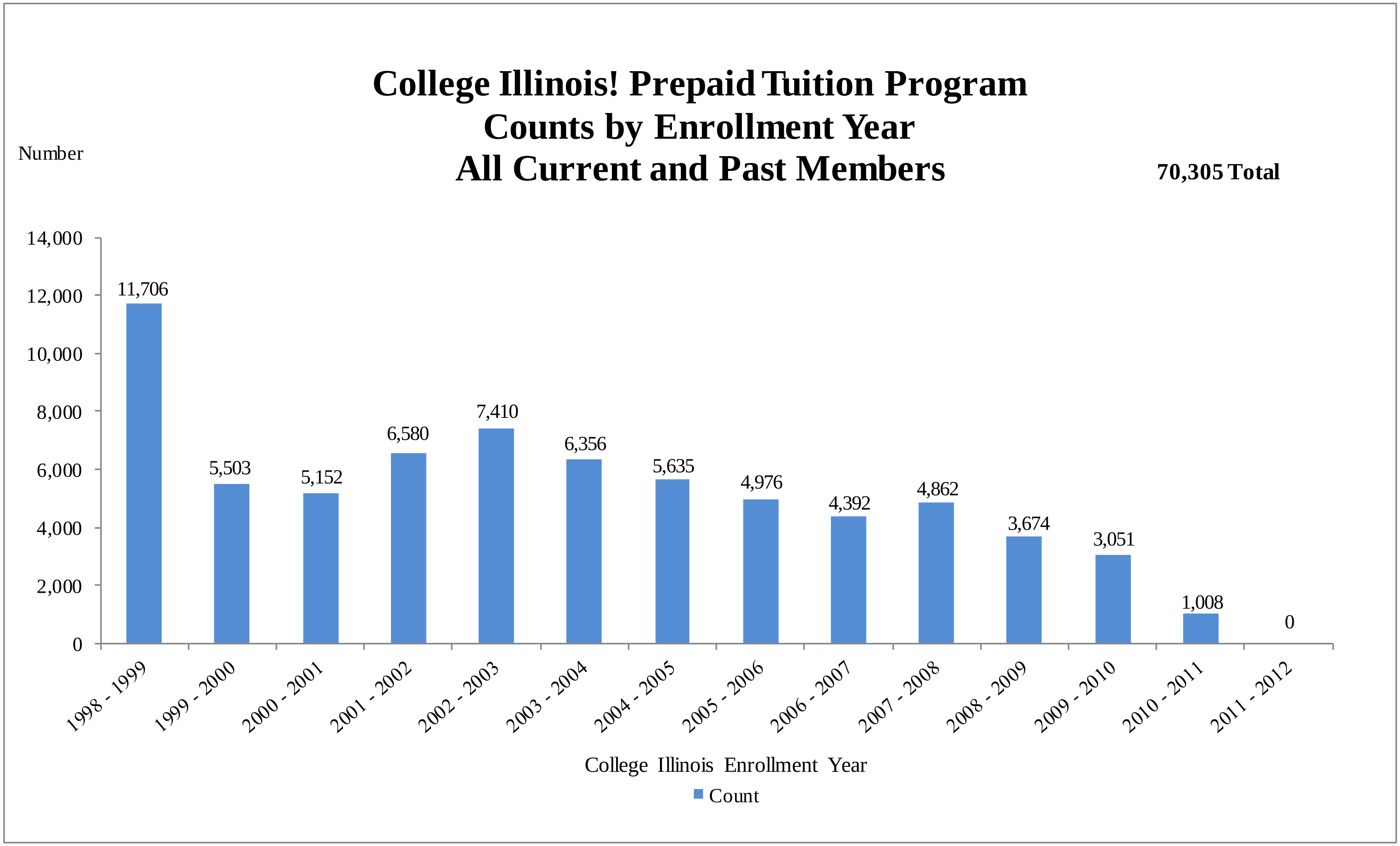
Beginning of Period		7/1/2011
End of Period		6/30/2012
Additions:		
Contributions received	$	45,986,068
Gross investment income		29,178,425
Realized/Unrealized investment gains/(losses)		5,505,941
Total Additions	$	80,670,435
Deductions:		
Tuition payments	$	92,786,383
Refunds to Purchasers		40,161,289
Investment expenses & advisory fees		4,090,309
Administrative expenses		4,978,014
Total Deductions	$	142,015,994
Net increase	$	(61,345,559)
Market Value of Assets:		
Beginning of period	$	1,132,275,368
End of period (6/30/2012)	$	1,070,929,809
Present Value of Future Contributions by Current Contract Holders		105,125,958
Value of Total Fund Assets	$	1,176,055,767

