

**STATE OF ILLINOIS  
ILLINOIS STUDENT  
ASSISTANCE COMMISSION**

**FINANCIAL AUDIT**

June 30, 2019

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

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION

FINANCIAL AUDIT  
June 30, 2019

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STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION

FINANCIAL AUDIT  
June 30, 2019

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STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
AGENCY OFFICIALS

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Commission Officials:

Executive Director	Eric Zarnikow
Chief Financial Officer	Shoba Nandhan
Chief Investment Officer	Carmen Heredia-Lopez
General Counsel	Karen Salas
Chief Internal Auditor	Kishor Desai

Governing Board:

Chairman	Kevin B. Huber
Vice Chair	Elizabeth V. Lopez (Beginning 4/2/19)
Commissioner	Niketa Brar
Commissioner	James A. Hibbert (7/1/18 – 1/28/19, Beginning 4/2/19)
Commissioner	Maureen Amos (Beginning 8/30/19)
Commissioner	Kim Savage (7/1/18 - 8/30/19)
Commissioner	Dr. Jonathan “Josh” Bullock (Beginning 8/30/19)
Commissioner	Dr. Patrick Twomey (7/1/18 - 1/28/19)
Commissioner	Mark Donovan (7/1/18 – 8/30/19)
Commissioner	Franciene Sabens (Beginning 8/30/19)
Commissioner	Darryl Arrington (Beginning 8/30/19)
Commissioner	Miguel del Valle (7/1/18 – 6/28/19)
Commissioner	Claudia Quezada (7/1/18 – 1/28/19)
Student Commissioner	Emma M. Johns (7/1/18 – 5/20/19, Beginning 8/6/19)

Commission Offices:

1755 Lake Cook Road  
Deerfield, IL 60015-5209

500 West Monroe  
Springfield, IL 62704

100 West Randolph  
Suite 3-200  
Chicago, IL 60601

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**FINANCIAL STATEMENT REPORT**

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
SUMMARY  
June 30, 2019

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**SUMMARY**

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

Based on their audit, the auditors expressed unmodified opinions on the Commission's basic financial statements.

**SUMMARY OF FINDINGS**

The auditors identified an instance of noncompliance and other matters. The instance of noncompliance and other matters is described in the accompanying Schedule of Findings on page 152, as finding 2019-001 (Debt Covenant Violation).

**EXIT CONFERENCE**

In correspondence received from Wendy Funk, Managing Director of Finance and Accounting, on December 19, 2019 the Commission elected to waive a formal exit conference. The response to the recommendation was provided by Wendy Funk, Managing Director of Finance and Accounting, in correspondence dated on December 19, 2019.

## Independent Auditor's Report

Honorable Frank J. Mautino  
Auditor General  
State of Illinois, and

Mr. Kevin B. Huber  
Chair of the Governing Board  
Illinois Student Assistance Commission

### Report on the Financial Statements

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, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Student Assistance Commission's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position 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, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note 2, the financial statements of the State of Illinois, Illinois Student Assistance Commission are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the State of Illinois, Illinois Student Assistance Commission. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2019, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, the Illinois Prepaid Tuition Program Fund has a net position deficit as of June 30, 2019 of \$295 million. The amount of the net position deficit is highly dependent on the actuarial assumptions used to calculate the actuarial present value of future tuition benefit obligations.

Our opinions are not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule 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 response 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.

Management has omitted management's discussion and analysis, pension and OPEB related information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a required 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 basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Illinois Student Assistance Commission's basic financial statements. The accompanying supplementary and other information, consisting of combining and individual fund financial statements and schedules, as well as the actuarial soundness valuation reports, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information related to the actuarial soundness valuation reports have 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 them.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2020, on our consideration of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting and compliance.

#### **Restricted Use of this Auditor's Report**

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

**Signed Originals on File**

Crowe, LLP

Oak Brook, Illinois  
February 10, 2020

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF NET POSITION  
June 30, 2019  
(Dollars in thousands)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current			
Unrestricted			
Unexpended appropriations	\$ 26,554	\$ -	\$ 26,554
Cash and cash equivalents	268	117,607	117,875
Investments	-	165,861	165,861
Receivables			
Contracts	-	6,647	6,647
Intergovernmental	-	12,946	12,946
Recoverable taxes	-	36	36
Accrued interest on investments	-	195	195
Other	323	-	323
Securities lending collateral	-	27,544	27,544
Due from other State funds	-	80	80
Due from State of Illinois component units	6	-	6
Due from other ISAC funds	-	2,184	2,184
Total current assets, unrestricted	<u>27,151</u>	<u>333,100</u>	<u>360,251</u>
Restricted			
Cash and cash equivalents	-	10,906	10,906
Receivables			
Student loans, net	-	33,325	33,325
Accrued interest on loans	-	21,289	21,289
Federal special allowance and interest subsidy	-	175	175
Other	-	16	16
Total current assets, restricted	<u>-</u>	<u>65,711</u>	<u>65,711</u>
Non-current			
Unrestricted			
Investments	-	550,408	550,408
Contracts receivable	-	17,033	17,033
Notes receivable	4,227	-	4,227
Capital assets being depreciated, net	<u>9,112</u>	<u>1,517</u>	<u>10,629</u>
Total non-current assets, unrestricted	<u>13,339</u>	<u>568,958</u>	<u>582,297</u>
Restricted			
Student loans receivable, net	<u>-</u>	<u>223,022</u>	<u>223,022</u>
Total non-current, restricted	<u>-</u>	<u>223,022</u>	<u>223,022</u>
Total assets	<u>40,490</u>	<u>1,190,791</u>	<u>1,231,281</u>
<b>Deferred outflows of resources</b>			
Pension related amounts	28,661	16,224	44,885
OPEB related amounts	<u>24,078</u>	<u>3,455</u>	<u>27,533</u>
Total deferred outflows of resources	<u>52,739</u>	<u>19,679</u>	<u>72,418</u>

See notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF NET POSITION  
June 30, 2019  
(Dollars in thousands)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	\$ 13,020	\$ 7,809	\$ 20,829
Accrued interest payable	-	1,114	1,114
Due to other State funds	13,912	353	14,265
Due to other ISAC funds	-	2,184	2,184
Due to State of Illinois component units	19	20	39
Unearned revenue	4	-	4
Securities lending collateral obligation	-	27,544	27,544
Intergovernmental payable	-	3,032	3,032
Net OPEB liability	40	409	449
Compensated absences	143	60	203
Tuition obligation	-	145,130	145,130
Line of credit	-	93,357	93,357
Total current liabilities	<u>27,138</u>	<u>281,012</u>	<u>308,150</u>
Non-current			
Revenue bonds and notes payable, net	-	137,620	137,620
Net pension liability	43,240	59,601	102,841
Net OPEB liability	38,607	34,713	73,320
Compensated absences	1,282	424	1,706
Tuition obligation	-	873,867	873,867
Total non-current liabilities	<u>83,129</u>	<u>1,106,225</u>	<u>1,189,354</u>
Total liabilities	<u>110,267</u>	<u>1,387,237</u>	<u>1,497,504</u>
<b>Deferred inflows of resources</b>			
Unamortized deferred amount on refunding	-	28,972	28,972
Pension related amounts	15,244	23,001	38,245
OPEB related amounts	13,579	20,016	33,595
Total deferred inflows of resources	28,823	71,989	100,812
<b>Net position</b>			
Investment in capital assets	9,112	1,517	10,629
Restricted for debt service	-	27,671	27,671
Restricted for federal programs	3	47,117	47,120
Unrestricted	<u>(54,976)</u>	<u>(325,061)</u>	<u>(380,037)</u>
Total net position	<u>\$ (45,861)</u>	<u>\$ (248,756)</u>	<u>\$ (294,617)</u>

See notes to the financial statements.

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STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2019  
(Dollars in thousands)

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<u>Governmental activities</u>			
Education			
Scholarships, awards and grants	\$ 454,094	\$ -	\$ 2,784
Total governmental activities	<u>454,094</u>	<u>-</u>	<u>2,784</u>
<u>Business-type activities</u>			
Education			
Student loan purchase program	10,720	16,893	-
Prepaid tuition	47,675	247	32,805
Loan guarantee program	<u>101,139</u>	<u>18,123</u>	<u>92,570</u>
Total business-type activities	<u>159,534</u>	<u>35,263</u>	<u>125,375</u>
Total Commission	<u>\$ 613,628</u>	<u>\$ 35,263</u>	<u>\$ 128,159</u>

General revenues and transfers

General revenues

    Appropriations from State resources

    Lapsed appropriations

    Receipts remitted to State Treasury

    SERS / OPEB on behalf contribution

    Investment income

    Miscellaneous

    Total general revenues and transfers

Change in net position

Net position (deficit) July 1, 2018

Net position (deficit) June 30, 2019

See notes to the financial statements.

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Net (Expenses) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (451,310)	\$ -	\$ (451,310)
<u>(451,310)</u>	<u>-</u>	<u>(451,310)</u>
-	6,173	6,173
-	(14,623)	(14,623)
<u>-</u>	<u>9,554</u>	<u>9,554</u>
<u>-</u>	<u>1,104</u>	<u>1,104</u>
(451,310)	1,104	(450,206)
439,756	-	439,756
(2,796)	-	(2,796)
(3,173)	-	(3,173)
5,859	-	5,859
-	2,554	2,554
<u>287</u>	<u>-</u>	<u>287</u>
<u>439,933</u>	<u>2,554</u>	<u>442,487</u>
(11,377)	3,658	(7,719)
<u>(34,484)</u>	<u>(252,414)</u>	<u>(286,898)</u>
<u>\$ (45,861)</u>	<u>\$ (248,756)</u>	<u>\$ (294,617)</u>

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See notes to the financial statements.

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STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2019  
(Dollars in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Unexpended appropriations	\$ 26,554	\$ -	\$ 26,554
Cash and cash equivalents	-	268	268
Due from other State of Illinois component units	6	-	6
Other receivables	-	323	323
Notes receivable, net of allowance of \$29,380	<u>4,227</u>	<u>-</u>	<u>4,227</u>
 Total assets	 <u>\$ 30,787</u>	 <u>\$ 591</u>	 <u>\$ 31,378</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable and accrued liabilities	\$ 12,629	\$ 391	\$ 13,020
Due to other state funds	-	-	-
Due to other State of Illinois component units	13,931	-	13,931
Unearned revenues	<u>-</u>	<u>4</u>	<u>4</u>
Total liabilities	26,560	395	26,955
Fund balances			
Nonspendable, notes receivable	4,227	-	4,227
Restricted	-	3	3
Committed	-	198	198
Unassigned	<u>-</u>	<u>(5)</u>	<u>(5)</u>
Total fund balances	<u>4,227</u>	<u>196</u>	<u>4,423</u>
 Total liabilities and fund balances	 <u>\$ 30,787</u>	 <u>\$ 591</u>	 <u>\$ 31,378</u>

See notes to the financial statements.

STATE OF ILLINOIS  
 ILLINOIS STUDENT ASSISTANCE COMMISSION  
 RECONCILIATION OF THE BALANCE SHEET -  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
 June 30, 2019  
 (Dollars in thousands)

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Total fund balances, governmental fund	\$	4,423
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Amounts reported for governmental activities in the Statement of Net Position 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		19,229
Equipment		24
Accumulated depreciation		<u>(12,841)</u>
Total capital assets		<u>9,112</u>

Some liabilities, deferred outflows of resources and deferred inflows of resources reported in the Statement of Net Position do not require the use of current (or provide) financial resources and, therefore, are not reported in governmental funds. These amounts consist of:

Deferred outflows, pension related	28,661	
Deferred outflows, OPEB related	24,078	
Net pension liability	(43,240)	
Net OPEB liability	(38,647)	
Deferred inflows, pension related	(15,244)	
Deferred inflows, OPEB related	(13,579)	
Compensated absences	<u>(1,425)</u>	
		<u>(59,396)</u>

Net position of governmental activities	\$	<u>(45,861)</u>
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STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2019  
(Dollars in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Federal government	\$ -	\$ 2,784	\$ 2,784
Other	4	283	287
Total revenues	<u>4</u>	<u>3,067</u>	<u>3,071</u>
<b>Expenditures</b>			
Education			
Scholarships, awards and grants	<u>440,695</u>	<u>3,113</u>	<u>443,808</u>
Total expenditures	<u>440,695</u>	<u>3,113</u>	<u>443,808</u>
<b>Deficiency of revenues over expenditures</b>	(440,691)	(46)	(440,737)
<b>Other sources (uses) of financial resources</b>			
Appropriations from State resources	439,706	50	439,756
Lapsed appropriations	(2,796)	-	(2,796)
Receipts remitted to State Treasury	(3,173)	-	(3,173)
SERS / OPEB on behalf contribution	<u>5,859</u>	<u>-</u>	<u>5,859</u>
Net other sources (uses) of financial resources	<u>439,596</u>	<u>50</u>	<u>439,646</u>
<b>Net change in fund balances</b>	(1,095)	4	(1,091)
Fund balance, July 1, 2018	<u>5,322</u>	<u>192</u>	<u>5,514</u>
Fund balance, June 30, 2019	<u>\$ 4,227</u>	<u>\$ 196</u>	<u>\$ 4,423</u>

See notes to the 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, 2019  
 (Dollars in thousands)

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Net change in fund balances, total governmental funds	\$ (1,091)
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. This is the amount by which depreciation (\$502) Exceeded capital outlay (\$0) in FY 2019	
	(502)
Some amounts reported in the Statement of Activities do not require the use of the current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:	
Increase in unpaid accumulated vacation and sick leave	(1,267)
Increase in deferred outflows, pension related	10,271
Increase in deferred outflows, OPEB related	23,554
Decrease in deferred inflows, pension related	4,831
Increase in deferred inflows, OPEB related	(466)
Increase in net pension liability	(22,556)
Increase in net OPEB liability	<u>(24,151)</u>
Change in net position of governmental activities	<u>\$ (11,377)</u>

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See notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
June 30, 2019  
(Dollars in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
<b>ASSETS</b>				
Current				
Unrestricted				
Cash and cash equivalents	\$ 9,037	\$ 5,047	\$ 103,523	\$ 117,607
Investments	19,135	146,726	-	165,861
Receivables				
Contracts	-	6,647	-	6,647
Intergovernmental	-	-	12,946	12,946
Recoverable taxes	-	36	-	36
Accrued interest on investments	-	7	188	195
Securities lending collateral	-	-	27,544	27,544
Due from other State funds	-	-	80	80
Due from other ISAC funds	-	-	2,184	2,184
Total current assets, unrestricted	<u>28,172</u>	<u>158,463</u>	<u>146,465</u>	<u>333,100</u>
Restricted				
Cash and cash equivalents	10,906	-	-	10,906
Receivables				
Student loans receivable, net of allowance of \$9,443	33,325	-	-	33,325
Accrued interest on loans	21,289	-	-	21,289
Federal special allowance and interest subsidy	175	-	-	175
Other	16	-	-	16
Total current assets, restricted	<u>65,711</u>	<u>-</u>	<u>-</u>	<u>65,711</u>
Non-current				
Unrestricted				
Investments	-	550,408	-	550,408
Contracts receivable	-	17,033	-	17,033
Capital assets, net of accumulated depreciation	-	-	1,517	1,517
Total non-current assets, unrestricted	<u>-</u>	<u>567,441</u>	<u>1,517</u>	<u>568,958</u>
Restricted				
Student loans receivable, net of allowance of \$63,196	<u>223,022</u>	<u>-</u>	<u>-</u>	<u>223,022</u>
Total non-current, restricted	<u>223,022</u>	<u>-</u>	<u>-</u>	<u>223,022</u>
Total assets	316,905	725,904	147,982	1,190,791
<b>Deferred outflows of resources</b>				
Pension related amounts	1,251	-	14,973	16,224
OPEB related amounts	295	-	3,160	3,455
Total deferred outflows of resources	<u>1,546</u>	<u>-</u>	<u>18,133</u>	<u>19,679</u>
Total assets and deferred outflows of resources	<u>\$ 318,451</u>	<u>\$ 725,904</u>	<u>\$ 166,115</u>	<u>\$ 1,210,470</u>

See notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
June 30, 2019  
(Dollars in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
<b>LIABILITIES</b>				
Current				
Accounts payable and accrued liabilities	\$ 135	\$ 1,670	\$ 6,004	\$ 7,809
Accrued interest payable	1,114	-	-	1,114
Tuition obligation	-	145,130	-	145,130
Due to other ISAC funds	2,005	179	-	2,184
Due to other State funds	-	-	353	353
Due to State of Illinois component units	-	10	10	20
Securities lending collateral obligation	-	-	27,544	27,544
Intergovernmental payable	-	-	3,032	3,032
Net OPEB liability	39	-	370	409
Compensated absences	19	-	41	60
Revolving credit line	93,357	-	-	93,357
Total current liabilities	<u>96,669</u>	<u>146,989</u>	<u>37,354</u>	<u>281,012</u>
Non-current				
Tuition obligation	-	873,867	-	873,867
Revenue bonds and notes payable, net	137,620	-	-	137,620
Net pension liability	2,678	-	56,923	59,601
Net OPEB liability	1,605	-	33,108	34,713
Compensated absences	50	-	374	424
Total non-current liabilities	<u>141,953</u>	<u>873,867</u>	<u>90,405</u>	<u>1,106,225</u>
Total liabilities	238,622	1,020,856	127,759	1,387,237
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unamortized deferred amount on refunding	28,972	-	-	28,972
Pension related amounts	1,131	-	21,870	23,001
OPEB related amounts	906	-	19,110	20,016
Total deferred inflows of resources	<u>31,009</u>	<u>-</u>	<u>40,980</u>	<u>71,989</u>
<b>NET POSITION</b>				
Net investment in capital assets	-	-	1,517	1,517
Restricted for debt service	27,671	-	-	27,671
Restricted for federal grant programs	-	-	47,117	47,117
Unrestricted	21,149	(294,952)	(51,258)	(325,061)
Total net position	<u>48,820</u>	<u>(294,952)</u>	<u>(2,624)</u>	<u>(248,756)</u>
Total liabilities, deferred inflows or resources, and net position	<u>\$ 318,451</u>	<u>\$ 725,904</u>	<u>\$ 166,115</u>	<u>\$ 1,210,470</u>

See notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
ENTERPRISE FUNDS  
Year Ended June 30, 2019  
(Dollars in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
<b>Operating revenues</b>				
Investment income				
Interest, student loans	\$ 16,683	\$ -	\$ -	\$ 16,683
Income - investments (net of closed end funds investment management fees of \$1,030 and performance allocation of \$6,459)	394	32,623	-	33,017
Interest, other	-	182	-	182
Total investment income	17,077	32,805	-	49,882
Other operating revenues				
Fees	210	247	-	457
Portfolio maintenance fees	-	-	1,711	1,711
Direct consolidation cost	-	-	5,981	5,981
Collections on student loans previously reimbursed by the U.S. Department of Education	-	-	8,511	8,511
Other	-	-	1,920	1,920
Total other operating revenues	210	247	18,123	18,580
<b>Total operating revenues</b>	<b>17,287</b>	<b>33,052</b>	<b>18,123</b>	<b>68,462</b>
<b>Operating expenses</b>				
Interest and other student loan expenses				
Interest expense				
Revenue bonds and notes	3,922	-	-	3,922
Other student loan fees	1,250	-	-	1,250
Provision for loan losses	4,897	-	-	4,897
Total interest and other student loan expenses	10,069	-	-	10,069
Other operating expenses				
Salaries and employee benefits	673	1,726	4,451	6,850
Pension expenses	(976)	-	(3,083)	(4,059)
OPEB expenses	(163)	-	(2,792)	(2,955)
Loan guarantee	-	-	93,006	93,006
External loan servicing	1,100	-	-	1,100
Accreted tuition expenses	-	41,669	-	41,669
Investment management fees	-	400	-	400
Investment advisory fees	-	1,811	-	1,811
Management and professional services	544	2,069	9,125	11,738
Depreciation	-	-	432	432
Other	3	-	-	3
Total other operating expenses	1,181	47,675	101,139	149,995
Total operating expenses	11,250	47,675	101,139	160,064
<b>Operating income (loss)</b>	<b>6,037</b>	<b>(14,623)</b>	<b>(83,016)</b>	<b>(91,602)</b>

See notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
ENTERPRISE FUNDS  
Year Ended June 30, 2019  
(Dollars in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Non-operating revenues (expenses)				
Federal government special allowance and interest subsidy	\$ 530	\$ -	\$ -	\$ 530
Federal government	-	-	92,570	92,570
Interest revenue	-	-	2,160	2,160
Total Non-operating revenues (expenses)	<u>530</u>	<u>-</u>	<u>94,730</u>	<u>95,260</u>
<b>Income before transfers</b>	6,567	(14,623)	11,714	3,658
Transfers in	-	-	15,000	15,000
Transfers out	<u>-</u>	<u>-</u>	<u>(15,000)</u>	<u>(15,000)</u>
Total Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in fund net position</b>	6,567	(14,623)	11,714	3,658
Net Position, July 1, 2018	<u>42,253</u>	<u>(280,329)</u>	<u>(14,338)</u>	<u>(252,414)</u>
Net Position, June 30, 2019	<u>\$ 48,820</u>	<u>\$ (294,952)</u>	<u>\$ (2,624)</u>	<u>\$ (248,756)</u>

See notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
Year Ended June 30, 2019  
(Dollars in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
<b>Cash flows from operating activities</b>				
Cash received from fees and other charges	\$ -	\$ 248	\$ 65,999	\$ 66,247
Cash payments for tuition	-	(123,650)	-	(123,650)
Cash payments to suppliers for goods and services	(1,675)	(1,656)	(3,286)	(6,617)
Cash payments to employees for services	(665)	(1,726)	(7,534)	(9,925)
Cash payments for loan guarantees	-	-	(96,542)	(96,542)
Cash receipts from student loans and fees	56,591	-	-	56,591
Cash receipts from tuition contracts	-	10,714	-	10,714
Cash payments for student loans	(2,001)	-	-	(2,001)
Cash payments for refund of contracts	-	(25,668)	-	(25,668)
Cash payments for other operating activities	-	-	(55,810)	(55,810)
Net cash provided (used) by operating activities	52,250	(141,738)	(97,173)	(186,661)
<b>Cash flows from noncapital financing activities</b>				
Principal paid on revenue bonds and other borrowings	(44,279)	-	-	(44,279)
Interest paid on revenue bonds and other borrowings	(7,844)	-	-	(7,844)
Special allowance and interest subsidy	337	-	-	337
Transfers in	-	-	14,407	14,407
Transfers out	-	-	(14,407)	(14,407)
Federal government grants	-	-	101,666	101,666
Net cash provided (used) by noncapital financing activities	(51,786)	-	101,666	49,880
<b>Cash flows from capital and related financing activities</b>				
Acquisition and construction of capital assets	-	-	(106)	(106)
<b>Cash flows from investing activities</b>				
Purchase of investment securities	(19,059)	(145,148)	-	(164,207)
Proceeds from sales and maturities of investment securities	4,000	274,835	-	278,835
Loan disbursements	-	-	(15,000)	(15,000)
Loan repayments	-	-	15,000	15,000
Interest and dividends on investments	273	2,967	2,132	5,372
Cash paid to investment managers	-	(400)	-	(400)
Net cash provided by investing activities	(14,786)	132,254	2,132	119,600
<b>Increase (decrease) in cash and cash equivalents</b>	(14,322)	(9,484)	6,519	(17,287)
Cash and cash equivalents, July 1, 2018	34,265	14,531	97,004	145,800
<b>Cash and cash equivalents, June 30, 2019</b>	<u>\$ 19,943</u>	<u>\$ 5,047</u>	<u>\$ 103,523</u>	<u>\$ 128,513</u>

See notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
Year Ended June 30, 2019  
(Dollars 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)	\$ 6,037	\$ (14,623)	\$ (83,016)	\$ (91,602)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	-	-	432	432
Investment income	(394)	(30,594)	-	(30,988)
Interest expense	3,922	-	-	3,922
Accreted tuition contract revenue	-	-	-	-
Amortization of student loan premiums	-	-	-	-
Accreted tuition expense	-	41,669	-	41,669
Provision for loan losses	4,897	-	-	4,897
Change in assets, liabilities and deferred outflows/inflows of resources				
Contracts receivable	-	9,353	-	9,353
Student loans receivable	42,435	-	-	42,435
Intergovernmental receivables	-	-	55	55
Accrued interest - loans and notes	(3,468)	-	-	(3,468)
Due from other State funds	-	-	127	127
Accounts payable and accrued liabilities	(30)	955	(2,882)	(1,957)
Intergovernmental payables	-	-	(3,106)	(3,106)
Due to other ISAC funds	(18)	(34)	(4)	(56)
Due to other State funds and component units	-	(508)	205	(303)
Tuition obligation	-	(147,956)	-	(147,956)
Compensated absences	9	-	(1,309)	(1,300)
Deferred inflows related to pensions and OPEB	(1,445)	-	17,059	15,614
Deferred outflows related to pensions and OPEB	(1,196)	-	11,803	10,607
Net pension liability	1,262	-	(18,236)	(16,974)
Net OPEB liability	239	-	(18,301)	(18,062)
Total adjustments	<u>46,213</u>	<u>(127,115)</u>	<u>(14,157)</u>	<u>(95,059)</u>
Net cash provided (used) by operating activities	<u>\$ 52,250</u>	<u>\$ (141,738)</u>	<u>\$ (97,173)</u>	<u>\$ (186,661)</u>
Supplemental disclosure of noncash transactions:				
Net appreciation in fair value of investments	<u>\$ 122</u>	<u>\$ 18,439</u>	<u>\$ -</u>	<u>\$ 18,561</u>

See notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Dollars in thousands)  
June 30, 2019

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**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 (State). 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) a locally held fund, and College Illinois! funds that are held in Trust.

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. The Commission fulfills this purpose by administering the following programs:

Monetary Award Program (MAP): This program was created to provide financial assistance to qualifying students who are residents of the State and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provided up to \$4,968 in Fiscal Year 2019 for the payment of tuition and mandatory fees. The program is usually funded by the General Fund appropriation.

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 ISAC are insufficient to reimburse public post-secondary institutions for all recipients, the obligation to pay is transferred to the institution. This program was not funded in Fiscal Year 2019.

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 ISAC are insufficient to reimburse public post-secondary institutions for all recipients, the obligation to pay is transferred to the institution where the guard member attends school. This program was not funded in Fiscal Year 2019.

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(Continued)

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Dollars in thousands)  
June 30, 2019

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**NOTE 1 - ORGANIZATION** (Continued)

Golden Apple Scholars of Illinois: The Golden Apple Scholars of Illinois Program encourages academically talented Illinois students, especially minority students, to pursue teaching careers, especially in teacher shortage disciplines or at hard-to-staff schools.

The privately-operated Golden Apple program provides grants towards tuition and fees that must be repaid by recipients who do not subsequently fulfill a work requirement; Golden Apple also provides mentoring and support services and the opportunity to attend summer institutes on teaching.

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.

Grant Program for Dependents of Police, Fire or Correctional Officers (Dependents Grant): The Dependents Grant provides that the spouse or child of an Illinois police, fire officer or correctional officer who was killed or became at least 90 percent disabled in the line of duty, may be eligible for this grant. This grant provides assistance toward college tuition and mandatory fees for undergraduate or graduate study at an ISAC-approved Illinois college.

Illinois Teacher Loan Repayment Program: The Illinois Teachers Loan Repayment Program provides awards to encourage academically talented Illinois students to teach in Illinois schools in low-income areas. If the teaching obligations are met by a Federal Stafford loan borrower who has qualified for the federal government's loan forgiveness programs, Illinois may provide an additional matching award of up to \$5,000 to the qualifying teacher to repay their student loan debt.

Nurse Educator Loan Repayment Program: In an effort to address the shortage of nurses and the lack of instructors to staff courses teaching nursing in Illinois, the Nurse Educator Loan Repayment Program encourages longevity and career change opportunities. The program is intended to pay eligible loans to add an incentive to nurse educators in maintaining their teaching careers within the State of Illinois. The annual awards to qualified nurse educators may be up to \$5,000 to repay their student loan debt, and may be received for up to a maximum of four years.

Veterans' Home Medical Providers' Loan Repayment Act: The Veterans' Home Medical Providers' Loan Repayment Act provides for the payment of eligible educational loans as an incentive for physicians, certified nurse practitioners, registered professional nurses, certified nursing assistants or licensed practical nurses in a State of Illinois Veterans' Home to pursue and continue their careers at State of Illinois veterans' homes. The annual award to qualified registered professionals may be up to \$5,000 to repay their student loan debt. This award may be received for up to a maximum of four years.

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(Continued)

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Dollars in thousands)  
June 30, 2019

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**NOTE 1 - ORGANIZATION** (Continued)

Special Education Teacher Tuition Waiver: This program is for teachers or academically talented students pursuing a career in special education as a nonprofit public, private or parochial preschool, elementary or secondary school teacher in Illinois. This program provides exemptions from paying tuition and mandatory fees at eligible institutions, for up to four calendar years. Awards are not subject to annual appropriations by the Illinois General Assembly and the Governor.

Illinois State Scholars: The Illinois State Scholar program is awarded to high school seniors based on ACT or SAT test scores and the sixth semester class rank, class size and unweighted Grade Point Average (GPA).

Each student designated as a State Scholar receives a congratulatory letter, a Certificate of Achievement and statewide recognition in the news media. To be honored as a State Scholar in Illinois is an outstanding accomplishment that will be a highlight of the recipient's academic record.

AIM HIGH Grant Program: In an effort to increase enrollment of Illinois residents at Illinois public universities, increase overall retention of Illinois college students in Illinois, and encourage Illinois residents to attain a college degree, State appropriated funds are to be used to enable Illinois public universities to establish a merit-based, means-tested award program known as the Aspirational Institutional Match Helping Illinois Grow Higher Education Grant Pilot Program (AIM HIGH) to make college more affordable at their campuses while reducing the amount of student loan debt. Each eligible public university campus must match those funds with non-loan financial aid for eligible students and maintain or exceed levels of financial aid to Illinois residents from Fiscal Year 2018. ISAC is responsible for administering the distribution of AIM HIGH grant funds to the public universities in compliance the AIM HIGH Program and Grant Agreement.

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

- Silas Purnell Illinois Incentive for Access Program (IIA)\*
- Bonus Incentive Grant\*
- Student to Student Program of Matching Grants\*
- Merit Recognition Scholarships\*
- Teach Illinois Scholarship Program\*
- Forensic Science Grants\*
- Public Interest Attorney Loan Repayment Program
- Child Welfare Student Loan Forgiveness Program\*
- Community College Transfer Grant Program\*
- Grant for a Person Raised by a Grandparent\*
- Grant for Program Participants in SIU-C Achieve Program\*
- Grant Program for Exonerees\*
- Grant Program for Medical Assistants in Training\*

\* These programs were not funded in Fiscal Year 2019.

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(Continued)

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Dollars in thousands)  
June 30, 2019

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**NOTE 1 - ORGANIZATION** (Continued)

John R. Justice Student Loan Repayment Program: The John R. Justice Student Loan Repayment Program provides for the payment of eligible educational loans (both Federal Family Education Loan Program [FFELP] and Federal Direct Loans) for state and federal public defenders and state prosecutors who agree to remain employed as public defenders and prosecutors for at least three years. The annual awards to qualified defenders and prosecutors may be up to \$4,000 (dependent on funding), up to an aggregate total of \$60,000, to repay their student loan debt. If the employment commitment is not fulfilled, any amount received must be repaid.

Optometric Education Scholarship Program: The Optometric Education Scholarship Program provides scholarship assistance to encourage eligible students to pursue a graduate degree in optometry. A total of 10 scholarships are awarded each year.

The scholarship may be used to pay tuition and mandatory fees for two semesters, or three quarters in an academic year. The award amount determined by the institution will be the lesser of \$5,000 or tuition and mandatory fees. If the obligation is not fulfilled the scholarship converts to a loan.

Federal Family Education Loan Program (FFELP): This program was 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 new loans have been made under the FFELP program since July 1, 2010.

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.

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(Continued)

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Dollars in thousands)  
June 30, 2019

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**NOTE 1 - ORGANIZATION** (Continued)

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, 2019.

Illinois Designated Account Purchase Program (IDAPP): The Illinois Designated Account Purchase Program (IDAPP), a program of ISAC, was created through an Act of the State General Assembly to increase participation of eligible lenders in ISAC's Student Loan Programs by purchasing guaranteed student loans from lenders in order to reduce the lenders' collection and administrative costs.

IDAPP facilitated lender participation in the student loan programs by reducing the overall risk and collection expenses those lenders faced. One of the major incentives offered by the Commission was that IDAPP took over servicing the loan after it was purchased from the lender. Sales of loans to the Commission gave the lenders the capital to make new and renewal loans.

Capital to support IDAPP was 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. Almost all of IDAPP's funds are held locally in various banks and financial institutions. It is reported as a Proprietary Fund.

As a result of the Student Aid and Fiscal Responsibility Act (SAFRA), which was part of the Health Care and Education Reconciliation Act, the FFELP program has been ended by the Department of Education since July 1, 2010.

Since the end of the FFELP program, there have been no new disbursements of loans from IDAPP. The agency is administering the wind-down of the existing portfolio. In addition, a majority of the student loan portfolio was sold /refinanced between 2007 and 2010.

Based on the size of its portfolio, IDAPP used to be a major fund for the State of Illinois. The Commission issued stand-alone statements for the IDAPP fund. However, as a result of the refinancing and the wind-down of the portfolio, IDAPP is no longer a major fund for the State. In addition, the agreements with the Bond Trustees do not mandate stand-alone statements for the fund. ISAC's consolidated financial statements can be submitted instead of the stand-alone statements. As a result effective Fiscal Year 2016, the Commission will not be issuing separate stand-alone statements for IDAPP.

The IDAPP fund is still reflected separately on the Statement of Net Position - Enterprise Funds, Statement of Revenues, Expenses and Changes in Net Position - Enterprise Funds and Statement of Cash Flows - Enterprise Funds in the ISAC Consolidated financial statements.

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. No new loans have been made under the program since 2010.

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(Continued)

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Dollars in thousands)  
June 30, 2019

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**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.

Financial Reporting Entity: The Commission is an agency of the State. 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.

The Commission is not legally separate from the State; the financial statements of the Commission are included in the financial statements of the State. The State's 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, College Illinois 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.

Basis of Presentation:

*Government-wide Statements.* The government-wide statement of net position 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 loan activities (business-type activities) totaling \$3,922 (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.

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(Continued)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*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 of 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, and gains and losses from sales of the loan portfolio, 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 Position.

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 2019, the Commission received appropriations through the General Fund - Educational Assistance Account. This account is a shared account and its activity (if any) attributed to the operations of the Commission is combined with the General Revenue Account for report presentation purposes. Any monies received by this fund are held in the State Treasury.

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

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

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

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, committed or assigned 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.

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(Continued)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

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.

ISAC reports unearned revenue on its financial statements. Unearned revenues arise when resources are received by ISAC before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met or when ISAC has a legal claim to the resources, the liability for unearned revenues is removed from the financial statements and revenue is recognized.

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, pensions and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest and federal grant revenues are significant revenue sources, which are 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.

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's Comprehensive Annual Financial Report.

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(Continued)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 August for Fiscal Year 2019 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.

*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.

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 two-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.

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(Continued)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

Investments: ISAC presents investments on its Statement of Net Position at fair value or amortized cost which approximates fair value. The net appreciation or depreciation in the fair value of investments since the prior fiscal year (or purchase date for Fiscal Year 2019 purchases) is included as investment income in the financial statements. Dividend and interest income are recorded in the period earned.

Contracts Receivable: Contracts receivable represents the amount the Program expects to receive from contract holders for contracts purchased on an installment basis. The actuarially determined present value of future contributions was \$23,680 as of June 30, 2019 using a 6% discount rate. The Program expects to receive contributions totaling \$6,647 in Fiscal Year 2020. This amount has been classified as current contracts receivable on the Statement of Net Position. The total contract receivable balance is expected to be received over the next fifteen years.

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.

Allowance for Possible Loan Losses: The allowance for possible loan losses is an estimate of credit losses arising from the student loan portfolio. A provision for possible loan losses, which is reported as an operating expense, is added to bring the allowance to a level that, in management's judgment, is adequate to absorb estimated 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.

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 position.

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(Continued)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*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.

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:

<u>Capital Asset Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land	\$ 100	N/A
Buildings	100	10-60
Building improvements	25	10-45
Equipment	5	3-25
Internally generated software	1,000	10

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.

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.

Compensated Absences: The liability for compensated absences reported in the government-wide and certain 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.

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(Continued)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Debt Premiums, Discounts, and Refunding Gains: In the government-wide and proprietary fund financial statements, debt premiums and discounts are amortized over the life of the debt using the straight-line method, which approximates the effective interest rate method. Deferred amounts on refunding represent a gain on refunding recognized with the issuance of the LIBOR Floating Rate Notes (see Note 8) and are reported as a deferred inflow of resources in the financial statements. These amounts are amortized on a weighted basis over the life of the remaining two tranches. Bonds and notes payable are reported net of the unamortized discount.

Current year amortization expense is included in student loan expense in the Statement of Activities.

Tuition Obligation: The tuition obligation in the Illinois Prepaid Tuition Program represents the net contract face value for the 31,630 contracts held by the fund as of June 30, 2019, plus the actuarially-determined present value of future benefits the Program expects to provide to contract holders for all contracts.

Pensions: In accordance with the Commission's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the government-wide and proprietary fund financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Commission's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB): For purposes of measuring the Commission's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Illinois State Employees Group Insurance Program (SEGIP) and additions to/deductions from the SEGIP Plan's fiduciary net position have been determined on the same basis as they are reported by the SEGIP Plan. For this purpose, the SEGIP Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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(Continued)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

Net Position: In the government-wide and proprietary fund financial statements, net position is displayed in three components as follows:

*Investment in Capital Assets* – 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; for which there are none.

*Restricted* – results when constraints placed on net position use is 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 position use by the Department of Education, the net position of the Federal Student Loan Fund is restricted.

*Unrestricted (Deficit)* – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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(Continued)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

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 for any other purpose.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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 regard 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.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

The Public Funds Investment Act (Act) also restricts the investment of funds under the control of IDAPP. These restrictions apply to any funds, which are not restricted by the terms of a 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 (FDIC) 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).

Investment Authority and Legal Compliance: The State Treasury is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. The investment authority for the State Treasury is found in the State Treasurer Act (15 ILCS 505), which authorizes the State of Illinois primary government and its component units to engage in a wide variety of investment activities. For further details please refer to the State of Illinois Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from the Illinois Office of the Comptroller at 325 West Adams, Springfield, Illinois 62704.

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

The Commission board members have ultimate responsibility for the success and safety of the investment program. Specific responsibilities of the Commission include, but are not limited to, the following:

1. Adopting a sound investment policy. The Policy may be modified from time to time by action of the Commission and shall be adopted annually by the Commission in accordance with the Act.
2. Adopting a sound asset allocation. The asset allocation shall be reviewed annually for reasonableness and a formal asset allocation study will be conducted at least every three years.
3. Approving any changes to the investment manager structure.
4. Approving the selection and termination of any investment service provider.
5. Monitoring and evaluating the investment performance of the Fund and ensuring the risk profile is consistent with Policy objectives.
6. Establishing the primary duties and responsibilities of those accountable for achieving and reviewing investment results.
7. Adopting and reviewing, at least annually, the diversity policies required by section 30(b-5) of the Prepaid Tuition Act (110 ILCS 979/30(b-5)).

The Commission may not delegate its oversight and management responsibilities but will be assisted in its functions by other sub committees, panels and agency staff.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

The Commission by statute (Illinois Prepaid Tuition Act, 110 ILCS 979) is required to appoint an investment advisory panel to offer advice and counseling regarding the investments of the Illinois Prepaid Tuition Program.

The Commission appoints members to the panel in a manner consistent with the representation prescribed in the Act. The panel is required to annually review and advise the Commission on provisions of the strategic comprehensive investment plan.

The Investment Policy (Policy) represents the comprehensive investment plan as referred to in the Act. The Policy is reviewed by the Commission annually and identifies a set of investment objectives, guidelines, and performance standards for the investment of the assets of the Fund.

The Commission also appoints an Investment Committee consisting of at least three (3) members of the Commission with knowledge of investing. Investment Committee members are selected by the Chair of the Commission and approved by a vote of the Commission. The Investment Committee meets at least quarterly with the Chief Investment Officer and the Investment Consultant.

The Investment Committee is generally responsible for monitoring Fund investments and performance to ensure compliance with the Investment Policy and for considering investment initiatives for potential recommendation to the full Commission.

The Chief Investment Officer (CIO) is responsible for the day to day operation and oversight of the Fund and for coordinating the activities of the Investment Committee, the Investment Advisory Panel, and investment related activities of the Commission. The CIO reports directly to the Executive Director and has a "dotted-line" reporting relationship to the Commission. The CIO has the authority and responsibility to ensure that the Commission is adequately informed on matters and concerns relating to Fund investments. The CIO will work closely with the Executive Director, Investment Consultant and Investment Staff to carry out the duties and responsibilities of this role.

In accordance with the Prepaid Tuition Act, the Commission may arrange to compensate for personalized investment advisory services rendered with respect to any or all of the investments under its control to an investment advisor registered under Section 8 of the Illinois Securities Law of 1953 or any bank or other entity authorized by law to provide those services.

A qualified investment consultant, on an ongoing basis, evaluates the Illinois Prepaid Tuition Program. The primary role of the Investment Consultant is to provide the information, analysis, and advice required by the Investment Staff, Investment Advisory Panel, Investment Committee, and Commission to carry out their duties and to assist them in developing and implementing a prudent process for monitoring and evaluating Fund investments. The Investment Consultant will work closely with the CIO, but is expected to provide an independent perspective to the Investment Committee and Commission.

Written reports are provided to the Commission by the investment consultant no later than 45 days after the end of each calendar quarter. The CIO and investment consultant meet with the various investment managers on a regular basis to review the investment guidelines and the asset/liability structure of the Program. The investment consultant also assists the CIO, Investment Committee, Commission and the Investment Advisory Panel with the selection of investment managers and custodians.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

The qualified investment consultant retained by the Commission is expected to provide an independent perspective within the parameters set forth in the investment policy guidelines. The Program has contracted with Callan LLC to evaluate the investment performance of the Illinois Prepaid Tuition Program on an ongoing basis.

The investment policy authorizes the Commission to utilize a third-party custodian to safe-keep the assets of the Fund and to provide reports on a monthly basis to all relevant parties. The custodian retained by the Commission is required to exercise discretion within the parameters set forth in the investment policy guidelines for the portfolio(s) they manage on behalf of the Fund.

The Custodian has three primary responsibilities, namely: (1) Safekeeping of Assets – custody, pricing and accounting and reporting of assets owned by the Fund; (2) Trade Processing – track and reconcile assets that are acquired and disposed; and, (3) Asset Servicing – maintain all economic benefits of ownership such as income collection, corporate actions, and proxy notification issues.

The Commission may direct that assets of the Program's 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.

The Commission also authorizes the hiring of professional investment managers to manage the assets of the Fund. Investment managers are hired who, by their record and experience have demonstrated their fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment managers retained for the Illinois Prepaid Tuition Program acknowledge in writing that they are a fiduciary with respect to the Fund or that they are a fiduciary to a limited partnership or commingled fund in which the College Illinois Prepaid Tuition Trust Fund is an investor.

Unless otherwise exempt from registration, investment managers need to be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis.

The Commission has established strict guidelines to ensure that hiring decisions are made in a full-disclosure environment characterized by competitive selection, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of participants and beneficiaries of the Fund.

The Illinois Prepaid Tuition Program investment policy dictates certain guidelines and restrictions that apply to each approved asset class. Such restrictions may include certain prohibited transactions, as well as restrictions on portfolio composition. In accordance with the investment policy approved on June 25, 2012, the Fund will not make any new direct private investments or new co-investments that are tied to a single company or investment.

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(Continued)

STATE OF ILLINOIS  
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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

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. The Illinois Prepaid Tuition Program has no policy that would further limit the requirements under State law. As of June 30, 2019, the Illinois Prepaid Tuition Program's deposits held outside the State Treasury were not exposed to custodial credit risk.

Funds in the custody of the State Treasurer, or in transit, totaled \$108,838 at June 30, 2019. 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). Details on the nature of these deposits and investments, and the risks, are available within the State's Comprehensive Annual Financial Report.

At June 30, 2019, the Commission had no amounts that were uninsured and uncollateralized.

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, 2019, 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.

**Illinois Designated Account Purchase Program (IDAPP)**

IDAPP categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At June 30, 2019, IDAPP had money market funds of \$15,456 and U.S. Treasury securities of \$19,135; valued based on matrix pricing provided by the custodian (Level 2 inputs). Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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, 2019 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Government securities (U.S. Treasury bills/notes)	\$ <u>19,135</u>	0.18

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.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

As of June 30, 2019, 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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating Moody's</u>
Money market funds	<u>\$ 15,456</u>	Aaa-mf

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, 2019.

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, 2019, 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, IDAPP's investment policy does not address foreign currency risk.

**Illinois Prepaid Tuition Program**

ISAC is required annually to adopt a comprehensive investment policy to invest the funds received through contract payments. The Commission approved the Illinois Prepaid Tuition Program's most recent revision to the investment policy in June 2019.

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 meet or exceed the return of the Policy Benchmark consistent with the actuarial soundness of the Fund and the risk level expected from the asset allocation. 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.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

The asset allocation targets are reviewed annually for reasonableness in relation to significant economic and market changes or to changes in the investment objectives. A formal asset allocation study is conducted as directed, but at least every three years, to verify or provide a basis for revising the targets. 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.

<u>Asset Allocation</u>	<u>Targets</u>		<u>Rebalancing Range</u>	
	<u>Long-term</u>	<u>Interim</u>	<u>Lower Limit</u>	<u>Upper Limit</u>
U.S. equity	17.00%	18.00%	15.00%	21.00%
Non-U.S. equity	17.00%	18.00%	15.00%	21.00%
Fixed income	39.00%	35.00%	32.00%	39.00%
High yield	6.00%	5.00%	4.00%	6.00%
REIT	6.00%	5.00%	3.00%	7.00%
Absolute return	6.00%	6.00%	3.00%	9.00%
Real estate	4.00%	5.00%	N/A	N/A
Infrastructure	2.00%	5.00%	N/A	N/A
Private equity	1.00%	1.00%	N/A	N/A
Cash	2.00%	2.00%	0.00%	4.00%

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

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.

<u>Asset Class</u>	<u>Index</u>	<u>Weight</u>
U.S. Equity	Russell 3000	18.00%
Non-U.S. Equity	MSCI ACWI xUS IMI	18.00%
Fixed Income	BC U.S. Aggregate	35.00%
High Yield	BofA MLHY Master #	5.00%
REIT	MSCI US REIT	5.00%
Absolute Return	90-day T Bills +4%	6.00%
Real Estate	NCREIF ODCE	5.00%
Infrastructure	90-day T Bills +4%	5.00%
Private Equity	Russell 3000	1.00%
Cash	90-day T-Bills	2.00%

ISAC has established investment guidelines for the investment managers and conducts thorough due diligence before the appointment of all investment managers. ISAC has retained Alinda Capital Partners, Ativo Capital Management, CM Growth Capital Partners LP, DDJ Capital Management, Dimensional Fund Advisors, Garcia Hamilton and Associates, Lyrical-Antheus Realty Partners, Mesirov Financial, Morgan Stanley AIP, Neuberger Berman, Pinnacle Asset Management, Portfolio Advisors, RhumbLine Advisers, Security Capital Research and Management, State Street Global Advisors, T. Rowe Price Associates and The Rohatyn Group 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, 2019, 17.9% of the funds were invested in Domestic Equities, 32.4% in Domestic Fixed Income, 17.5% in International Equities, 5.9% in Infrastructure Funds, 7.9% in Absolute Return Funds, 1.3% in Private Equity Funds, 5.8% in Real Estate, 5.4% in Real Estate Investment Trust, 5.2% in High Yield, and 0.7% in cash and equivalents.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

Investments owned are reported at fair value or amortized cost 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 – amortized cost which approximates fair values;
4. Real Estate Investments – fair values as determined by its investment managers and reviewed by Program investment staff and the investment consultant;
5. Private Equity, Absolute Return, and Infrastructure Funds – fair values as determined by its investment managers and reviewed by Program investment staff and the investment consultant. Valuations generally are based on the investee's last audited financial statements (generally December 31) and differences attributed to cash flows and subsequent events through June 30.

The Program's investment in REITs represents convertible debt, senior unsecured debt securities, and preferred and common equity securities. Investment strategies of private equity funds include secondary funds.

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 water utility, toll roads, inland barge terminals and a gas pipeline system.

The Program's investments in absolute return funds (funds of hedge funds) employ a broad range of diversifying investment strategies including arbitrage, global commodities, and global macro.

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 \$0.3 million to private equity partnerships and \$8 million to infrastructure funds as of June 30, 2019.

Recoverable taxes are taxes paid by legacy international equity investment managers to foreign governments. ISAC's custodian then reclaims tax withheld on dividends and interest in markets where tax reclaim benefits are available. These legacy investment managers no longer have assets under management. Their accounts at the custodian consist solely of recoverable taxes.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

The Illinois Prepaid Tuition Program's cash recoverable taxes and investments at June 30, 2019 are presented below by investment type and by investment manager:

<u>Asset Class</u>	<u>Investment Managers</u>		<u>Fair Value</u>	<u>Asset Allocation</u>
	<u>Asset Allocation at June 30, 2019</u>			
	<u>Investment Manager</u>			
Large-cap core equity	Rhumblin Advisers		\$ 17,402	2.48 %
All-cap core equity	Rhumblin Advisers		108,082	15.39
Total domestic equity			125,484	17.87
International equity	Ativo		65,498	9.32
International equity	Dimensional Fund Advisors		57,496	8.19
International equity recoverable taxes	Northern Trust		36	0.01
Total international equity			123,030	17.52
Fixed Income-Passive Core	State Street Global Advisors		79,483	11.32
Fixed Income-Core Plus	T. Rowe Price		80,051	11.40
Fixed income - U.S. intermediate	Garcia Hamilton		67,893	9.67
Total fixed income			227,427	32.39
High yield	DDJ Strategic Income Plus		36,351	5.18
Total high yield			36,351	5.18
REIT Preferred Growth	Security Capital Research		38,106	5.42
Total REIT			38,106	5.42
Real estate - private equity	Mesirow		2,544	0.36
Real estate - private equity	Lyrical-Antheus		38,101	5.43
Total real estate			40,645	5.79
Infrastructure - diversified value add	Alinda Infrastructure		22,723	3.24
Infrastructure - Asia opportunities	The Rohatyn Group		18,836	2.68
Total infrastructure			41,559	5.92
Absolute return fund - conservative	Neuberger Berman		26,578	3.78
Absolute return fund - commodities	Pinnacle Natural Resources		28,670	4.08
Total absolute return funds			55,248	7.86
Private equity secondary FoFs	CM Growth Capital Partners LP		5,324	0.76
Private equity secondary FoFs	Morgan Stanley		214	0.03
Private equity secondary FoFs	Portfolio Advisors		3,782	0.54
Total private equity			9,320	1.33
Total investments			697,170	99.28
Cash and equivalents	Northern Trust		4,179	0.60
Cash and equivalents	Illinois Treasury and lock box		868	0.12
Total cash equivalents			5,047	0.72
Total portfolio			\$ 702,217	100.00 %

(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (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 \$400 for the year ended June 30, 2019 and is accounted for in the Statement of Revenues, Expenses, and Changes in Net Position.

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 Position. Investment advisory expense as reflected in the Statement of Revenues, Expenses, and Changes in Net Position for Fiscal Year 2019 amounts to \$1,811.

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 Position. 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 income from investment securities on the Statement of Revenues, Expenses and Changes in Net Position.

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

- Lyrical-Antheus Realty Partners
- Mesirow Financial
- Alinda Capital Partners
- The Rohatyn Group
- CM Growth Capital Partners
- Portfolio Advisors
- Morgan Stanley AIP

Approximately \$1,030 in investment advisory fees and \$6,459 in performance allocation fees are included in the amount reported for income from investment securities for the Fiscal Year ending June 30, 2019 and is accounted for as a part of the income from investment securities in the Statement of Revenues, Expenses, and Changes in Net Position. Additionally, these amounts are reflected in the carrying value on the Statement of Net Position.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

**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 monitor duration against an appropriate benchmark index.

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:

	<u>Average Duration</u>	<u>Bloomberg Aggregate Bond Index</u>	<u>Bloomberg Int. Government/ Credit Index</u>
Garcia Hamilton	2.9 Years	N/A	3.9 Years
SSGA U.S. Aggregate Bond Index (common collective trust)	5.7 Years	5.7 Years	N/A
T. Rowe Price	5.8 Years	5.7 Years	N/A

Portfolio Weighted Average Maturity

<u>Portfolio Weighted Average</u>			<u>Weighted Average Maturity (in Years)</u>
<u>Investment Type</u>	<u>Fair Value</u>		
U.S. Treasury notes	\$ 24,434		7.54
U.S. Treasury bonds	5,873		27.19
U.S. agency obligations	9,107		0.95
Bond common collective trust	79,484		7.81
Municipal/provincial bonds	1,642		12.47
Non U.S. government bonds denominated in U.S. dollars	1,869		10.86
Non U.S. government bonds denominated in foreign currency	2,903		14.23
Multi-sector funds	42,492		7.45
Government agency short-term bills and notes	500		-
Corporate debt securities	40,526		3.56
Corporate asset-backed securities	4,984		13.82
Mortgage back securities (MBS):			
Government agencies	4,787		15.48
Non-government backed	5,122		33.07
Commercial	3,245		23.33
	<u>226,968</u>		
Total fair value	\$ <u>226,968</u>		
Portfolio weighted average maturity			<u>8.39</u>

(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (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, 2019, 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, 2019

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	Total <u>Fair Value</u>	<u>Moody's**</u>
Money marketing mutual funds	\$ 4,462	NR
Illinois fund	173	NR
Bond common collective trust	79,484	NR
Multi-sector funds	42,492	NR
Government agency short-term bills and notes	500	NR
U.S. agency obligations	9,107	Aaa

\*NR - Not rated

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

Credit Ratings (Multiple-Rated Securities)  
June 30, 2019

<u>Rating Agency</u>		<u>Credit Rating*</u>	<u>Total Fair Value</u>
Moody's	Commercial mortgage-backed	Aaa	\$ 862
	Commercial mortgage-backed	Aa	286
	Commercial mortgage-backed	A	280
	Commercial mortgage-backed	Ba	156
	Commercial mortgage-backed	Baa	296
	Commercial mortgage-backed	NR	1,365
			<u>3,245</u>
Moody's	Corporate asset backed securities	Aaa	1,997
	Corporate asset backed securities	Aa	689
	Corporate asset backed securities	A	202
	Corporate asset backed securities	Baa	262
	Corporate asset backed securities	NR	1,834
			<u>4,984</u>
Moody's	Corporate bonds	Aa	2,359
	Corporate bonds	A	33,528
	Corporate bonds	Baa	2,387
	Corporate bonds	NR	2,252
			<u>40,526</u>
Moody's	Municipal/provincial bonds	Aaa	220
	Municipal/provincial bonds	Aa	1,113
	Municipal/provincial bonds	A	122
	Municipal/provincial bonds	NR	68
	Municipal/provincial bonds	WR	119
			<u>1,642</u>

(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

Credit Ratings (Multiple-Rated Securities)  
June 30, 2019

<u>Rating Agency</u>		<u>Credit Rating</u>	<u>Total Fair Value</u>
Moody's	Non-government backed CMOs	Aaa	\$ 176
	Non-government backed CMOs	Aa	934
	Non-government backed CMOs	A	256
	Non-government backed CMOs	NR	<u>3,756</u>
			<u>5,122</u>
Moody's	Non-U.S. government bonds in U.S. dollars	Aa	225
	Non-U.S. government bonds in U.S. dollars	A	370
	Non-U.S. government bonds in U.S. dollars	Baa	1,070
	Non-U.S. government bonds in U.S. dollars	NR	<u>204</u>
			<u>1,869</u>
Moody's	Non-U.S. government bonds in foreign currency	A	849
	Non-U.S. government bonds in foreign currency	Baa	410
	Non-U.S. government bonds in foreign currency	NR	<u>1,644</u>
			<u>2,903</u>
Moody's	Mortgage-backed securities, government agencies	Aaa	291
	Mortgage-backed securities, government agencies	A	359
	Mortgage-backed securities, government agencies	Baa	163
	Mortgage-backed securities, government agencies	Ba	93
	Mortgage-backed securities, government agencies	NR	<u>3,881</u>
			<u>4,787</u>

\* NR - Not rated; WR - withdrawn

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.

The Illinois Prepaid Tuition Program is not exposed to custodial credit risk at June 30, 2019.

(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an 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 U.S. 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.

As of June 30, 2019, there were no investments subject to concentration of credit risk.