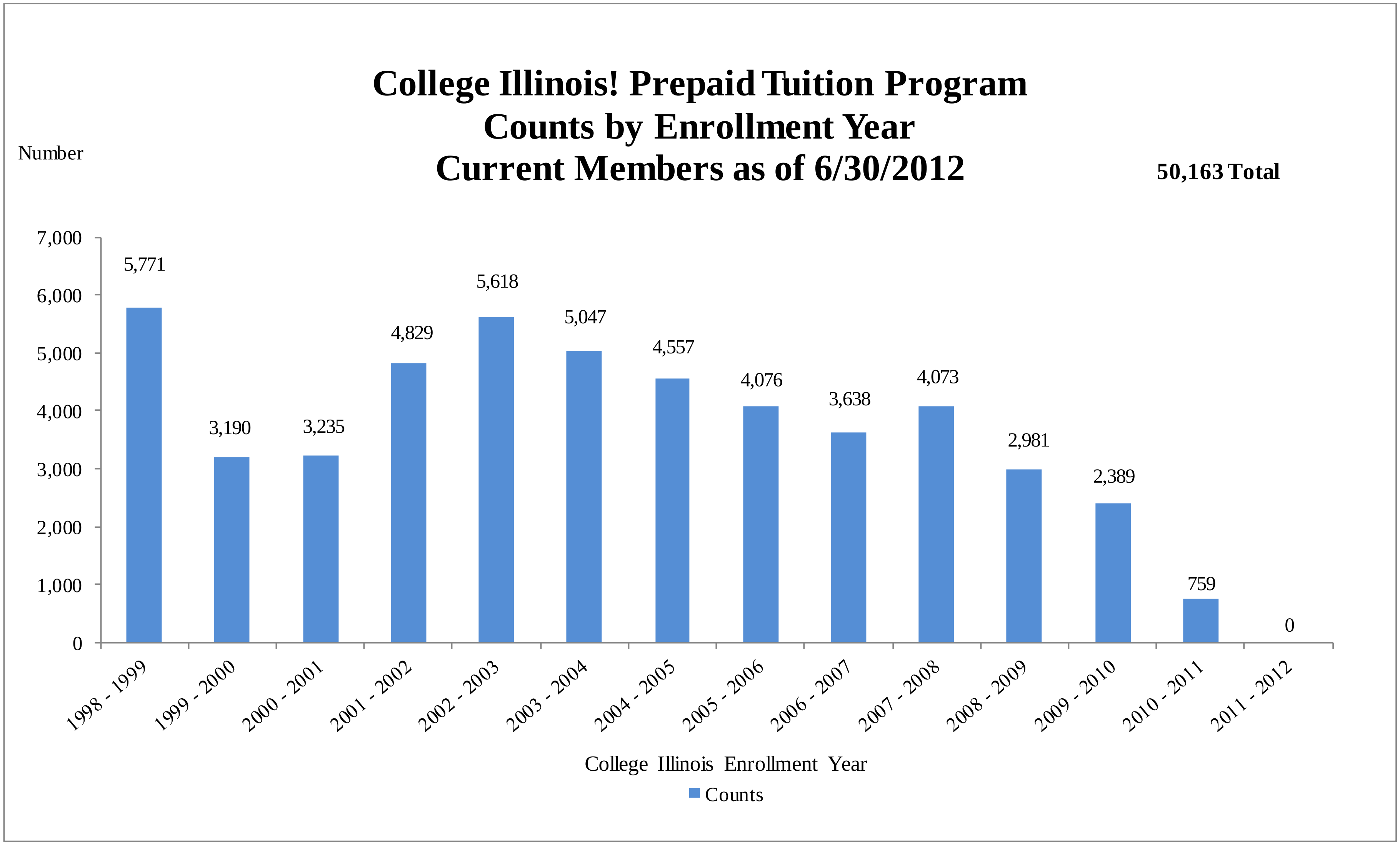
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

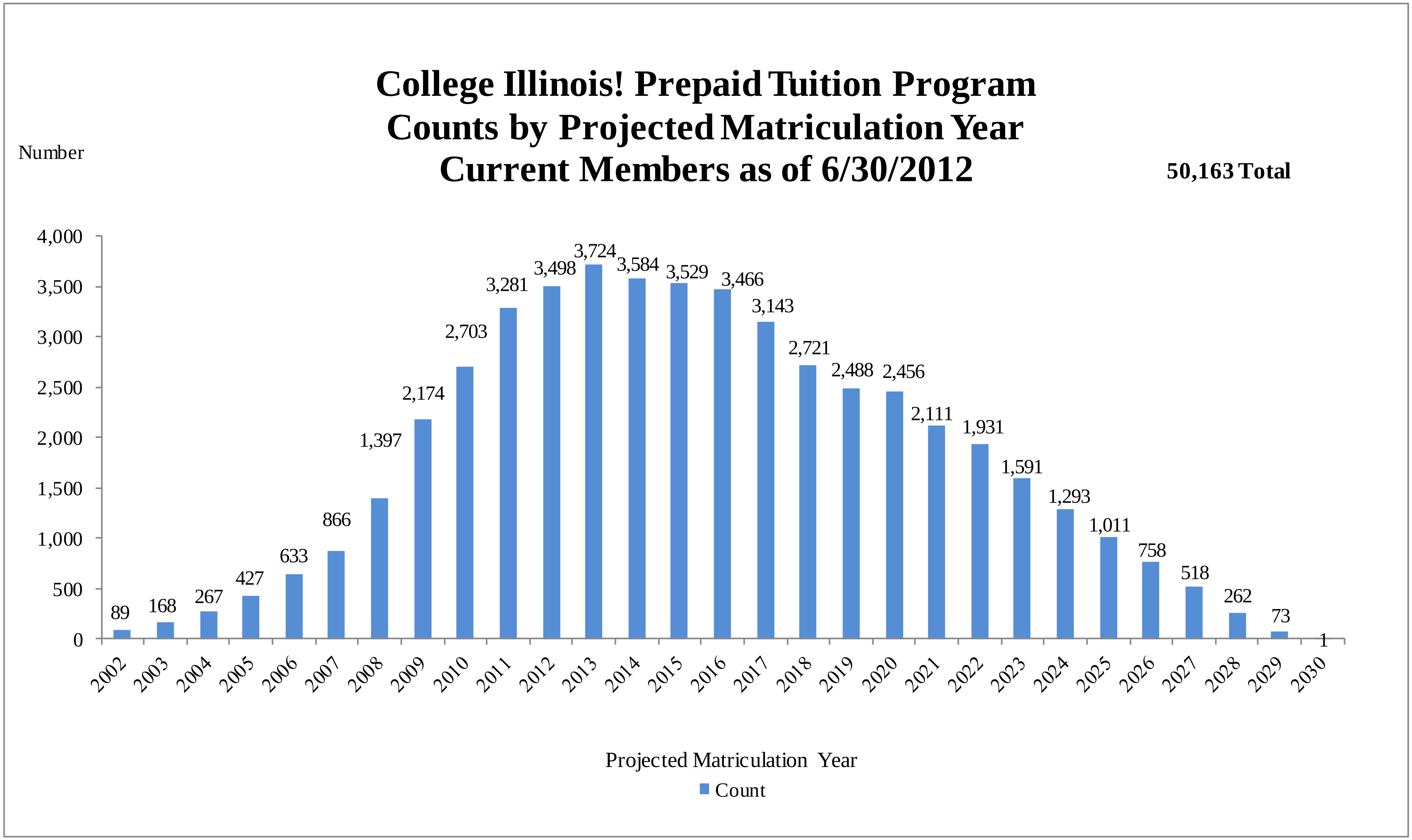
Year Ending June 30	2012	2013	2014	2015	2016
Beginning of Year:					
(1) Market Value of Assets	$ 1,132,275,368				
(2) Adjustment to the Market Value of Assets	0				
(3) Revised Market Value of Assets	1,132,275,368				
(4) Actuarial Value of Assets	1,189,923,829				
End of Year:					
(5) Market Value of Assets	1,070,929,809				
(6) Contributions and Disbursements					
(6a) Actual Contributions	45,986,068				
(6b) Tuition Payments and Refunds	(132,947,671)				
(6c) Administrative Expenses	(4,978,014)				
(6d) Net of Contributions and Disbursements	(91,939,617)				
(7) Total Investment Income					
=(5)-(3)-(6d)	30,594,058				
(8) Projected Rate of Return	7.50%				
(9) Projected Investment Income					
=(3)x([1+(8)]^1.00-1)+([1+(8)]^.50-1)x(6d)	81,535,246				
(10) Investment Income in					
Excess of Projected Income	(50,941,188)				
(11) Excess Investment Income Recognized					
This Year (5-year recognition)					
(11a) From This Year	(10,188,238)				
(11b) From One Year Ago	16,562,252	$ (10,188,238)			
(11c) From Two Years Ago	1,300,844	16,562,252	$ (10,188,238)		
(11d) From Three Years Ago	(47,400,000)	1,300,844	16,562,252	$ (10,188,238)	
(11e) From Four Years Ago	(33,000,000)	(47,400,000)	1,300,843	16,562,251	$ (10,188,236)
(11f) Total Recognized Investment Gain	(72,725,142)	(39,725,142)	7,674,857	6,374,013	(10,188,236)
(12) Change in Actuarial Value of Assets					
=(2)+(6d)+(9)+(11f)	(83,129,513)				
End of Year:					
(5) Market Value of Assets	**1,070,929,809**				
(13) Actuarial Value of Assets					
=(4)+(12)	**1,106,794,316**				
(14) Present Value of Future Expected Contributions	105,125,958				
(15) Final Actuarial Value of Assets = (13) + (14)	**1,211,920,274**				

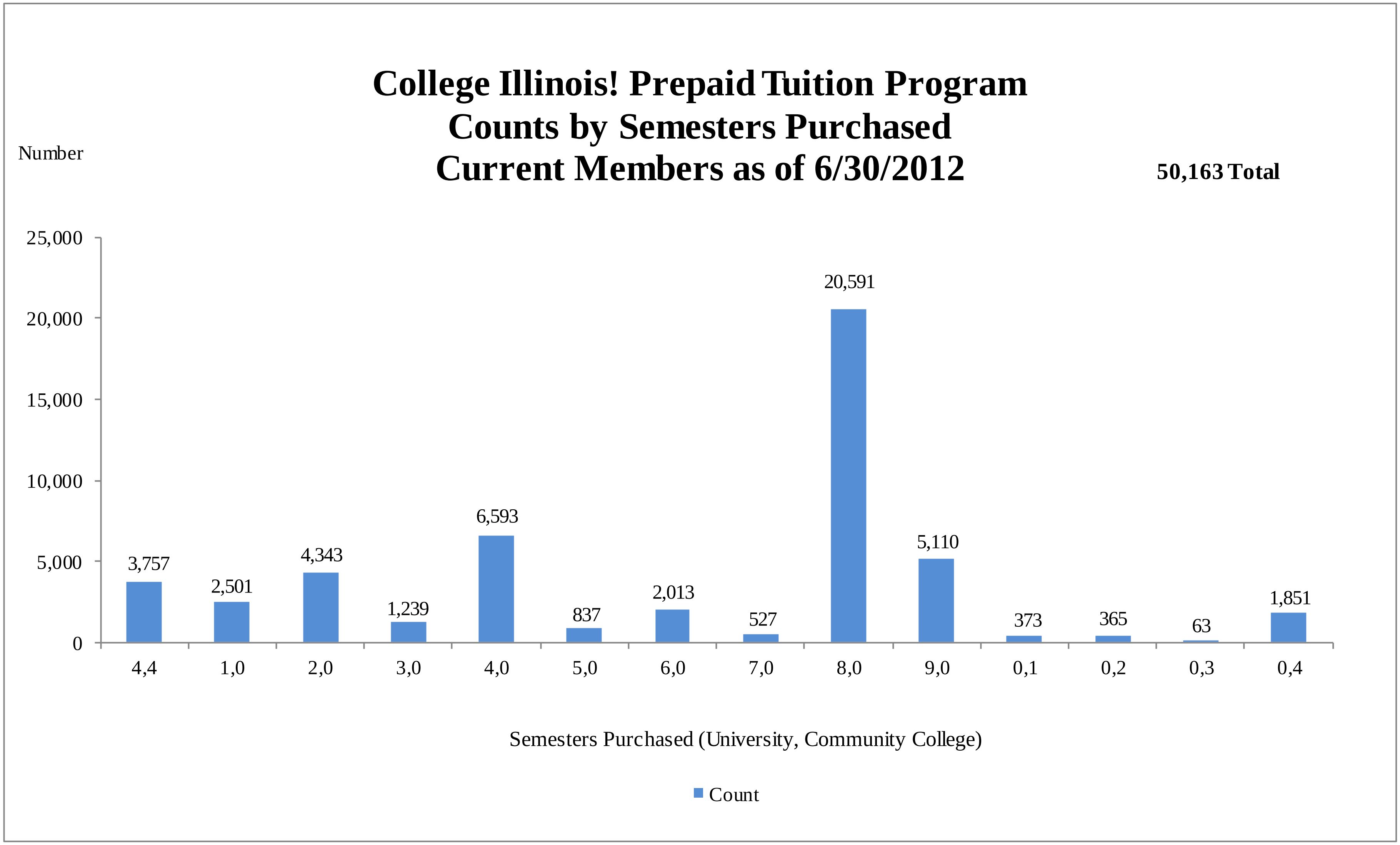
The Actuarial Value of Assets recognizes assumed investment return (line 9) fully each year. Differences between actual and assumed investment income (Line 10) are phased-in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than Market Value. If assumed rates are exactly realized for 4 consecutive years, Actuarial Value of Assets will become equal to Market Value.