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

The Illinois Prepaid Tuition Program's investments in international equity are in compliance with the guidelines of the investment policy. As of June 30, 2019, 17.5% is invested in international equities all denominated in U.S. dollars.

Certain alternative investments also hold investments located outside of the United States. These investments denominated in U.S. dollars have underlying investments in other currencies including the Indian rupee. 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.

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

Investments Denominated in Foreign Currency  
June 30, 2019  
Fair Value in U.S. Dollars

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<u>Foreign Currency Denomination</u>	<u>Cash and cash Equivalents</u>	<u>Fixed Income</u>	<u>Pending Trades Fixed Income Investments</u>	<u>Totals</u>
Euro	\$ 1	\$ 806	\$ (743)	\$ 64
New Israeli shekel	-	838	(797)	41
Peruvian nuevo sol	-	849	-	849
South African rand	-	410	(395)	15
Total	\$ 1	\$ 2,903	\$ (1,935)	\$ 969

Valuation: The Program categorizes its fair value measures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs (see page 40-41); and leveling is not required for investments held at amortized cost. The Program has the following as of June 30, 2019:

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(Continued)

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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

Investments Measured at Fair Value

<u>Investments by fair value level</u>	June 30, <u>2019</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Leveling Not Required
Debt securities				
U.S. Treasury notes	\$ 24,434	\$ -	\$ 24,434	\$ -
U.S. Treasury bonds	5,873	-	5,873	-
U.S. agency obligations	9,107	-	9,107	-
Municipal/provincial debt	1,642	-	1,642	-
Corporate debt securities	40,526	-	40,526	-
Corporate asset-backed securities	4,984	-	4,984	-
Foreign government bonds denominated in U.S. dollars	1,869	-	1,869	-
Foreign debt securities (non U.S. government bonds denominated in foreign currency)	2,903	-	2,903	-
Government agency short-term bills and notes	500	-	500	-
Commercial mortgage backed	3,245	-	3,245	-
Government mortgage backed	4,787	-	4,787	-
Multi-sector funds	42,492	-	42,492	-
Common collective trust	79,484	-	79,484	-
Non government backed CMO	5,122	-	5,122	-
Corporate equity securities	125,484	125,484	-	-
Foreign equity securities	57,496	57,496	-	-
Money market mutual funds	4,462	-	-	4,462
Cash and pending trades	2,110	-	-	2,110
Cash and pending trades in foreign currency	(1,934)	-	-	(1,934)
Equity in public treasurer's investment pool (Illinois Funds)	173	-	-	173
	<u>\$ 414,759</u>	<u>\$ 182,980</u>	<u>\$ 226,968</u>	<u>\$ 4,811</u>

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

	June 30, <u>2019</u>
Investments measured at the net asset value (NAV)	
Real estate investment trust	\$ 38,106
Real estate	40,645
Private equity	9,320
Infrastructure	41,559
Foreign equity	65,498
Absolute return	55,248
High yield fund	<u>36,351</u>
Total investment measured at the NAV	<u>\$ 286,727</u>
Total investments measured at fair value or amortized cost	<u>\$ 701,486</u>

The valuation method of investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	<u>Fair</u> <u>Value</u>	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption</u> <u>Frequency</u> <u>If Currently</u> <u>Eligible</u>	<u>Redemption</u> <u>Notice</u> <u>Period</u>
Real estate investment trust	\$ 38,106	\$ -	Quarterly	30 days notice
Real estate	40,645	-	n/a	n/a
Private equity	9,320	314	n/a	n/a
Infrastructure	41,559	8,082	n/a	n/a
Foreign equity	65,498	-	Monthly	15 days notice
Absolute return	55,248	-	Annual	65 and 180 days notice
High yield fund	<u>36,351</u>	<u>-</u>	Quarterly	60 days notice
Total investments measured at NAV	<u>\$ 286,727</u>	<u>\$ 8,396</u>		

*Real estate investment trust:* This investment manager opportunistically sources, structures and executes investments in real estate operating companies. The fair values of the investment in this type have been determined using the NAV per share of the investment. This investment can be redeemed quarterly with 30 days' notice. A liquidating account may be used during period of market stress to provide orderly liquidation.

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

*Real estate:* This type includes two real estate funds that invest primarily in U.S. commercial and residential real estate. The fair values of the investments in this type have been determined using the NAV per share of the Program's ownership investment in partners' capital with the exception of Lyrical Antheus Realty Partners III, LP where the partners' capital which is recognized at cost basis on their financial statements has been adjusted to reflect the investment on a fair value basis. Private market investments are illiquid in nature. Distributions from each fund will be received as the underlying investments of the funds are liquidated by the general partner. It is expected that the underlying assets of the funds will be liquidated over the next six years with 0% and 100% (varies by investment manager) within state Fiscal Year 2020.

*Private equity:* This type includes three private equity funds. One holds portfolio securities. A second fund acquires, holds and disposes of investments in secondary opportunities. The third fund invests in a diversified portfolio of private equity limited partnerships purchased in the secondary market. The fair values of the investments in this type have been determined using the NAV per share of the Program's ownership investment in partners' capital. Private market investments are illiquid in nature. Distributions from each fund will be received as the underlying investments of the funds are liquidated by the general partner. It is expected that the underlying assets of the funds will be liquidated over the next four years with 0%, 20% to 100% (varies by investment manager) within state Fiscal Year 2020.

*Infrastructure:* This type includes two infrastructure funds which invest in infrastructure and related assets in the United States, Asia and Europe. The fair values of the investments in this type have been determined using the NAV per share of the Program's ownership investment in partners' capital. Private market investments are illiquid in nature. Distributions from each fund will be received as the underlying investments of the funds are liquidated by the general partner. It is expected that the underlying assets of the funds will be liquidated over the next five years with 0% to 20% (varies by investment manager) within state Fiscal Year 2020.

*Absolute return:* This type includes two absolute return funds of funds. One targets consistent, positive absolute returns with minimal beta to major equity and fixed income markets. The other is a multi-manager fund in the global commodity and commodity related markets. The fair values of the investments in this type have been determined using the NAV per share of the Program's ownership investment in partners' capital. Both have annual liquidity with quarterly liquidity available for a fee. Both have fund level gate thresholds of 20% to 25% of fund assets. Both will withhold a percentage pending the completion of the annual audit. A full redemption was initiated for one fund in July 2019 for distribution January 31, 2020.

*High yield:* This type seeks income and gains through trading and investing in securities. The fair value of the investment in this type has been determined using the NAV per share of the Program's ownership investment in partners' capital. Ninety percent of liquid securities are available within 30 days of quarter end with 60 days' notice prior to quarter end. Up to 25% of the fund may be invested in illiquid securities. Ten percent of any withdrawal may be held until 30 days following the annual audit. As of June 30, 2019, \$163 was held in a liquidating account related to prior redemptions.

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (Continued)

*Foreign equity:* This type includes two international equity funds. DFA World ex US Core Equity Portfolio is a mutual fund. They strike a daily price each evening following a trading day. The other fund Ativo International Equity Fund invests in undervalued companies that display above average growth characteristics, domiciled in, or primarily exposed to developed and emerging countries outside of the United States.

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 AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During Fiscal Year 2019, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury 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 fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

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

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 AG 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 (invested in repurchase agreements) and the corresponding securities lending collateral obligation as of June 30, 2019 were \$11,138 and \$16,406, respectively.

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**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 \$543 of student loans receivable that IDAPP has classified as defaulted loans under the FFEL Program. Claims on these loans have been submitted to, but have not been reimbursed by, the guarantee agencies as of June 30, 2019.

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 accrued for the amount of the loans estimated to be uncollectible. The total amount of Alternative Loans outstanding was \$144,244 at June 30, 2019. Of this amount, \$70,419 was recorded as a provision for loan losses.

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 \$72,639 as of June 30, 2019. This amount includes the alternative loans addressed above.

Included in the student loans receivable balance are premiums paid on the origination and purchase of certain student loans. These premiums are being amortized over the average life of the related 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, 2019 as reported by ISAC was \$42,939. Restricted net position, which includes \$12,535 of claims in process, was \$47,117. 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 \$197,996 at June 30, 2019 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.

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(Continued)

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**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 receivable at June 30, 2019 was \$175.

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-

Federal interest benefits	\$	569
Special allowance payments (interest subsidy)		1,675
Excess interest		<u>(1,714)</u>
 Net expense incurred to DOE	 \$	 <u>530</u>

**NOTE 6 - INTERFUND BALANCES AND ACTIVITY**

Balances Due To/From Other Funds: The balances at June 30, 2019 represent amounts due from other ISAC and State funds and component units as follows:

<u>Fund</u>	Due from Primary Government Funds		Due From	<u>Description/Purpose</u>
	<u>ISAC</u>	Other <u>State</u>	Component <u>Units</u>	
Education Assistance	\$ -	\$ -	\$ 6	Due from State universities for scholarship and grants.
	<u>-</u>	<u>-</u>	<u>6</u>	
Nonmajor Enterprise - Student Loan Operating	2,005	-	-	- Due from IDAPP Fund for shared services
	179	-	-	- Due from Illinois Prepaid Tuition Fund for shared services
	-	4	-	- Due from Department of Veterans' Administration for rent and expenses.
	-	74	-	- Due from Central Management Services (on behalf of DCFS) for rent and expenses
	<u>-</u>	<u>2</u>	<u>-</u>	- Due from Healthcare and Family Services for rent and expenses
	<u>2,184</u>	<u>80</u>	<u>-</u>	
	<u>\$ 2,184</u>	<u>\$ 80</u>	<u>\$ 6</u>	

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(Continued)

STATE OF ILLINOIS  
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**NOTE 6 - INTERFUND BALANCES AND ACTIVITY (Continued)**

The balances at June 30, 2019 represent amounts due to other ISAC and State funds and component units as follows:

<u>Fund</u>	Due to Primary Government Funds		Due To	<u>Description/Purpose</u>
	<u>ISAC</u>	<u>Other State</u>	<u>Component Units</u>	
General	\$ -	\$ -	\$ 13,912	Due to State universities for scholarship and grants.
	-	-	13,912	
Education Assistance	-	-	19	Due to State universities for scholarship and grants.
	-	-	19	
Illinois Designated Account				
Purchase program	2,005	-	-	Due to Student Loan Operating Fund for shared services
	2,005	-	-	
Nonmajor Enterprise -				
Student Loan Operating	-	353	-	Due to Central Management Services for EDP, communications and garage fund
	-	-	10	Due to State university for professional development services
	-	353	10	
Illinois Prepaid Tuition Program	179	-	-	Due to Student Loan Operating Fund for shared services
	-	-	10	Due to State universities for payment of tuition contracts
	179	-	10	
	<u>\$ 2,184</u>	<u>\$ 353</u>	<u>\$ 13,951</u>	

The balances at June 30, 2019 represent amounts transferred to State funds as follows:

**Transfer IN**

<u>Fund</u>	Transfers in From Other State Funds	<u>Description/Purpose</u>
Nonmajor Enterprise-		
Federal Student Loan Fund	\$ 15,000	Transfer from the General Fund for repayment of interfund borrowings.
	<u>\$ 15,000</u>	

**Transfer OUT**

<u>Fund</u>	Transfers Out From Other State Funds	<u>Description/Purpose</u>
Nonmajor Enterprise-		
Federal Student Loan Fund	\$ 15,000	Transfer to the General Fund for interfund borrowings.
	<u>\$ 15,000</u>	

(Continued)

STATE OF ILLINOIS  
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**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2019</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 2,700	\$ -	\$ -	\$ 2,700
Capital assets being depreciated:				
Buildings	19,229	-	-	19,229
Equipment	<u>51</u>	<u>-</u>	<u>(27)</u>	<u>24</u>
Total capital assets being depreciated	19,280	-	(27)	19,253
Less accumulated depreciation:				
Buildings	(12,315)	(502)	-	(12,817)
Equipment	<u>(51)</u>	<u>-</u>	<u>27</u>	<u>(24)</u>
Total accumulated depreciation	<u>(12,366)</u>	<u>(502)</u>	<u>27</u>	<u>(12,841)</u>
Total capital assets being depreciated, net	<u>6,914</u>	<u>(502)</u>	<u>-</u>	<u>6,412</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 9,614</u>	<u>\$ (502)</u>	<u>\$ -</u>	<u>\$ 9,112</u>

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(Continued)

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**NOTE 7 - CAPITAL ASSETS (Continued)**

	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2019</u>
<b>Business-type activities</b>				
<i>Illinois Designated Account Purchase Program Fund:</i>				
Capital assets being depreciated				
Equipment	\$ 224	\$ -	\$ (19)	\$ 205
Less accumulated depreciation				
Equipment	(224)	-	19	(205)
Total capital assets being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <i>Nonmajor Enterprise Funds:</i>				
Capital assets not being depreciated				
Construction in progress	-	-	-	-
Capital assets being depreciated				
Equipment and automobiles	855	106	(13)	948
Internally generated software	3,357	-	-	3,357
Less accumulated depreciation				
Equipment and automobiles	(439)	(96)	13	(522)
Internally generated software	(1,930)	(336)	-	(2,266)
Total capital assets being depreciated, net	<u>1,843</u>	<u>(326)</u>	<u>-</u>	<u>1,517</u>
 <b>Business-type activities capital assets, net</b>	 <u>\$ 1,843</u>	 <u>\$ (326)</u>	 <u>\$ -</u>	 <u>\$ 1,517</u>

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2019 amounted to \$502. Of that amount, 100% was charged to the Scholarships, awards and grants function.

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**NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE**

**Revenue Bonds and Notes Payable and Pledged Revenues:** 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 used to purchase and cancel certain outstanding bonds (2002 Resolution Trust Bonds). The FFELP loans released from the 2002 Resolution Trust were deposited into the Loan Fund.

The indenture has a provision that any excess cash in the trust is used to pay down the principal amount of the Notes. The Class A-1 and the Class A-2 tranches have been paid off. The total principal and interest remaining to be paid on the bonds is approximately \$277,452. IDAPP has until the stated maturity dates to retire the principal amounts owed on these bonds. As such, liabilities related to these bonds are reported as noncurrent. IDAPP however will pay principal amounts in advance of that date (without penalty) as collections on the resulting student loans are received into the trust. As of June 30, 2019, variable interest rates were 3.48025% for the LIBOR FRN Class A-3.

Annual principal and interest payments on the bonds are expected to require approximately 98 percent of the related student loan collections. Principal and interest paid for the current year were \$23,979 and \$5,317, respectively. Total related student loan principal and interest received were \$26,409 and \$4,728, respectively.

As a result of the issuance of the LIBOR Floating Rate Notes and the purchase and cancellation of the remaining outstanding 2002 bonds during Fiscal Year 2011, a deferred amount on refunding of \$70,320 was recorded. This amount is being amortized over the weighted average life of the LIBOR Floating Rate Notes of 16 years. The portion attributable to Fiscal Year 2019 is \$4,043. Amortization is included as a reduction of interest expense on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

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**NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE (Continued)**

Changes in Long-Term Obligations: Changes in long-term obligations for the year ended June 30, 2019, were as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Amounts Due Within One Year
<b>Governmental activities</b>					
Other long-term obligations					
Compensated absences	\$ 158	\$ 1,557	\$ (290)	\$ 1,425	\$ 143
	<u>\$ 158</u>	<u>\$ 1,557</u>	<u>\$ (290)</u>	<u>\$ 1,425</u>	<u>\$ 143</u>
<b>Business-type activities</b>					
<i>Illinois Designated Account Purchase Program Fund:</i>					
Revenue bonds/notes payable:					
Series 2010, Class A-3	\$ 167,025	\$ -	\$ (23,979)	\$ 143,046	\$ -
Unamortized discounts	(5,634)	-	208	(5,426)	-
Other long-term obligations					
Compensated absences	<u>60</u>	<u>35</u>	<u>(26)</u>	<u>69</u>	<u>19</u>
Total Illinois Designated Account Purchase Program	161,451	35	(23,797)	137,689	19
<i>Illinois Prepaid Tuition Program</i>					
Tuition obligation	<u>1,125,285</u>	<u>43,030</u>	<u>(149,318)</u>	<u>1,018,997</u>	<u>145,130</u>
Total Illinois Prepaid Tuition Program	1,125,285	43,030	(149,318)	1,018,997	145,130
<i>Nonmajor Enterprise Fund:</i>					
Compensated absences	<u>1,724</u>	<u>310</u>	<u>(1,619)</u>	<u>415</u>	<u>41</u>
Total Nonmajor Enterprise Fund	<u>1,724</u>	<u>310</u>	<u>(1,619)</u>	<u>415</u>	<u>41</u>
<b>Total Business-type activities Long-term obligations, net</b>	<u>\$ 1,288,460</u>	<u>\$ 43,375</u>	<u>\$ (174,734)</u>	<u>\$ 1,157,101</u>	<u>\$ 145,190</u>

(Continued)

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**NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE** (Continued)

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 below are calculated assuming the interest rate in effect on June 30, 2019. 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 <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	\$ 4,978	\$ 4,978
2021	-	4,978	4,978
2022	-	4,978	4,978
2023	-	4,978	4,978
2024	-	4,978	4,978
2025-2029	-	24,890	24,890
2030-2034	-	24,890	24,890
2035-2039	-	24,890	24,890
2040-2044	-	24,890	24,890
2045-2046	<u>143,046</u>	<u>9,956</u>	<u>153,002</u>
	143,046	<u>\$ 134,406</u>	<u>\$ 277,452</u>
Plus (minus)			
Unamortized discounts	<u>(5,426)</u>		
Net long-term principal outstanding	<u>\$ 137,620</u>		

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(Continued)

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**NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE (Continued)**

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, 2019. See actuarial assumptions and additional information in Note 13.

Tuition obligation activity for the year ended June 30, 2019, is as follows:

Balance, July 1, 2018	\$	1,125,285
Add:		
Contributions received in FY 2019		10,714
Change in contracts receivable, at present value*		(9,353)
Adjust tuition obligation based on actuarial valuation		41,669
Less:		
Return of contributions		(25,668)
Tuition payments		<u>(123,650)</u>
 Balance as of June 30, 2019 **	 \$	 <u><u>1,018,997</u></u>
 Reported as:		
Current	\$	145,130
Noncurrent		<u>873,867</u>
	 \$	 <u><u>1,018,997</u></u>

\* Discount rate used in determining fair value was 6.00%.

\*\* The accreted tuition expense is calculated at least annually by the Commission's actuary and is an estimate based on the average increase in tuition for Illinois colleges. Accreted tuition expense is reflected as an expense in the Statement of Revenues, Expenses, and Changes in Net Position and as an increase (or decrease) to the tuition obligation on the Statement of Net Position.

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**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 (the "Collateral"), which were largely financed with proceeds of the advances. 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, 2019 was 2.44000%.

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. Citibank has reserved its rights to remedies in the Indenture. Conversations with Citibank are on-going but no resolution has been reached.

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 2019 there was \$18,817 in principal and \$5,110 in interest collected all of which was transferred to the trust. During the same period the trust paid \$3,139 for interest expense and other professional fees and \$1,026 for servicing fees.

Changes in the revolving credit line are as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019	Amounts Due Within One Year
Citibank	\$ 113,657	\$ -	\$ (20,300)	\$ 93,357	\$ 93,357

**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, 2019.

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/expenses 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.