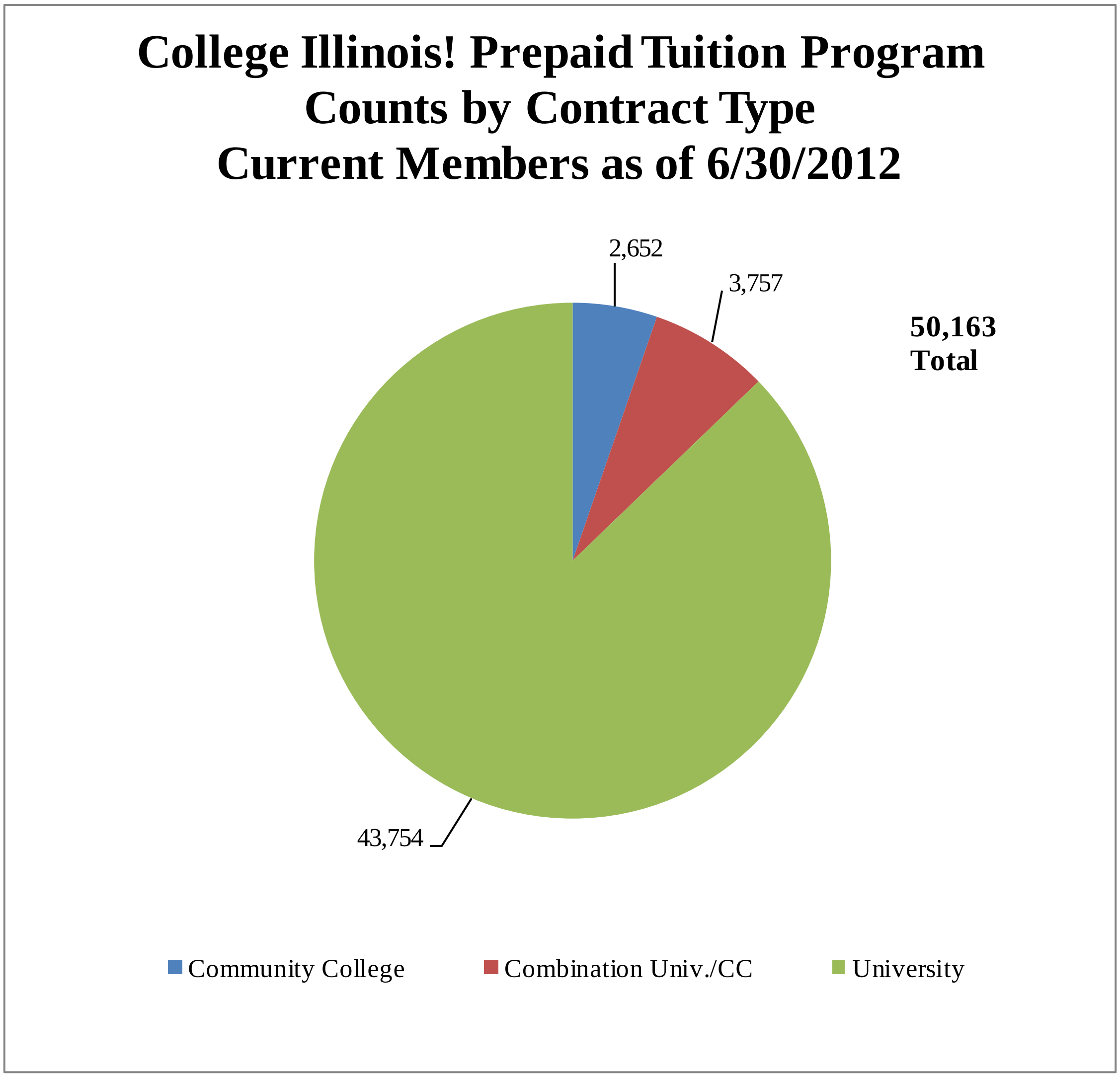
SECTION D
PARTICIPANT DATA

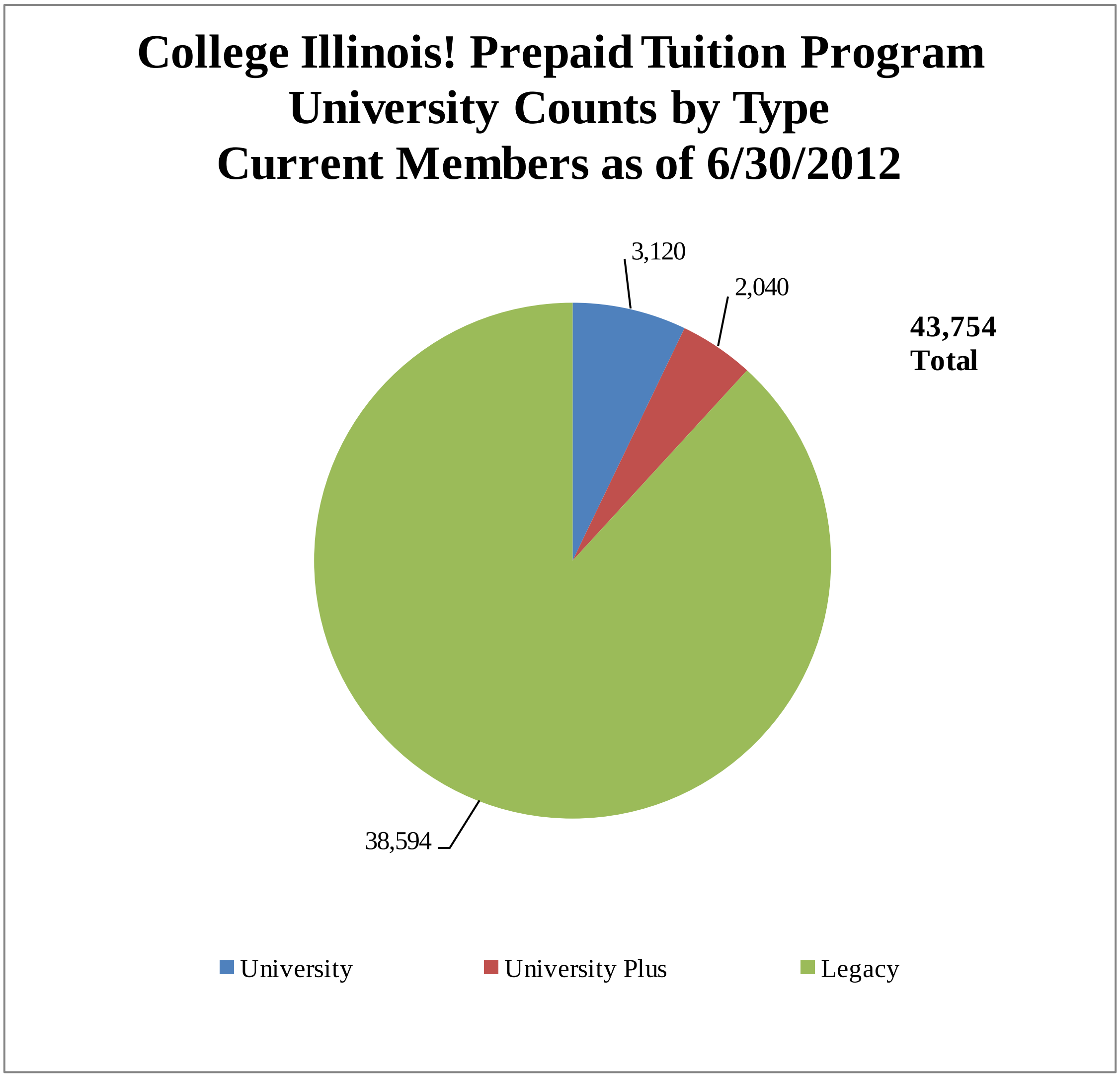

College Illinois! Prepaid Tuition Program
Counts by Enrollment Year
All Current and Past Members
70,305 Total
Number
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
11,706
5,503
5,152
6,580
7,410
6,356
5,635
4,976
4,392
4,862
3,674
3,051
1,008
0
1998 - 1999
1999 - 2000
2000 - 2001
2001 - 2002
2002 - 2003
2003 - 2004
2004 - 2005
2005 - 2006
2006 - 2007
2007 - 2008
2008 - 2009
2009 - 2010
2010 - 2011
2011 - 2012
College Illinois Enrollment Year
Count


College Illinois! Prepaid Tuition Program
Counts by Enrollment Year
Current Members as of 6/30/2012
50,163 Total
Number
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
5,771
3,190
3,235
4,829
5,618
5,047
4,557
4,076
3,638
4,073
2,981
2,389
759
0
1998 - 1999
1999 - 2000
2000 - 2001
2001 - 2002
2002 - 2003
2003 - 2004
2004 - 2005
2005 - 2006
2006 - 2007
2007 - 2008
2008 - 2009
2009 - 2010
2010 - 2011
2011 - 2012
College Illinois Enrollment Year
Counts


College Illinois! Prepaid Tuition Program
Counts by Projected Matriculation Year
Current Members as of 6/30/2012
Number
50,163 Total
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
89
168
267
427
633
866
1,397
2,174
2,703
3,281
3,498
3,724
3,584
3,529
3,466
3,143
2,721
2,488
2,456
2,111
1,931
1,591
1,293
1,011
758
518
262
73
1
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
Projected Matriculation Year
Count


College Illinois! Prepaid Tuition Program
Counts by Semesters Purchased
Current Members as of 6/30/2012
50,163 Total
Number
25,000
20,000
15,000
10,000
5,000
0
3,757
2,501
4,343
1,239
6,593
837
2,013
527
20,591
5,110
373
365
63
1,851
4,4
1,0
2,0
3,0
4,0
5,0
6,0
7,0
8,0
9,0
0,1
0,2
0,3
0,4
Semesters Purchased (University, Community College)
Count


College Illinois! Prepaid Tuition Program
Counts by Contract Type
Current Members as of 6/30/2012
2,652
3,757
50,163
Total
43,754
Community College
Combination Univ./CC
University


College Illinois! Prepaid Tuition Program
University Counts by Type
Current Members as of 6/30/2012
3,120
2,040
43,754
Total
38,594
University
University Plus
Legacy

SECTION E

METHODS & ASSUMPTIONS

VALUATION METHODS

Actuarial Value of Assets - The Actuarial Value of Assets recognizes assumed investment income fully each year. Differences between actual and assumed investment return are phased in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than Market Value.

VALUATION ASSUMPTIONS

The actuarial assumptions used in the valuation are shown in this Section.