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**NOTE 11 - DEFINED BENEFIT PENSION PLAN**

**Plan Description:** 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 single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State’s retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate CAFR available at [www.srs.illinois.gov](http://www.srs.illinois.gov) or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255.

**Benefit Provisions:** SERS provides retirement benefits based on the member’s final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. The minimum monthly retirement annuity payable is \$15 (whole dollars) for each year of covered service and \$25(whole dollars) for each year of noncovered service.

Members in SERS under the Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

Regular Formula Tier 1	Regular Formula Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> <li>• Age 60, with 8 years of service credit.</li> <li>• Any age, when the member’s age (years &amp; whole months) plus years of service credit (years &amp; whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service.</li> <li>• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).</li> </ul> <p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> <li>• Age 67, with 10 years of credited service.</li> <li>• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).</li> </ul> <p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$107. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.</p>

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**NOTE 11 - DEFINED BENEFIT PENSION PLAN** (Continued)

Regular Formula Tier 1	Regular Formula Tier 2
<p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p> <p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2018 rate is \$114.</p> <p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Contributions: Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed \$107 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2019, this amount was \$115.

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**NOTE 11 - DEFINED BENEFIT PENSION PLAN** (Continued)

The State is required to make payment for the required Commission's employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2019, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2019, the employer contribution rate was 51.614%. The Commission's contribution amount for fiscal year 2019 was \$2,205. In addition, the Commission recorded \$4,302 of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments to SERS for Commission employees.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions: At June 30, 2019, the Commission reported a liability of \$102,841 for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2018 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's portion of the net pension liability was based on the Commission's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2018. As of the current year measurement date of June 30, 2018, the Commission's proportion was 0.311%, which was an increase of 0.023% from its proportion measured as of the prior year measurement date of June 30, 2017.

For the year ended June 30, 2019, the Commission recognized pension expense of \$8,011. At June 30, 2019, the Commission reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2018, from the following sources (amounts expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 2,464
Changes in assumptions	5,667	2,360
Net difference between projected and actual investment earnings on pension plan investments	46	-
Changes in proportion	32,665	33,421
Commission contributions subsequent to the measurement date	<u>6,507</u>	<u>-</u>
Total	<u>\$ 44,885</u>	<u>\$ 38,245</u>

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**NOTE 11 - DEFINED BENEFIT PENSION PLAN** (Continued)

\$6,507 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year Ended June 30,	Amount
2020	\$ 327
2021	302
2022	(771)
2023	275
Total	\$ 133

Actuarial Methods and Assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality:	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.
Inflation:	2.50%
Investment Rate of Return:	7.00%, net of pension plan investment expense, including inflation.
Salary increases:	Salary increase rates based on age related productivity and merit rates plus inflation.
Retirement Age:	Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.
Retirement Age:	Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2016, valuation pursuant to an experience study of the period July 1, 2012 to June 30, 2015.

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**NOTE 11 - DEFINED BENEFIT PENSION PLAN** (Continued)

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2018, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23.0%	5.50%
Developed Foreign Equity	13.0%	5.30%
Emerging Market Equity	8.0%	7.80%
Private Equity	7.0%	7.60%
Intermediate Investment Grade Bonds	14.0%	1.50%
Long-term Government Bonds	4.0%	1.80%
TIPS	4.0%	1.50%
High Yield and Bank Loans	5.0%	3.80%
Opportunistic Debt	8.0%	5.00%
Emerging Market Debt	2.0%	3.70%
Core Real Estate	5.5%	3.70%
Non-core Real Estate	4.5%	5.90%
Infrastructure	2.0%	5.80%
Total	<u>100.0%</u>	

Discount Rate: A discount rate of 6.81% was used to measure the total pension liability as of the measurement date of June 30, 2018 as compared to a discount rate of 6.78% used to measure the total pension liability as of the prior year measurement date. The June 30, 2018 single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.62%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

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**NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)**

	1% Decrease 5.81%	Discount Rate 6.81%	1% Increase 7.81%
Commission's proportionate share of the net pension liability	\$ 124,500	\$ 102,841	\$ 85,096

Payables to the pension plan: At June 30, 2019, the Commission reported a payable of \$2 to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

**NOTE 12 - POST-EMPLOYMENT BENEFITS**

Plan description. The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the Illinois State Employees Group Insurance Program ("SEGIP") to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Commission's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System ("GARS"), Judges Retirement System ("JRS"), State Employees' Retirement System of Illinois ("SERS"), Teachers' Retirement System ("TRS"), and State Universities Retirement System of Illinois ("SURS") are eligible for these other post-employment benefits ("OPEB"). The eligibility provisions for each of the retirement systems are defined within Note 11. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits provided. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes \$5.

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**NOTE 12 - POST-EMPLOYMENT BENEFITS** (Continued)

Funding policy and annual other postemployment benefit cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health 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 Employee's Retirement System do not contribute toward health 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 and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2019, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$11 (\$7 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$14 (\$5 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees. The amount of the benefit payments made during fiscal year 2019 was \$1,782.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB. The total OPEB liability, as reported at June 30, 2019, was measured as of June 30, 2018, with an actuarial valuation as of June 30, 2017. At June 30, 2019, the Commission recorded a liability of \$73,769 for its proportionate share of the State's total OPEB liability. The Commission's portion of the OPEB liability was based on the Commission's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2018. As of the current year measurement date of June 30, 2018, the Commission's proportion was 0.184%, which was an increase of 0.024% from its proportion measured as of the prior year measurement date of June 30, 2017.

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**NOTE 12 - POST-EMPLOYMENT BENEFITS** (Continued)

The Commission recognized OPEB expense for the year ended June 30, 2019, of \$2,697. At June 30, 2019, the Commission reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2018, from the following sources (amounts expressed in thousands):

**Deferred outflows of resources**

Differences between expected and actual experience	\$	19
Changes in proportion and differences between employer contributions and proportionate share of contributions		25,732
Commission benefits paid subsequent to the measurement date		<u>1,782</u>
<b>Total deferred outflows of resources</b>	<b>\$</b>	<b><u>27,533</u></b>

**Deferred inflows of resources**

Differences between expected and actual experience	\$	1,624
Changes of assumptions		6,927
Changes in proportion and differences between employer contributions and proportionate share of contributions		<u>25,042</u>
<b>Total deferred inflows of resources</b>	<b>\$</b>	<b><u>33,593</u></b>

The amounts reported as deferred outflows of resources related to OPEB resulting from Commission benefits paid subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

<u>Year Ended June 30,</u>	<u>Amount</u>
2020	\$ (2,488)
2021	(2,488)
2022	(2,488)
2023	(529)
2024	<u>151</u>
Total	<b><u>\$ (7,842)</u></b>

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**NOTE 12 - POST-EMPLOYMENT BENEFITS (Continued)**

Actuarial methods and assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2017, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2017.

<b>Valuation Date</b>	June 30, 2017
<b>Measurement Date</b>	June 30, 2018
<b>Actuarial Cost Method</b>	Entry Age Normal
<b>Inflation Rate</b>	2.75%
<b>Projected Salary Increases*</b>	3.00% - 15.00%
<b>Discount Rate</b>	3.62%
<b>Healthcare Cost Trend Rate:</b>	
Medical (Pre-Medicare)	8.0 % grading down 0.5% in the first year to 7.5%, then grading down 0.08% in the second year to 7.42%, followed by grading down of 0.5% per year over 5 years to 4.92% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	6.0% grading down 0.5% per year over 3 years to 4.5%
<b>Retirees' share of benefit-related costs</b>	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2018 and 2019 are based on actual premiums. Premiums after 2019 are projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.
* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.	

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**NOTE 12 - POST-EMPLOYMENT BENEFITS (Continued)**

Additionally, the demographic assumptions used in the this OPEB valuation are identical to those used in the June 30, 2017 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study <sup>^</sup>	Mortality <sup>^^</sup>
<b>GARS</b>	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
<b>JRS</b>	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
<b>SERS</b>	July 2009 - June 2013	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
<b>TRS</b>	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
<b>SURS</b>	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

<sup>^</sup> The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

<sup>^^</sup> Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. A single discount rate of 3.56% at June 30, 2017, and 3.62% at June 30, 2018, was used to measure the total OPEB liability.

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**NOTE 12 - POST-EMPLOYMENT BENEFITS (Continued)**

Sensitivity of total OPEB liability to changes in the single discount rate. The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.62%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.62%) or lower (2.62%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.62%)	Current Single Discount Rate Assumption (3.62%)	1% Increase (4.62%)
Commission's proportionate share of total OPEB liability	\$ 86,485	\$ 73,769	\$ 63,675

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2019 decreasing to an ultimate trend rate of 4.92% in 2026, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2028 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Commission's proportionate share of total OPEB liability	\$ 62,306	\$ 73,769	\$ 88,661

**NOTE 13 - FUND BALANCES AND NET POSITION**

Deficit in Fund Net Position: As of June 30, 2019, the Illinois Prepaid Tuition Program has a deficit in net position of \$294,952. 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, 2019.

Unfunded liability per actuarial soundness report	\$ (317,491)
Present value of accrued future administrative expense	24,391
Other accrued liabilities	(1,852)
Fund deficit per Statement of Net Position	\$ (294,952)

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(Continued)

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Dollars in thousands)  
June 30, 2019

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**NOTE 13 - FUND BALANCES AND NET POSITION (Continued)**

Program Risks and Actuarial Data: The Illinois Prepaid Tuition Program's ability to honor existing and future contracts depends primarily upon three factors: (i) resumption of 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, 2019 to evaluate the financial viability of the Program as of June 30, 2019. The complete Actuarial Soundness Report as of June 30, 2019 is included in the Other Information Section.

As detailed in the attached Actuarial report the Program enrollment has been on hold and will continue to be on hold for the 2019/2020 enrollment period pending continuing discussion with policymakers to help define and advance proposals that will strengthen the Program. The Program continues to operate as usual with no change in benefits, customer service, or plan administration. Those with beneficiaries in college continue to see benefit payments paid as usual. The Program retains a substantial investment portfolio in a separate fund to pay obligation for a number of years without requiring funding from the state. Based on the current actuarial soundness report, funds would be sufficient to cover payments through fiscal 2026 even if the program never sold another contract.

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.

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

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(Continued)

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Dollars in thousands)  
June 30, 2019

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**NOTE 13 - FUND BALANCES AND NET POSITION (Continued)**

APV of future benefits obligation*	\$ <u>1,018,997</u>
Funded ratio	69.60%
Actuarial assumptions:	
Actuarial valuation date	June 30, 2019
Assumed net investment return	6.00% in FY20 then grading down in annual increments of 0.357 to an ultimate investment rate of 3.50 percent for fiscal years on and after 2026
Rates of cancelation	Varies according to years from projected college entrance year
Tuition increase all contract types:	
All future years	4.75%

\* For all existing contracts as of June 30, 2019

The actuarial present value of the future benefits obligation decreased by approximately \$106 million compared to the balance reported at June 30, 2018. Contributing to the overall decrease was tuition paid.

Restrictions and Commitments: As of June 30, 2019, the Commission reported the following net position restrictions and fund balance commitments:

The Illinois Designated Account Purchase Program reported \$27,671 of net position restricted for debt service. The Federal Student Loan Fund reported \$47,117 of net position restricted for federal programs (loan guarantees). The Contract and Grant Fund reported \$3 in fund balance restricted per terms of grant. The ISAC Accounts Receivable Fund and the University Grant Fund reported \$89 and \$109, 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 \$13 in 2019. There are no future minimum rental commitments for non-cancelable operating leases to be satisfied by future Commission appropriations.

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - MAJOR GOVERNMENTAL FUND  
GENERAL FUND - BUDGETARY BASIS  
Year Ended June 30, 2019  
(Dollars in thousands)

	Budgeted Amounts		Actual Amount	Actual Amounts GAAP Basis	Variance From Final Budget
	Original	Final			
Revenues (inflows)					
Appropriations from State resources and other revenues					
General revenue account	\$ 429,340	\$ 429,340	\$ 429,975	\$ 429,975	\$ 635
Education assistance account	10,366	10,366	9,637	9,637	(729)
Advancement of Education	-	-	(12)	(12)	(12)
Combined totals	<u>439,706</u>	<u>439,706</u>	439,600	439,600	(106)
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General revenue account	429,340	429,340	431,070	431,070	(1,730)
Education assistance account	10,366	10,366	9,637	9,637	729
Advancement of Education	-	-	(12)	(12)	12
Combined totals	<u>439,706</u>	<u>439,706</u>	<u>440,695</u>	<u>440,695</u>	<u>(989)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(1,095)	(1,095)	<u>\$ (1,095)</u>
Fund balance, July 1, 2018			<u>5,322</u>	<u>5,322</u>	
Fund balance, June 30, 2019			<u>\$ 4,227</u>	<u>\$ 4,227</u>	

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2019  
(Dollars in thousands)

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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	<u>\$ 429,975</u>
Total revenues on the GAAP basis	<u><u>\$ 429,975</u></u>

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
COMBINING SCHEDULES OF ACCOUNTS  
GENERAL FUND  
June 30, 2019  
(Dollars in thousands)

	General Revenue Account	Educational Assistance Account	Advancement of Education Account	Total
<b>ASSETS</b>				
Unexpended appropriations	\$ 26,115	\$ 439	\$ -	\$ 26,554
Due from State of Illinois component units	-	6	-	6
Notes receivable, net of allowance of \$29,380	<u>4,227</u>	<u>-</u>	<u>-</u>	<u>4,227</u>
 Total assets	 <u>\$ 30,342</u>	 <u>\$ 445</u>	 <u>\$ -</u>	 <u>\$ 30,787</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable and accrued liabilities	\$ 12,203	\$ 426	\$ -	\$ 12,629
Due to State of Illinois component units	<u>13,912</u>	<u>19</u>	<u>-</u>	<u>13,931</u>
 Total liabilities	 <u>\$ 26,115</u>	 <u>\$ 445</u>	 <u>\$ -</u>	 <u>\$ 26,560</u>
Fund balances				
Nonspendable, notes receivable	<u>4,227</u>	<u>-</u>	<u>-</u>	<u>4,227</u>
 Total liabilities and fund balances	 <u>\$ 30,342</u>	 <u>\$ 445</u>	 <u>\$ -</u>	 <u>\$ 30,787</u>

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GENERAL FUND  
Year Ended June 30, 2019  
(Dollars in thousands)

	General Revenue <u>Account</u>	Educational Assistance <u>Account</u>	Advancement of Education <u>Account</u>	<u>Total</u>
Revenues				
Other	\$ 4	\$ -	\$ -	\$ 4
Expenditures				
Education				
Scholarship, awards and grants	\$ 431,070	\$ 9,637	\$ (12)	\$ 440,695
Deficiency of revenues over expenditures	(431,066)	(9,637)	12	(440,691)
Other sources (uses) of financial resources				
Appropriations from State resources	429,340	10,366	-	439,706
Lapsed appropriations	(2,173)	(623)	-	(2,796)
Receipts remitted to (from) State Treasury	(3,055)	(106)	(12)	(3,173)
SERS / OPEB on behalf contribution	5,859	-	-	5,859
Net other sources (uses) of financial resources	<u>429,971</u>	<u>9,637</u>	<u>(12)</u>	<u>439,596</u>
<b>Net change in fund balances</b>	(1,095)	-	-	(1,095)
Fund balance, July 1, 2018	<u>5,322</u>	<u>-</u>	<u>-</u>	<u>5,322</u>
Fund balance, June 30, 2019	<u>\$ 4,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,227</u>

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2019  
(Dollars in thousands)

	Special Revenue Funds		
	ISAC Accounts <u>Receivable</u>	John R. Justice <u>Grant</u>	Gear Up <u>Grant</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 89	\$ -	\$ 2
Receivables			
Other	-	-	323
	<u>89</u>	<u>-</u>	<u>325</u>
Total assets	<u>\$ 89</u>	<u>\$ -</u>	<u>\$ 325</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 325
Due to other State funds	-	-	-
Unearned revenue	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>325</u>
Fund balances			
Restricted	-	-	-
Committed	89	-	-
Unassigned	-	-	-
Total fund balances	<u>89</u>	<u>-</u>	<u>-</u>
	<u>\$ 89</u>	<u>\$ -</u>	<u>\$ 325</u>
Total liabilities and fund balances	<u>\$ 89</u>	<u>\$ -</u>	<u>\$ 325</u>

Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
Golden Apple Scholars	University Grant	Contract and Grant	Optometric Education	Total	ISAC COP	
\$ 63	\$ 111	\$ 3	\$ -	\$ 268	-	268
-	-	-	-	323	-	323
<u>\$ 63</u>	<u>\$ 111</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 591</u>	<u>\$ -</u>	<u>\$ 591</u>
\$ 66	\$ -	\$ -	\$ -	\$ 391	\$ -	\$ 391
-	-	-	-	-	-	-
2	2	-	-	4	-	4
<u>68</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>395</u>	<u>-</u>	<u>395</u>
-	-	3	-	3	-	3
-	109	-	-	198	-	198
(5)	-	-	-	(5)	-	(5)
<u>(5)</u>	<u>109</u>	<u>3</u>	<u>-</u>	<u>196</u>	<u>-</u>	<u>196</u>
<u>\$ 63</u>	<u>\$ 111</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 591</u>	<u>\$ -</u>	<u>\$ 591</u>

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2019  
(Dollars in thousands)

	Special Revenue Funds		
	ISAC Accounts <u>Receivable</u>	John R. Justice <u>Grant</u>	Gear Up <u>Grant</u>
Revenues			
Federal government	\$ -	\$ -	\$ 2,784
Other	138	-	-
Total revenues	<u>138</u>	<u>-</u>	<u>2,784</u>
Expenditures			
Education			
Scholarships, awards and grants	117	-	2,784
Salaries and employee benefits	-	-	-
Total expenditures	<u>117</u>	<u>-</u>	<u>2,784</u>
<b>Excess (deficiency) of revenues over expenditures</b>	21	-	-
Other sources (uses) of financial resources			
Appropriations from State resources	-	-	-
Net other sources (uses) of financial resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	21	-	-
Fund balance, July 1, 2018	<u>68</u>	<u>-</u>	<u>-</u>
<b>Fund balance, June 30, 2019</b>	<u>\$ 89</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
Golden Apple Scholars	University Grant	Contract and Grant	Optometric Education	Total	ISAC COP	
\$ -	\$ -	\$ -	\$ -	\$ 2,784	\$ -	\$ 2,784
<u>48</u>	<u>97</u>	<u>-</u>	<u>-</u>	<u>283</u>	<u>-</u>	<u>283</u>
48	97	-	-	3,067	-	3,067
65	97	-	50	3,113	-	3,113
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>65</u>	<u>97</u>	<u>-</u>	<u>50</u>	<u>3,113</u>	<u>-</u>	<u>3,113</u>
(17)	-	-	(50)	(46)	-	(46)
<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>50</u>	<u>-</u>	<u>50</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>50</u>	<u>-</u>	<u>50</u>
(17)	-	-	-	4	-	4
<u>12</u>	<u>109</u>	<u>3</u>	<u>-</u>	<u>192</u>	<u>-</u>	<u>192</u>
<u>\$ (5)</u>	<u>\$ 109</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 196</u>	<u>\$ -</u>	<u>\$ 196</u>