Measurement Date June 30, 2012

The net investment return rate 7.25 percent per annum, compounded annually

Weighted Average Tuition and Increases by Contract Type

	Contract Type			
	Legacy	University	University Plus	Community College
2012-2013 Tuition WAT	$ 10,375	$ 9,403	$ 13,689	$ 3,166
2012-2013 Fee	$ 3,159	$ 3,111	$ 3,324	$ 440
2012-2013 Total WAT	$ 13,534	$ 12,514	$ 17,013	$ 3,606

For continuing students at public universities and students attending community colleges, fees are combined with tuition in our projections and follow their respective tuition inflation assumptions.

These assumptions were chosen by the ISAC and consider historical Illinois public tuition and fee inflation, typically over a 20-year horizon, as well as current economic and political conditions. The "University Plus" contract has separate assumptions due to the belief that UIUC has more pricing power than other Illinois public universities.

	Contract Type			
	Legacy	University	University Plus	Community College
2012-2013 Total Tuition/Fee WAT	$ 13,534	$ 12,514	$ 17,013	$ 3,606
2011-2012 Total Tuition/Fee WAT	$ 13,007	$ 12,025	$ 16,264	$ 3,397
WAT Increase	4.05%	4.07%	4.61%	6.15%

Tuition and Fee Increase Assumption - June 30, 2012, Actuarial Valuation				
Effective Date	**Legacy**	**University**	**University Plus**	**Community College**
6/30/2013 through 6/30/2017	7.25%	7.00%	7.50%	6.50%
6/30/2018 through 6/30/2022	6.75%	6.50%	7.25%	5.75%
6/30/2023 and Beyond	5.00%	5.00%	5.00%	5.00%

Truth in Tuition

We have segregated the beneficiaries into two categories, those beneficiaries that fall under the Truth in Tuition law and those that do not. It was assumed that if the beneficiary has enrolled in school prior to the fall of 2004, they would not be covered under the Truth in Tuition law. Furthermore, the Truth in Tuition law does not apply to community colleges.

For Truth in Tuition beneficiaries, it was assumed that their tuition will not increase in their second, third and fourth year of school. If they attend school beyond four years, it was assumed that their tuition would increase to the amount of an incoming freshman. For all other beneficiaries, it was assumed that tuition will rise for each year enrolled. It was assumed fees will rise for each year enrolled.

Administrative Expenses

Administrative expenses of the Program are assumed to be paid through a combination of investment earnings and fees assessed on purchasers. For purposes of the closed group projections, marketing expenses were excluded as it is assumed those costs should be applicable only to future contracts. It was assumed that the present value of future administrative expenses will be equal to approximately 3.00 percent of the present value of future benefits.

Bias Load

"Legacy" contract beneficiaries were assumed on average to attend more expensive schools than indicated by the headcount information that was used to determine the 2012-2013 WAT. A load of 4.6 percent was added to the tuition assumption to recognize this bias toward enrollment at more expensive schools. No bias load was applied to the "University" and "University Plus" beneficiaries due to the separation of UIUC which historically has been the significant driver behind the need for the bias load.

Future Contract Sales

We assumed different numbers of future contract sales per year for the purpose of projecting the future solvency of the program under a continuing business model.

Mortality and disability

No assumption is made for death or disability. Valuing the rate of incidence is expected to be immaterial.

Future Beneficiary Profile

The characteristics of future beneficiaries are assumed to be the same as the characteristics of 2010 new beneficiaries.

The rates of enrollment

These rates are used to measure the probability of eligible members matriculating during the next year.

Matriculating Probability Rates for Qualified Beneficiaries											
Actual Matriculation	Years Past Expected Matriculation										
(Expected Mat Yr Plus Below)	0	1	2	3	4	5	6	7	8	9	10+
0	69.5%										
1	11.5%	37.7%									
2	8.0%	26.2%	42.1%								
3	3.8%	12.3%	19.7%	34.1%							
4	1.8%	5.7%	9.2%	15.9%	24.1%						
5	1.1%	3.6%	5.8%	10.0%	15.2%	20.0%					
6	1.0%	3.3%	5.3%	9.1%	13.8%	18.2%	22.7%				
7	0.9%	2.8%	4.5%	7.7%	11.7%	15.5%	19.3%	25.0%			
8	0.9%	2.8%	4.5%	7.7%	11.7%	15.5%	19.3%	25.0%	33.3%		
9	0.9%	2.8%	4.5%	7.7%	11.7%	15.5%	19.3%	25.0%	33.3%	50.0%	
10	0.9%	2.8%	4.5%	7.7%	11.7%	15.5%	19.3%	25.0%	33.3%	50.0%	100.0%

Rates of separation from active membership

It was assumed that 12.5 percent of contracts sold will not be utilized. This assumption was based on the historical experience of the Program. In the event of a cancellation, it was assumed that a refund will be paid equal to the amount of contributions paid by the contract holder, increased by 2 percent for each subsequent year after purchase.

Utilization of benefits

Once they start matriculating, beneficiaries are assumed to use the benefits as described by the CIPTP Master Agreement according to the schedule below.

Distribution of Benefit Utilization					
Number of Years	Number of Semesters Purchased				
Since Matriculation	1-2	3-4	5-6	7-8	9
1	80%	45%	33%	24%	20%
2	15%	30%	25%	24%	19%
3	5%	15%	18%	20%	17%
4		5%	12%	18%	15%
5		5%	7%	7%	13%
6			3%	3%	7%
7			2%	2%	5%
8				1%	3%
9				1%	1%

Once a member has matriculated, it is assumed that beneficiaries will utilize 30 credits per year until benefits are fully depleted.

SECTION F

PLAN PROVISIONS

PLAN PROVISIONS

A. Type of Contract

Two types of contract are available for purchase: public university or community college.

In the event that a public university contract is converted for usage at a community college, then the amount refunded shall be on a semester-by-semester basis. The refund should be the current value of the original contract minus the current value of the contract after conversion.