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
COMBINING STATEMENT OF NET POSITION  
NONMAJOR ENTERPRISE FUNDS  
June 30, 2019  
(Dollars in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
<b>ASSETS</b>				
Current				
Cash and cash equivalents	\$ 60,584	\$ 42,939	\$ -	\$ 103,523
Receivables				
Intergovernmental	411	12,535	-	12,946
Accrued interest on investments	112	76	-	188
Securities lending collateral	16,406	11,138	-	27,544
Due from other State funds	80	-	-	80
Due from other ISAC funds	2,184	-	-	2,184
Due from Federal Student Loan funds	458	-	(458)	-
Due from Student Loan Operating fund	-	204	(204)	-
Total current assets	<u>80,235</u>	<u>66,892</u>	<u>(662)</u>	<u>146,465</u>
Non-current				
Capital assets, net of accumulated depreciation	1,517	-	-	1,517
Due from Student Loan Operating fund	-	350	(350)	-
Total non-current assets	<u>1,517</u>	<u>350</u>	<u>(350)</u>	<u>1,517</u>
Total assets	81,752	67,242	(1,012)	147,982
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related amounts	14,973	-	-	14,973
OPEB related amounts	3,160	-	-	3,160
Total deferred outflows of resources	<u>18,133</u>	<u>-</u>	<u>-</u>	<u>18,133</u>
Total assets and deferred outflows of resources	<u>\$ 99,885</u>	<u>\$ 67,242</u>	<u>\$ (1,012)</u>	<u>\$ 166,115</u>
<b>LIABILITIES</b>				
Current				
Accounts payable and accrued liabilities	\$ 507	\$ 5,497	\$ -	\$ 6,004
Due to Federal Student Loan fund	204	-	(204)	-
Due to Student Loan Operating fund	-	458	(458)	-
Due to other State funds	353	-	-	353
Due to State of Illinois component units	10	-	-	10
Securities lending collateral obligation	16,406	11,138	-	27,544
Due to U.S. Department of Education	-	3,032	-	3,032
Net OPEB liability	370	-	-	370
Compensated absences	41	-	-	41
Total current liabilities	<u>17,891</u>	<u>20,125</u>	<u>(662)</u>	<u>37,354</u>
Non-current				
Due to Federal Student loan fund	350	-	(350)	-
Net pension liability	56,923	-	-	56,923
Net OPEB liability	33,108	-	-	33,108
Compensated absences	374	-	-	374
Total non-current liabilities	<u>90,755</u>	<u>-</u>	<u>(350)</u>	<u>90,405</u>
Total liabilities	108,646	20,125	(1,012)	127,759
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension related amounts	21,870	-	-	21,870
OPEB related amounts	19,110	-	-	19,110
Total deferred inflows of resources	<u>40,980</u>	<u>-</u>	<u>-</u>	<u>40,980</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,517	-	-	1,517
Restricted	-	47,117	-	47,117
Unrestricted	(51,258)	-	-	(51,258)
Total net position	<u>(49,741)</u>	<u>47,117</u>	<u>-</u>	<u>(2,624)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 99,885</u>	<u>\$ 67,242</u>	<u>\$ (1,012)</u>	<u>\$ 166,115</u>

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
NONMAJOR ENTERPRISE FUNDS  
Year Ended June 30, 2019  
(Dollars in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Operating revenues			
Portfolio maintenance fees	\$ 1,711	\$ -	\$ 1,711
Direct consolidation fees	5,981	-	5,981
Collections on student loans previously reimbursed by the U.S. Department of Education	-	8,511	8,511
Other	<u>1,920</u>	<u>-</u>	<u>1,920</u>
Total operating revenues	9,612	8,511	18,123
Operating expenses			
Salaries and employee benefits	4,451	-	4,451
Pension expenses	(3,083)	-	(3,083)
OPEB expenses	(2,792)	-	(2,792)
Loan guarantees	-	93,006	93,006
Management and professional services	9,125	-	9,125
Depreciation	<u>432</u>	<u>-</u>	<u>432</u>
Total operating expenses	<u>8,133</u>	<u>93,006</u>	<u>101,139</u>
<b>Operating loss</b>	1,479	(84,495)	(83,016)
Non-operating revenues			
Federal government	-	92,570	92,570
Interest revenue	<u>1,267</u>	<u>893</u>	<u>2,160</u>
Total non-operating revenue	<u>1,267</u>	<u>93,463</u>	<u>94,730</u>
<b>Income (loss) before transfers</b>	2,746	8,968	11,714
Transfers in from other funds	-	15,000	15,000
Transfers out to other funds	-	(15,000)	(15,000)
Transfers for:			
Collection retention fees	1,745	(1,745)	-
Repurchases/rehabilitations/consolidation retention fees	9,076	(9,076)	-
Direct consolidation fee refund	(2,758)	2,758	-
Default aversion fees	<u>119</u>	<u>(119)</u>	<u>-</u>
Net transfers	<u>8,182</u>	<u>(8,182)</u>	<u>-</u>
Change in net position	10,928	786	11,714
Net Position, July 1, 2018	<u>(60,669)</u>	<u>46,331</u>	<u>(14,338)</u>
Net Position, June 30, 2019	<u>\$ (49,741)</u>	<u>\$ 47,117</u>	<u>\$ (2,624)</u>

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
Year ended June 30, 2019  
(Dollars in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	<u>Total</u>
<b>Cash flows from operating activities</b>			
Cash received from fees and other charges	\$ 8,877	\$ 57,122	\$ 65,999
Cash payments to suppliers for goods and services	(3,286)	-	(3,286)
Cash payments to employees for services	(7,534)	-	(7,534)
Cash payments for loan guarantees	-	(96,542)	(96,542)
Cash payments for other operating activities	(4,950)	(50,860)	(55,810)
Net cash provided (used) by operating activities	(6,893)	(90,280)	(97,173)
<b>Cash flows from noncapital financing activities</b>			
Federal government grants	-	101,666	101,666
Transfers in	11,531	2,876	14,407
Transfers out	(2,876)	(11,531)	(14,407)
Net cash provided (used) by noncapital financing activities	8,655	93,011	101,666
<b>Cash flows from capital and related financing activities</b>			
Acquisition and construction of capital assets	(106)	-	(106)
<b>Cash flows from investing activities</b>			
Loan disbursements	-	(15,000)	(15,000)
Loan repayments	-	15,000	15,000
Interest and dividends on investments	1,249	883	2,132
Net cash provided by investing activities	1,249	883	2,132
<b>Increase (decrease) in cash and cash equivalents</b>	2,905	3,614	6,519
Cash and cash equivalents, July 1, 2018	57,679	39,325	97,286
<b>Cash and cash equivalents, June 30, 2019</b>	<u>\$ 60,584</u>	<u>\$ 42,939</u>	<u>\$ 103,523</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 1,479	\$ (84,495)	\$ (83,016)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	432	-	432
Change in assets and liabilities			
Intergovernmental receivables	55	-	55
Due from other State funds	123	4	127
Due from State of Illinois component units	-	-	-
Accounts payable and accrued liabilities	(199)	(2,683)	(2,882)
Intergovernmental payables	-	(3,106)	(3,106)
Due to other State funds and component units	205	-	205
Due to other ISAC funds	(4)	-	(4)
Compensated absences	(1,309)	-	(1,309)
Deferred inflows related to pensions and OPEB	17,059	-	17,059
Deferred outflows related to pensions and OPEB	11,803	-	11,803
Net pension liability	(18,236)	-	(18,236)
Net OPEB liability	(18,301)	-	(18,301)
Total adjustments	(8,372)	(5,785)	(14,157)
Net cash provided (used) by operating activities	<u>\$ (6,893)</u>	<u>\$ (90,280)</u>	<u>\$ (97,173)</u>

**OTHER INFORMATION**

# College Illinois!® Prepaid Tuition Program

Actuarial Soundness Valuation Report as of  
June 30, 2019



November 14, 2019

Mr. Eric Zarnikow  
Executive Director  
Illinois Student Assistance Commission  
1755 Lake Cook Road  
Deerfield, Illinois 60015-5209

**Re: College Illinois!® Prepaid Tuition Program Actuarial Soundness Valuation as of June 30, 2019**

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 Illinois!® Prepaid Tuition Program (“CIPTP”) as of June 30, 2019. Although the term “actuarial soundness” is not specifically defined, the primary purpose of this actuarial valuation is to evaluate the financial status of the program as of June 30, 2019.

This report presents the principal results of the actuarial soundness 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, 2019, 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 ISAC and is intended for use by ISAC and those designated or approved by ISAC. This report may be provided to parties other than ISAC only in its entirety and only with the permission of ISAC. This report should not be relied on for any purpose other than the purpose described above.

The actuarial soundness 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 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, 2019, and does not reflect subsequent market volatility.

The actuarial soundness valuation results summarized in this report involve actuarial calculations that require assumptions about future events. Most of the actuarial assumptions used in this valuation were based on an experience review for the period from July 1, 2011 to June 30, 2014, and were adopted for use commencing with the June 30, 2015, actuarial valuation. The following changes were made beginning with the actuarial valuation as of June 30, 2019:

- The “select and ultimate” rate structure for the investment return assumption and related discount rate for liabilities was changed from an initial rate of 6.25 percent for fiscal year 2019 and grading down to the ultimate rate of 3.75 percent for fiscal years 2026 and after to an initial rate of 6.00 percent for fiscal year 2020 (compared to the expected rate of 5.893 percent under the previous assumption) and grading down to the ultimate rate of 3.50 percent for fiscal years 2026 and after.
- The tuition and fee increase assumption was decreased from a flat rate of 5.00 percent for all future years for all contract types to a flat rate of 4.75 percent for all future years for all contract types.

The major actuarial assumptions used in this analysis were provided by and are the responsibility of ISAC.

The College Illinois!® Prepaid Tuition Program stopped accepting new contracts as of the 2017/2018 enrollment period and is still not accepting new contracts for the 2019/2020 enrollment period. Program enrollment remains closed as ISAC continues to engage with legislators and the Governor’s office to help define proposals that will address the Program’s unfunded liability.

Considering the current asset allocation, current and future liquidity requirements and the fact that program enrollment is on hold, we believe the net investment rate of return assumption of 6.00 percent in fiscal year 2020 grading down to 3.50 percent in 2026, on a select and ultimate basis, is reasonable based on 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 and assumptions 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, 2019. All calculations have been made in conformity with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements.

There are currently no Actuarial Standards of Practice which specifically relate to prepaid tuition plans. We have looked to the Actuarial Standards of Practice related to pensions for guidance due to their similar nature.

Lance J. Weiss and Amy Williams 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. Lance J. Weiss and Amy Williams are independent of ISAC.

Respectfully submitted,

**Signed Originals on File**

Lance J. Weiss, EA, MAAA, FCA  
Senior Consultant and Team Leader

Amy Williams, ASA, MAAA, FCA  
Senior Consultant



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## **SECTION A**

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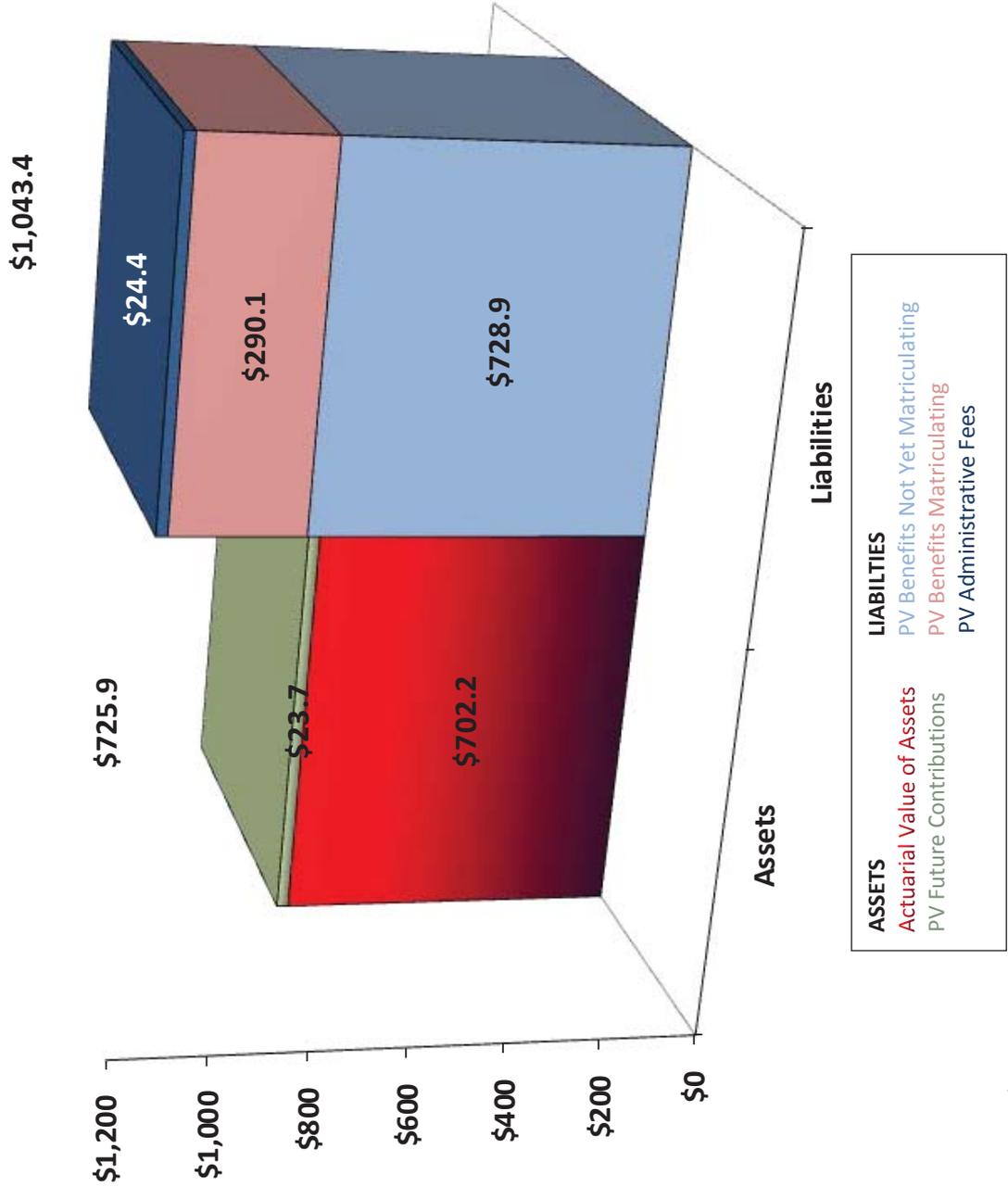
### **EXECUTIVE SUMMARY**

## Principal Actuarial Soundness Valuation Results

Valuation Date:	June 30, 2019	June 30, 2018
Membership Summary:		
Counts		
Not Yet Matriculating	18,566	21,701
Matriculating <sup>a</sup>	13,064	13,482
Total	31,630	35,183
Average years until Enrollment if Not Yet Matriculating	3.5	3.8
Assets <sup>b</sup>		
· Actuarial Value of Assets (AVA)	\$725,896,683	\$846,398,622
· Estimated Return	4.12%	5.60%
Actuarial Liabilities (Present Value of Future Tuition Payments, Fees and Administrative Expenses)	\$1,043,388,044	\$1,154,110,295
Unfunded Liabilities	\$317,491,361	\$307,711,673
Funded Ratio	69.6%	73.3%

<sup>a</sup>Counts include 4,836 contracts in 2019 and 4,897 contracts in 2018 that are classified as "Matriculating" but have not used any credits within the past year.

<sup>b</sup>Asset values include present value of expected future contract payments from current contract holders.



Numbers may not add due to rounding.

## Funded Status as of June 30, 2019

	June 30, 2019
<b>Actuarial Present Value of Future Tuition Payments, Fees and Expenses</b>	<b>\$1,043,388,044</b>
<b>Actuarial Value of Assets (Including the Present Value of Installment Contract Receivables)</b>	<b>\$725,896,683</b>
<b>Deficit/(Surplus) as of June 30, 2019</b>	<b>\$317,491,361</b>

## Gain/Loss Summary

	Unfunded Liability
Value at June 30, 2018	\$ 307,711,673
Expected Value at June 30, 2019	\$ 326,943,653
(Gain)/Loss Due to:	
Investment Experience	\$ 15,885,182
Change in Assumptions and Methods	(4,317,928)
Tuition/Fee Inflation	(16,543,198)
Other Demographic Experience*	(4,476,348)
Total	\$ (9,452,292)
Actual Value at June 30, 2019	\$ 317,491,361

*\*Other Demographic Experience includes deviations in actual contract beneficiary experience from our assumptions related to rates of enrollment and utilization of benefits and contract terminations and refunds.*

*Additional Details on the development of the Expected Value at June 30, 2019, can be found on page B-3.*

## Actuarial Soundness Valuation

Gabriel, Roeder, Smith & Company (“GRS”) has performed an actuarial soundness valuation of the College Illinois!® Prepaid Tuition Program (“CIPTP”) as of June 30, 2019.

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, 2019, 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 illustrates the sensitivity of the deficit/surplus to changes 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 contract beneficiary data, financial data, plan provisions and actuarial assumptions and methods.

## 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 has been open to all Illinois residents and non-Illinois residents purchasing contracts for Illinois-resident beneficiaries. CIPTP contracts allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at expected projected 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 exempt from state and federal income taxes.

The first CIPTP contracts were offered for sale in 1998. As of June 30, 2019, the CIPTP had 31,630 contracts in force.

The College Illinois!® Prepaid Tuition Program stopped accepting new contracts as of the 2017/2018 enrollment period and is still not accepting new contracts for the 2019/2020 enrollment period. Program enrollment remains closed as ISAC continues to engage with legislators and the Governor’s office to help define proposals that will address the Program’s unfunded liability.

## Actuarial Assumptions

The actuarial soundness valuation results summarized in this report involve actuarial calculations that require assumptions about future events. Most of the actuarial assumptions used in this actuarial soundness valuation were based on an experience review for the period from July 1, 2011 to June 30, 2014, and were approved and adopted for use commencing with the June 30, 2015 actuarial soundness valuation by ISAC. These actuarial assumptions are the responsibility of ISAC.

## Changes in Actuarial Assumptions since Prior Valuation

The net investment return assumption under the “select and ultimate” rate structure was changed from an initial rate of 6.25 percent for fiscal year 2019 and grading down to the ultimate rate of 3.75 percent in fiscal years on and after 2026 (in 0.357 percent annual increments) to an initial rate of 6.00 percent for fiscal year 2020 and grading down to the ultimate rate of 3.50 percent in fiscal years on and after 2026 (in 0.417 percent annual increments).

Considering the current asset allocation, current and future liquidity requirements, and the fact that the program enrollment is on hold (and has been since the 2017/2018 enrollment period), we believe the net investment rate of return assumption being used in the June 30, 2019 actuarial soundness valuation is reasonable, based on applicable Actuarial Standards of Practice.

In addition to the change in the “select and ultimate” rate structure, the tuition and fee increase assumption was decreased from a flat rate of 5.00 percent for all future years for all contract types to a flat rate of 4.75 percent for all future years for all contract types.