B. Benefit

Covered benefits include tuition and mandatory fees at an Illinois public university or community college based on the in-state or in-district undergraduate rate for a full-time student.

Mandatory fees are fees that are required upon enrollment for all students attending the particular institution.

The benefit does not include any optional fees, expenses or cost of supplies.

Benefit shall never be less than payment amount.

C. Member Contributions

Optional forms of benefit payment are available as follows:

- Lump Sum
- Monthly installments with terms of 60 months/ 120 months/ 180 months
- Annual installments with terms of 5 years/ 10 years/ 15years
- Down payment options are available for installment plans.

D. Private or Out-of-State Institutions

For beneficiaries attending private or out-of-state institution, the plan will pay an amount based upon the weighted average tuition and mandatory fees at Illinois public universities or community colleges depending on the type of contract purchased.

Alternatively benefits can be transferred to a member of the family or a purchaser can choose to receive a refund payment equal to all contributions, plus two percent interest, less applicable cancellation fees.

E. Scholarship

If a qualified beneficiary is awarded a grant or scholarship that duplicates the benefits covered by a prepaid tuition contract, the purchaser may request a refund in semester installments.

Illinois public university or community college - the installments will be in an amount equal to the current cost of in-state or in-district registration fees at that institution, less any benefits used to pay registration fees not covered by the scholarship and any applicable fees.

	Illinois Private Institution or an eligible Out-of-State Institution - the installments will be in an amount equal to the current average mean-weighted credit hour value of registration fees at Illinois public universities or Illinois community colleges, depending on the type of the purchased contract, less any benefits used to pay registration fees not covered by the scholarship and any applicable fees.
F. Not Attending an Institution of Higher Education	Benefits can be transferred to a member of the "family" as defined in Section 529 of the Internal Revenue Code. Purchasers can also choose to postpone the beneficiary's use of contract benefits to a later time or receive a refund payment equal to all contributions, plus two percent interest, less applicable cancellation fees.
G. Death/Disability of Qualified Beneficiary	Refunds equal to amount paid with all accrued earnings will be made to purchaser.
H. Changes from Previous Valuation	None
I. Other Ancillary Benefits	There are no ancillary benefits.

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

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated February 7, 2013. That report contains emphasis of matter paragraphs which state "As discussed in Note 8.E., the Illinois Prepaid Tuition Program Fund has adopted a change in its methodology for estimating contracts receivable, tuition obligation and related revenues and expenses", and "As discussed in Note 9, the Commission is in default of certain conditions of its Revolving Credit Facility", and "As further discussed in Note 13, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2012 of $420 million. The amount of the fund deficit is highly dependent on the actuarial assumptions used to calculate the present value of future tuition benefits obligation." We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a certain deficiency described in the accompanying schedule of findings as item12-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as finding 12-2.

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

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

McGladrey LLP

Schaumburg, Illinois
February 7, 2013

Current Findings – *Government Auditing Standards*

Finding 12-1 Budget Not Properly Approved

The Illinois Student Assistance Commission (Commission) did not approve the fiscal year 2012 budget relating to the Commission's non-appropriated funds and did not deliberate and vote on budget requests submitted to the General Assembly for appropriations relating to the appropriated funds of the Commission.

During our audit, we noted that the annual operating budgets for fiscal year 2012 for the Commission's non-appropriated funds, the Illinois Prepaid Tuition Program (IPTP) and the Illinois Designated Account Purchase Program (IDAPP), were not approved by the Board of Commissioners. In addition, budget requests that were submitted to the General Assembly for appropriation for fiscal year 2012 were not deliberated and voted on by the Board of Commissioners.

The Illinois Administrative Code (2 Ill. Adm. Code 5375.210j) requires the Board of Commissioners to deliberate and vote on the operating budgets for IPTP and IDAPP. In addition, the Illinois Administrative Code requires that budget requests for appropriations submitted to the General Assembly are deliberated and voted on by the Board of Commissioners.

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

According to Commission management, effective July 2011, ISAC's Commission members were all newly appointed. The fiscal year 2012 budget was presented to the Commission at its meeting on July 8, 2011. Since the members were all new, the budget was treated as an information item and action was not taken to approve the budget.

The ability to budget effectively is very critical for any entity. A budget can be useful in setting standards of performance, motivating board members and employees, and providing a tool to measure results of the different operations of the Commission. Preparing, approving and monitoring budgets will better enable the Commission to monitor its operations to ensure expenditures are in accordance with the Commission's mission and purpose. (Finding Code No. 12-1)

Recommendation

We recommend the Commission approve the annual budget for non-appropriated funds and the budget request to be submitted to the General Assembly for appropriated funds that are prepared by management.

Commission Response

ISAC agrees with the recommendation.

The budget for 2012 was not approved by the Commission because the Commission members were newly appointed. The budget was presented but was treated as an information item and no action was taken to approve the budget.

Finding 12-1 Budget Not Properly Approved (Continued)

Commission Response (Continued)

ISAC has already implemented the recommended corrective action. The fiscal year 2013 budget for the agency, including the budgets for IPTP and IDAPP were approved by the Commission at its meeting on June 25, 2012. The budget request to be submitted to the General Assembly for appropriation for fiscal year 2014 was presented as an information item at the November Commission Meeting and will be presented to the Board of Commissioners at the January 2013 meeting as an action item for their approval.

Finding 12-2 Debt Covenant Violation

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

During the audit of the agency's June 30, 2009 financial statements, the Illinois Designated Account Purchase Program (IDAPP) management discovered that they had potentially violated one of the covenants relating to the agency's revolving credit line (loan) agreement with a bank. The noncompliance pertained to the "Coverage condition ratio" covenant. According to the line of credit agreement with the bank, the "Forbearance Excess Amount", defined as the aggregate value of all eligible student loans that are subject to forbearance, is to be used in the calculation of the coverage condition ratio covenant. When IDAPP completed the report, created by the bank, and as instructed by the bank, the report produced an inaccurate calculation of the amount for the loans in forbearance. Once the error was discovered and the Coverage condition ratio was recalculated, it resulted in noncompliance with the Coverage condition ratio by IDAPP. The minimum Coverage Condition ratio required by the line of credit agreement is 104% and the current ratio as of June 30, 2012 was 101.30%.

During our audits of the agency's June 30, 2010 and 2011 financial statements, we noted that IDAPP was in violation of the same covenant noted above. In addition, the agency was in violation of another covenant, the "Default ratio." According to the line of credit agreement with the bank, the Default ratio is defined as "the annualized percentage of the aggregate principal balance of all student loans which have become defaulted pledged student loans during the settlement period divided by the weighted average principal balance of all pledged student loans during such settlement period." IDAPP is required to maintain a maximum Default ratio of 6.25%. As of June 30, 2012, IDAPP's Default ratio was 8.36%, resulting in noncompliance with the Default ratio by IDAPP.

As a result of the violation, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the event of default and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. Management believes the bank would have little incentive to call the line of credit and begin servicing the student loans itself, particularly because IDAPP has made all of its required payments in a timely fashion. The balance of the line of credit with the bank was $275,956,827 at June 30, 2012.

According to Commission management, the coverage condition and default issues are due to the increased level of delinquent accounts in the portfolio. The level has increased due to the poor global economic conditions.

Failure to comply with debt covenants could result in the debt becoming due and payable in advance of scheduled retirement dates. As a result of the violation, the bank may have certain remedies under the terms of the loan agreements, principal of which would be the right to call the loan and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code Nos. 12-2, 11-10, 10-6, 09-1)

Recommendation

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

Finding 12-2 Debt Covenant Violation (Continued)

Commission Response

ISAC agrees with the recommendation. IDAPP will continue to monitor these loan covenants and will work with our external servicers to try to bring the coverage condition and default ratios back into compliance.

This credit facility matured on July 27, 2010. Due to the tight credit markets for student loans and the performance of the portfolio, neither Citibank nor ISAC have been able to refinance the facility. ISAC management has been in regular contact with the lender and continues to explore options on the refinancing. At this time however, there are no imminent plans to refinance the facility.

Prior Findings Not Repeated

A Procurement Law Not Followed

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) did not comply with the competitive procurement requirements of the Illinois Procurement Code. (Finding Code No. 11-1, 10-1)

The Commission has strengthened its procurement process by adding additional levels of review, as well as filling key management positions. No exceptions were noted regarding noncompliance with procurement laws during fiscal year 2012 sample audit testing.

B Noncompliance with Investment Policy

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) did not fully comply with the guidelines established in its investment policy. (Finding Code No. 11-2)

The Commission conducted a formal review of its investment policy and adopted a new investment policy in fiscal year 2012. We also noted several changes made to the management and administration of the Program, including the hiring of a new Chief Investment Officer in December 2011 and a new Executive Director in February 2012. In addition, procedures were put in place to ensure the investment committee and investment advisory panel performed their duties as stated in the existing investment policy. No noncompliance with the investment policy was noted during fiscal year 2012 sample audit testing.

C Financial Statement Preparation

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) does not have sufficient control over its financial statement preparation. Errors in reporting investment credit ratings were discovered by auditors. (Finding Code No. 11-3)

The Commission has worked closely with the custodian to provide accurate investment ratings at year end. No exceptions were noted in the investment ratings disclosures during fiscal year 2012 sample audit testing.

D Alternative Investment Oversight and Manager Fees

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (the Commission) has not established policies and procedures to monitor and value its alternative investments for financial reporting purposes. Additionally, review of fees paid to investment managers was not adequately documented. (Finding Code No. 11-4)

The Commission has hired a new Chief Investment Officer, who works closely with the investment managers to ensure that investment values are properly recorded each month as well as perform a review of fees paid to investment managers. We noted that our recommendations for oversight of alternative investments and management fees had been implemented during fiscal year 2012 sample audit testing.

Prior Findings Not Repeated (Continued)

E Timeliness of Actuarial Valuation Report

The Illinois Student Assistance Commission (Commission) did not obtain a final actuarial valuation report pertaining to the soundness of the College Illinois Program, in a timely fashion. (Finding Code No. 11-5)

The Commission hired a new actuary in fiscal year 2012. We noted the actuarial valuation report for fiscal year 2012 was received in a timely manner.

F Competitive Procurement Requirements Not Followed

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not comply with certain competitive procurement requirements of the Illinois Procurement Code. (Finding Code No. 11-6)

The Commission has strengthened its procurement process by adding additional levels of review, as well as filled key management positions. No exceptions were noted regarding noncompliance with procurement laws during fiscal year 2012 sample audit testing.

G Financial Reporting Process

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not have sufficient control over financial reporting. (Finding Code Nos. 11-7, 10-2, 09-3, 08-5)

Based on our review of the draft financial statements for fiscal year 2012 provided by the Illinois Designated Account Purchase Program, we did not note any significant errors or omissions relating to reporting or disclosures in the draft financial statements.

H Student Loan Payments Not Processed Correctly

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not properly apply student loan payments to principal and interest. (Finding Code Nos. 11-8, 10-3)

This issue was resolved with the external service organization utilized by the Illinois Designated Account Purchase Program (IDAPP) during fiscal year 2012. The resulting adjustment was recorded by IDAPP in the current fiscal year. We noted no exceptions with the application of student loan principal and interest during fiscal year 2012 sample audit testing.

I Noncompliance with Write-Off Policy

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) was not in compliance with its non-cash write-off policy regarding the student loan receivable balances. (Finding Code Nos. 11-9, 10-5)

No exceptions were noted in this area during fiscal year 2012 sample audit testing.