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 assumptions.

## Financial Status of Program as of June 30, 2019

As of June 30, 2019, the present value of all future tuition obligations under contracts outstanding (and including future administrative expenses) is \$1,043,388,044. The value of fund assets as of June 30, 2019, including the market value of program assets and the present value of installment contract receivables, is \$725,896,683.

The difference between the present value of future tuition obligations and the value of assets as of June 30, 2019, represents a program deficit of \$317,491,361. The comparable program deficit as of the last actuarial soundness valuation as of June 30, 2018, was \$307,711,673. This represents an increase in the deficit of \$9,779,688.

## Gain/Loss Analysis

As described above, the program deficit increased from \$307.7 million as of June 30, 2018, to \$317.5 million as of June 30, 2019. Based on the actuarial assumptions used during the June 30, 2018 actuarial soundness valuation, the deficit was expected to increase to \$326.9 million. The primary factors which caused the deficit to decrease by \$9.5 million compared to the expected deficit were (1) the change in the investment return assumption (the rate for fiscal year 2020 was expected to be 5.893 and was changed to 6.00 percent) and the tuition and fee increase assumption (the assumption was changed from 5.00 percent to 4.75 percent), (2) tuition and fee increases that were less than expected (increases that were lower than the assumption of 5.00 percent used in the last actuarial valuation) and (3) other demographic experience (which includes deviations in actual contract beneficiary experience from our assumptions related to rates of enrollment and utilization of benefits and contract terminations and refunds). This

decrease was partially offset by losses due to investment returns that were less than expected (an actual rate of return less than the assumption of 6.25 percent) and a decrease in the ultimate investment return assumption from 3.75 percent to 3.50 percent.

The funded ratio decreased from 73.3 percent as of June 30, 2018, to 69.6 percent as of June 30, 2019.

## **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 soundness valuation as of June 30, 2018.

## **Assets**

CIPTP assets are held in trust. ISAC provided the asset information used in the June 30, 2019 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 and a reconciliation of the assets from the last actuarial valuation date to the current actuarial valuation date. The approximate return on market value of assets was 4.12 percent for the year ended June 30, 2019.

Commencing with the June 30, 2015 actuarial soundness valuation, the actuarial value of assets is equal to the market value of assets plus the present value of expected future contract payments from current contract holders.

## **Contract Prices**

Contract prices are determined for each enrollment period based upon a variety of factors and include a built-in stabilization factor. The stabilization factor is intended to help insulate the Program from unexpected market volatility and improve the funded status of the Program over time. Each year, ISAC reviews the actuarial soundness report, the Mean Weighted Average Tuition and Fees and the stabilization factor amount to establish contract pricing. In effect, contract prices are reviewed in order to reflect tuition and fee increases at Illinois public institutions, as well as other actuarial criteria. Program enrollment is currently on hold.

## **Contracts Sold by Enrollment Year**

The chart on page D-1 illustrates the number of contracts sold by enrollment year.

As this chart indicates, the number of contracts sold has decreased significantly during the last five enrollment years from the number sold per year in previous years.

- The average annual number of contracts sold beginning with the enrollment period 1999/2000 and ending with the enrollment period 2009/2010 was 5,235.
- The average annual number of contracts sold during the last seven-year period 2010/2011 to 2016/2017 was 559 including 2011/2012 when the plan was not open for new contract sales.
- The average annual number of contracts sold during the last seven-year period 2010/2011 to 2016/2017 was 652 excluding 2011/2012 when the plan was not open for new contract sales.
- Program enrollment was placed on hold commencing with the 2017/2018 enrollment period and continues to be on hold. Therefore, there were zero contracts sold during the 2017/2018 and the 2018/2019 enrollment periods.

## Projection Scenarios

Full projection scenarios are included in a separate report.

The College Illinois!® Prepaid Tuition Program stopped accepting new contracts as of the 2017/2018 enrollment period and is still not accepting new contracts for the 2019/2020 enrollment period. While the closing of the CIPTP has not occurred, we have completed a projection assuming that the program continues to operate but with no new contract sales after June 30, 2019. Based on an investment return assumption that grades down from 6.00 percent for the 2020 fiscal year to 3.50 percent for the 2026 fiscal year, future payments from current contract holders, current Trust assets and future investment income are projected to be insufficient by the year 2026 to make the required tuition payments and additional funds will be required to maintain solvency. The results of this “closed group” projection are included in a separate report.

Future actuarial measurements may differ significantly from the measurements presented in this projection 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.

## Disclosure

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 future participation in the CIPTP.

## **SECTION B**

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### **ACTUARIAL SOUNDNESS VALUATION RESULTS**

Valuation Date:	June 30, 2019	June 30, 2018
1. Number of Members		
a. Not Yet Matriculating:	18,566	21,701
b. Matriculating <sup>a</sup> :	13,064	13,482
c. Total	31,630	35,183
Average Years until Enrollment if Not Yet Matriculating	3.5	3.8
2. Assets		
a. Market Value of Assets (in Trust)	\$ 702,216,197	\$ 813,365,005
b. PV Future Member Contributions	23,680,486	33,033,617
c. Total Actuarial Value of Assets (AVA) (2a + 2b)	\$ 725,896,683	\$ 846,398,622
3. Actuarial Results		
Liabilities		
a. Not yet Matriculating - Tuition and Fees	\$ 728,860,971	\$ 833,162,370
b. Matriculating - Tuition and Fees	290,136,226	292,122,567
c. Present Value of Future Administrative Expenses	24,390,847	28,825,358
d. Total	\$ 1,043,388,044	\$ 1,154,110,295
Unfunded Liability	\$ 317,491,361	\$ 307,711,673
Funded Ratio	69.6%	73.3%

<sup>a</sup>Counts include 4,836 contracts in 2019 and 4,897 contracts in 2018 that are classified as "Matriculating" but have not used any credits within the past year.

Valuation Date:	June 30, 2019	June 30, 2018
1. Assets		
a. Market Value of Assets (in Trust)	\$ 702,216,197	\$ 813,365,005
b. PV Future Member Contributions (Short Term) <sup>a</sup>	6,647,238	10,170,115
c. PV Future Member Contributions (Long Term) <sup>b</sup>	17,033,248	22,863,502
d. Total Market Value of Assets (MVA)	\$ 725,896,683	\$ 846,398,622
2. Actuarial Present Value of Tuition, Fees and Admin Expenses		
a. Short Term <sup>a</sup>	\$ 145,130,169	\$ 150,055,581
b. Long Term <sup>b</sup>	898,257,875	1,004,054,714
c. Total	\$ 1,043,388,044	\$ 1,154,110,295
Unfunded Liability (Surplus)	\$ 317,491,361	\$ 307,711,673
Funded Ratio	69.6%	73.3%

<sup>a</sup> Present value of amounts in following year.

<sup>b</sup> Present value of amounts after first year.

	Present Value of Benefits	Plan Assets <sup>a</sup>	Unfunded Liability
1. Values at June 30, 2018	\$ 1,154,110,295	\$846,398,622	\$ 307,711,673
2. Actual Tuition Payments, Refunds and Administrative Expenses	\$ (152,698,202)	\$ (152,698,202)	\$ -
3. Interest on 1. and 2. at 6.25%	\$ 67,432,392	\$ 48,200,412	\$ 19,231,980
4. New Contracts	\$ -	\$ -	\$ -
5. Projected Values at June 30, 2019 (1. + 2. + 3. + 4.)	\$ 1,068,844,485	\$ 741,900,832	\$ 326,943,653
6. (Gain)/Loss Due to:			
Investment Experience	\$ -	\$ 15,885,182	\$ 15,885,182
Change in Assumptions and Tuition/Fee Inflation	(4,316,043)	(1,885)	(4,317,928)
Other Demographic Experience <sup>b</sup>	(16,543,198)	-	(16,543,198)
	(4,597,200)	120,852	(4,476,348)
Total	\$ (25,456,441)	\$ 16,004,149	\$ (9,452,292)
7. Actual Values at June 30, 2019 (5. + 6.)	\$ 1,043,388,044	\$ 725,896,683	\$ 317,491,361

<sup>a</sup>Equals the sum of the market value of trust assets plus the present value of expected future contract payments from current contract holders. Actual values at June 30, 2019, are equal to (5.-6.) which is the projected value minus the (gain)/loss total.

<sup>b</sup>Other Demographic Experience includes deviations in actual contract beneficiary experience from the assumptions related to rates of enrollment and utilization of benefits and contract terminations and refunds. Other Demographic Experience for Plan Assets is the change in the present value of expected future contract payments from current contract holders.

	June 30, 2012	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	Total 8-Year Change
Unfunded Liability at Prior Valuation Date	\$ 536,337,123	\$ 467,404,585	\$ 448,506,323	\$ 328,182,173	\$ 292,111,181	\$ 264,313,965	\$ 320,237,004	\$ 307,711,673	
Projected Unfunded Liability at Valuation Date	\$ 585,357,342	\$ 491,441,672	\$ 474,596,839	\$ 346,104,498	\$ 309,309,748	\$ 278,495,729	\$ 341,052,409	\$ 326,943,653	
(Gain)/Loss Due to:									
Investment Experience	\$ 50,941,188	\$ (13,003,926)	\$ (44,221,698)	\$ 31,916,454	\$ 8,218,414	\$ (4,435,878)	\$ 7,573,155	\$ 15,885,182	\$ 52,872,891
Change in Assumptions	(81,435,163)	24,441,468	(53,755,927)	(49,845,761)	(21,711,495)	78,869,711	(4,384,888)	(4,317,928)	(112,139,983)
Tuition/Fee Inflation*	N/A	(66,164,363)	(45,359,154)	(47,420,647)	(40,802,985)	(31,916,630)	(25,580,322)	(16,543,198)	(273,787,299)
Other Demographic Experience	(87,458,782)	11,791,472	(3,077,887)	1,356,637	9,300,283	(775,927)	(10,948,681)	(4,476,348)	(74,289,233)
Total	\$ (117,952,757)	\$ (42,935,349)	\$ (146,414,666)	\$ (53,993,317)	\$ (44,995,783)	\$ 41,741,276	\$ (33,340,736)	\$ (9,452,292)	\$ (407,343,624)
Unfunded Liability at Valuation Date	\$ 467,404,585	\$ 448,506,323	\$ 328,182,173	\$ 292,111,181	\$ 264,313,965	\$ 320,237,004	\$ 307,711,673	\$ 317,491,361	

\*Prior to the June 30, 2013, actuarial soundness valuation, Tuition and Fee Inflation was included with "Other Demographic Experience."

**Changes in Actuarial Assumptions**

- June 30, 2012 Decrease in the investment return assumption from 7.50 percent to 7.25 percent, change in the tuition and fee increase assumption from a flat rate increase assumption to a select and ultimate rate increase assumption.
- June 30, 2013 Decrease in the investment return assumption from 7.25 percent to 7.00 percent.
- June 30, 2014 Decrease in the tuition and fee select and ultimate rate increase assumption for Legacy, University and University Plus contracts.
- June 30, 2015 Based on an experience review covering the period July 1, 2011 through June 30, 2014, changes in the matriculation rates, benefit utilization rates, cancellation rates, bias loads and growth rate for administrative expenses. No changes were made to the investment return or the tuition and fee increase assumptions.
- June 30, 2016 Decrease in the investment return assumption from 7.00 percent to 6.75 percent, change in the tuition and fee increase assumption from a select and ultimate rate increase assumption with an ultimate increase rate of 5.00 percent to a flat rate of 5.00 percent for all future years.
- June 30, 2017 Decrease in the investment return assumption from a flat rate of 6.75 percent to a select and ultimate rate structure with an initial rate of 6.50 percent, grading down in annual increments of 0.393 percent to an ultimate investment return rate of 3.75 percent. Change in the calculation of the total administrative expenses related to marketing from an assumption of 12 percent of total administrative expenses to actual marketing expenses in the prior fiscal year (which affects the present value of future administrative expenses for current contract beneficiaries).
- June 30, 2018 The select and ultimate rate structure was changed from an initial rate of 6.50 percent for fiscal year 2018, grading down in annual increments of 0.393 percent to the ultimate rate of 3.75 percent in fiscal years on and after 2025 to an initial rate of 6.25 percent for fiscal year 2019, grading down in annual increments of 0.357 percent to the ultimate rate of 3.75 percent in fiscal years on and after 2026.
- June 30, 2019 The select and ultimate rate structure was changed from an initial rate of 6.25 percent for fiscal year 2019, grading down in annual increments of 0.357 percent to the ultimate rate of 3.75 percent in fiscal years on and after 2026 to an initial rate of 6.00 percent for fiscal year 2020, grading down in annual increments of 0.417 percent to the ultimate rate of 3.50 percent in fiscal years on and after 2026. The tuition and fee increase assumption was decreased from a flat rate of 5.00 percent to a flat rate of 4.75 percent for all future years.

The actuarial assumptions regarding future increases in tuition costs and fees and the future rate of investment return were provided to us by ISAC. In our opinion, the actuarial 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 conditions and other contingencies. For example, while it is assumed that the assets of the fund will earn 6.00 percent in Fiscal Year 2020 graded down in yearly increments to 3.50 percent on and after Fiscal Year 2026, actual returns are expected to vary from year to year. Therefore, we have projected CIPTP results under the following alternative assumptions for future investment income, tuition increases and fee increases.

1. Tuition increases are 100 basis points higher/lower (5.75%/3.75% compared to 4.75%) in each future year than assumed in the baseline valuation (measurement of soundness).
2. Fee increases are 100 basis points higher/lower (5.75%/3.75% compared to 4.75%) in each future year than assumed in the baseline valuation (measurement of soundness).
3. The investment return is 50 basis points higher/lower (6.50% initial and 4.00% ultimate/5.50% initial and 3.00% ultimate compared to 6.00% initial and 3.50% ultimate) in each future year than assumed in the baseline valuation (measurement of soundness).

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

	Current		Assumed Tuition		Assumed Fee		Assumed Investment Return		Assumed Investment Return	
	Valuation	Assumptions	Increases 100 Basis Points	Decreases 100 Basis Points	Increases 100 Basis Points	Decreases 100 Basis Points	Increases 50 Basis Points	Decreases 50 Basis Points	Increases 50 Basis Points	Decreases 50 Basis Points
1. Assets										
a. Market Value of Assets (in Trust)	\$702.2		\$702.2	\$702.2	\$702.2	\$702.2	\$702.2	\$702.2	\$702.2	\$702.2
b. PV Future Member Contributions	23.7		23.7	23.7	23.7	23.7	23.4	23.4	24.0	24.0
c. Total Actuarial Value of Assets (AVA) (2a + 2b)	\$725.9		\$725.9	\$725.9	\$725.9	\$725.9	\$725.6	\$725.6	\$726.2	\$726.2
2. Actuarial Results										
Liabilities										
a. Not yet Matriculating - Tuition and Fees	\$728.9		\$747.7	\$711.1	\$738.7	\$719.6	\$708.6	\$750.1	\$750.1	\$750.1
b. Matriculating - Tuition and Fees	290.1		291.3	289.0	291.3	289.0	287.2	293.1	293.1	293.1
c. Present Value of Future Administrative Expenses	24.4		24.4	24.4	24.4	24.4	23.9	24.9	24.9	24.9
d. Total	\$1,043.4		\$1,063.4	\$1,024.5	\$1,054.4	\$1,033.0	\$1,019.7	\$1,068.1	\$1,068.1	\$1,068.1
Unfunded Liability	\$317.5		\$337.5	\$298.6	\$328.5	\$307.1	\$294.1	\$341.9	\$341.9	\$341.9
Funded Ratio	69.6%		68.3%	70.9%	68.8%	70.3%	71.2%	68.0%	68.0%	68.0%
<b>Difference from Current Assumptions</b>										
Unfunded Liability	\$0.0		\$20.0	-\$18.9	\$11.0	-\$10.4	-\$23.4	\$24.4	\$24.4	\$24.4
Funded Ratio	0.0%		-1.3%	1.3%	-0.8%	0.7%	1.6%	-1.6%	-1.6%	-1.6%

*In all scenarios, trust assets are projected to be depleted in year 2026.*

## **SECTION C**

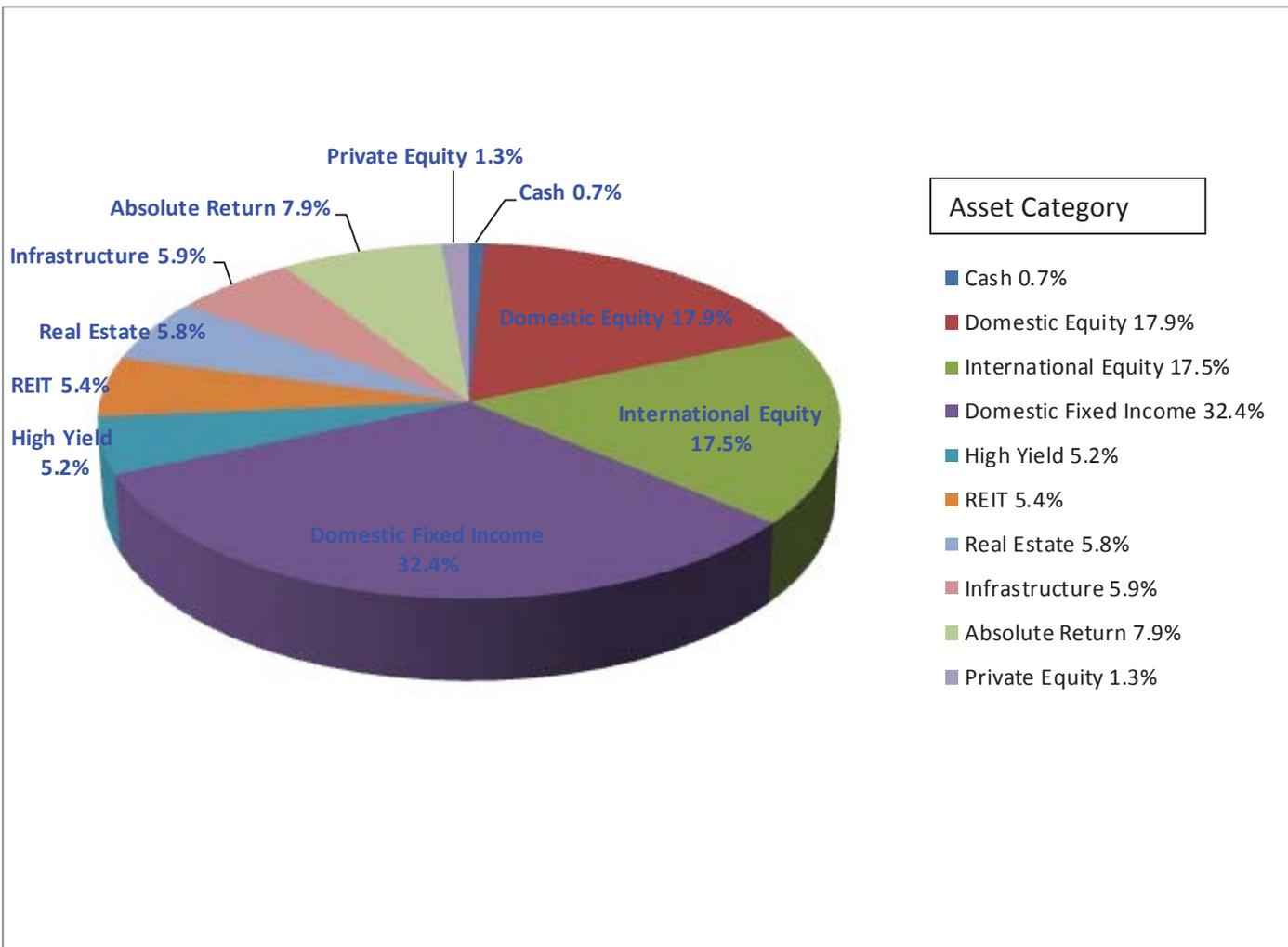
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### **FUND ASSETS**

**College Illinois!® Prepaid Tuition Program**  
**Statement of Plan Net Assets**  
**Year ended June 30, 2019**

		<u>% of Total</u>
Cash	\$ 5,046,908	0.7%
Investments		
Domestic Equity	\$ 125,483,725	17.9%
International Equity	123,030,332	17.5%
Domestic Fixed Income	227,426,947	32.4%
High Yield	36,350,469	5.2%
REIT	38,106,289	5.4%
Real Estate	40,644,676	5.8%
Infrastructure	41,559,408	5.9%
Absolute Return	55,247,867	7.9%
Private Equity	9,319,576	1.3%
Total Investments	<u>\$ 697,169,289</u>	<u>99.3%</u>
Total Assets	<u>\$ 702,216,197</u>	<u>100.0%</u>

*Numbers may not add due to rounding.*



**College Illinois!® Prepaid Tuition Program**  
**Statement of Changes in Plan Net Assets**  
**Twelve Month Period ended June 30, 2019**

Beginning of Period		7/1/2018
End of Period		6/30/2019
 Additions:		
Contributions received	\$	10,961,412
Gross investment income		12,123,300
Realized/Unrealized investment gains/(losses)		20,677,270
Total Additions	\$	43,761,982
 Deductions:		
Tuition payments	\$	124,105,796
Refunds to Purchasers		24,756,281
Investment expenses & advisory fees		2,212,588
Administrative expenses		3,836,125
Total Deductions	\$	154,910,790
Net increase/(decrease)	\$	(111,148,808)
 Market Value of Assets:		
Beginning of period	\$	813,365,005
End of period (6/30/2019)	\$	702,216,197
Present Value of Future Contributions by Current Contract Holders		23,680,486
Market Value of Total Fund Assets as of June 30, 2019	\$	725,896,683

## SECTION D

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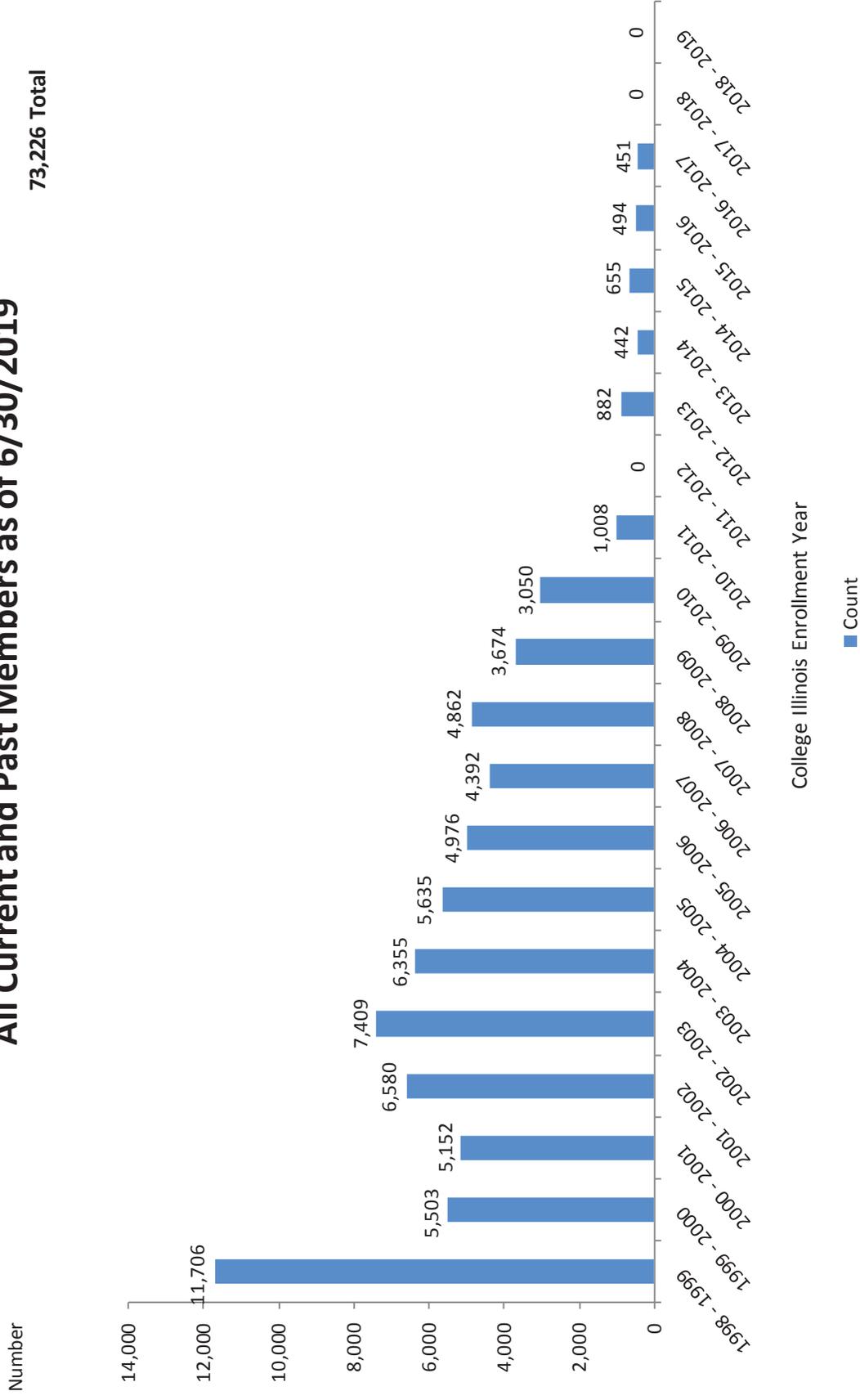
### PARTICIPANT DATA

# College Illinois!® Prepaid Tuition Program

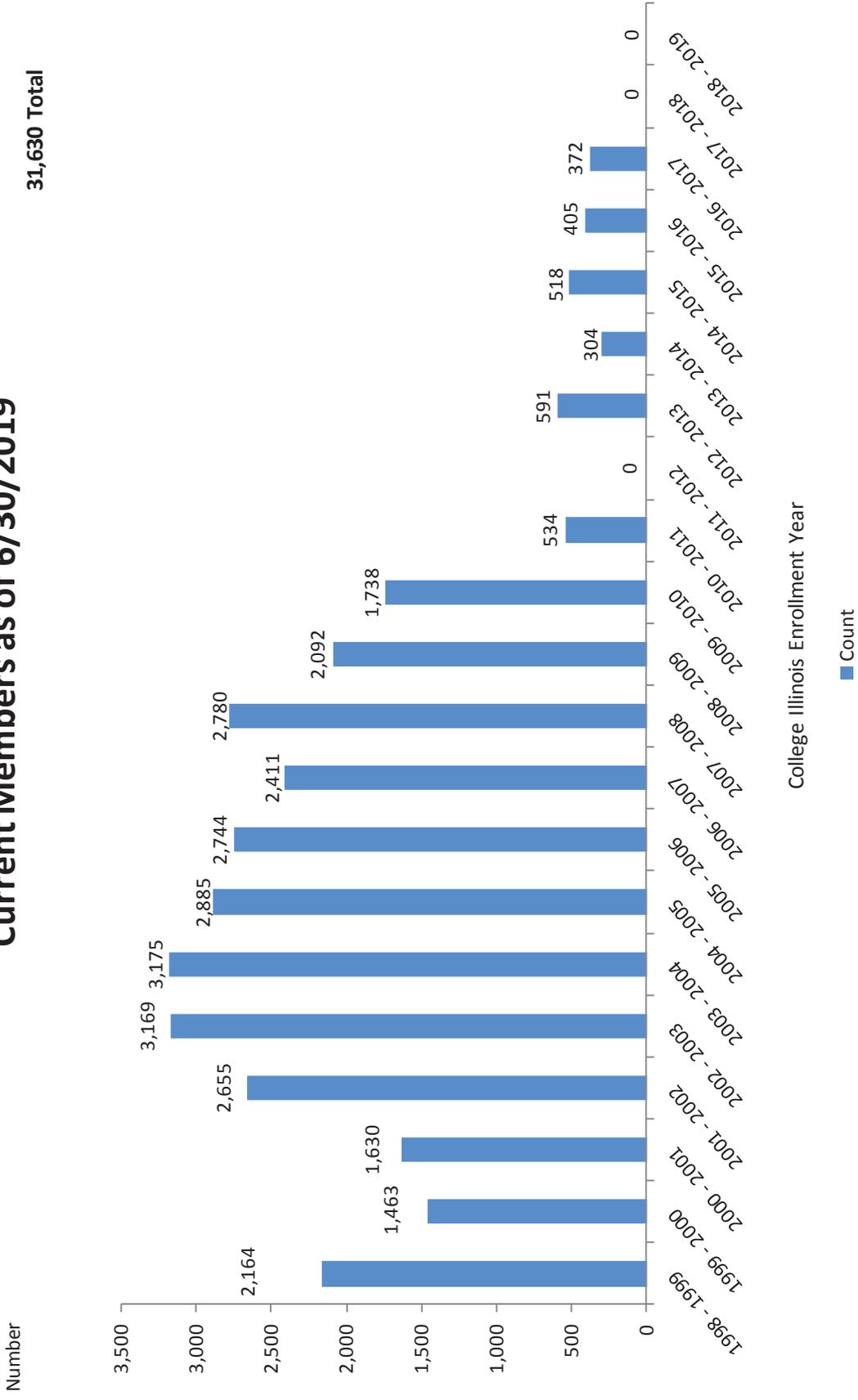
## Contract Counts by Enrollment Year

### All Current and Past Members as of 6/30/2019

73,226 Total

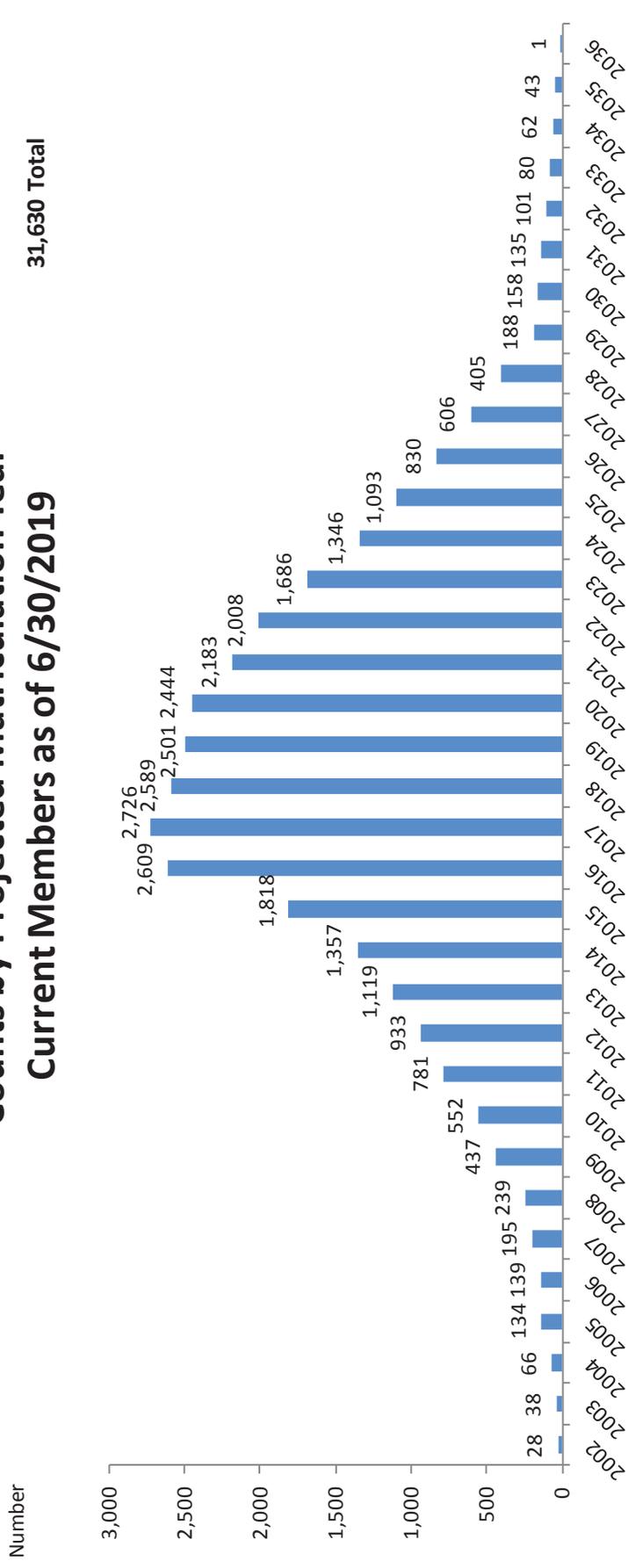


# College Illinois!® Prepaid Tuition Program Contract Counts by Enrollment Year Current Members as of 6/30/2019



# College Illinois!® Prepaid Tuition Program Counts by Projected Matriculation Year Current Members as of 6/30/2019

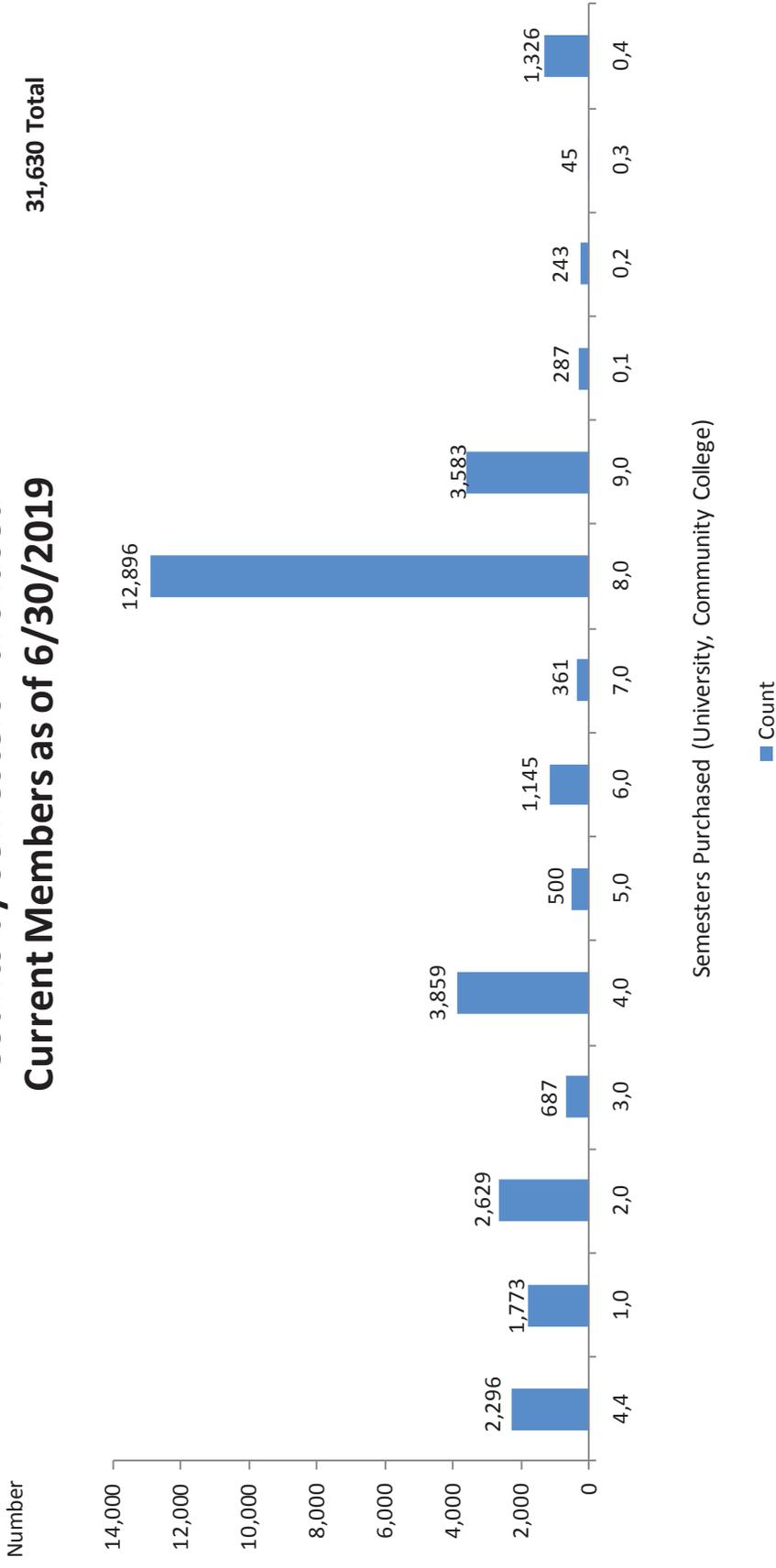
31,630 Total



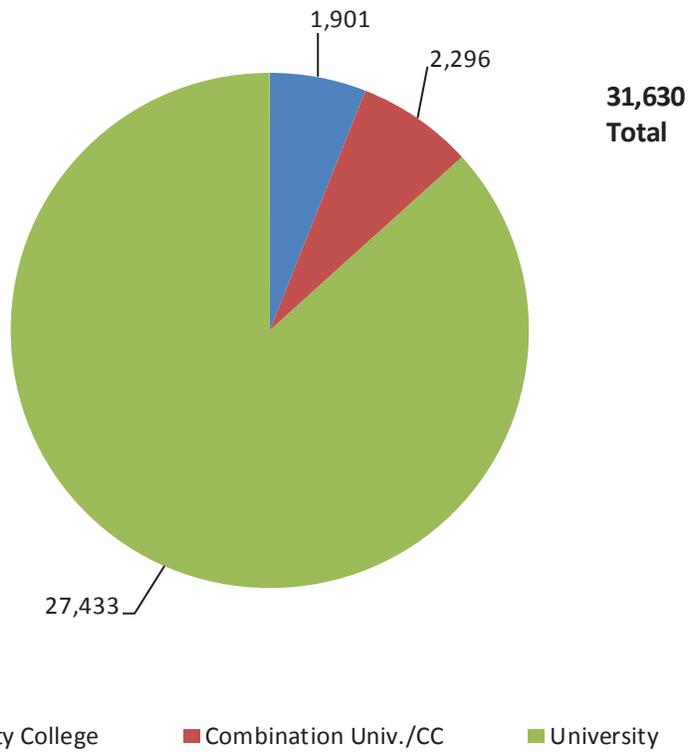
Projected Matriculation Year

■ Count

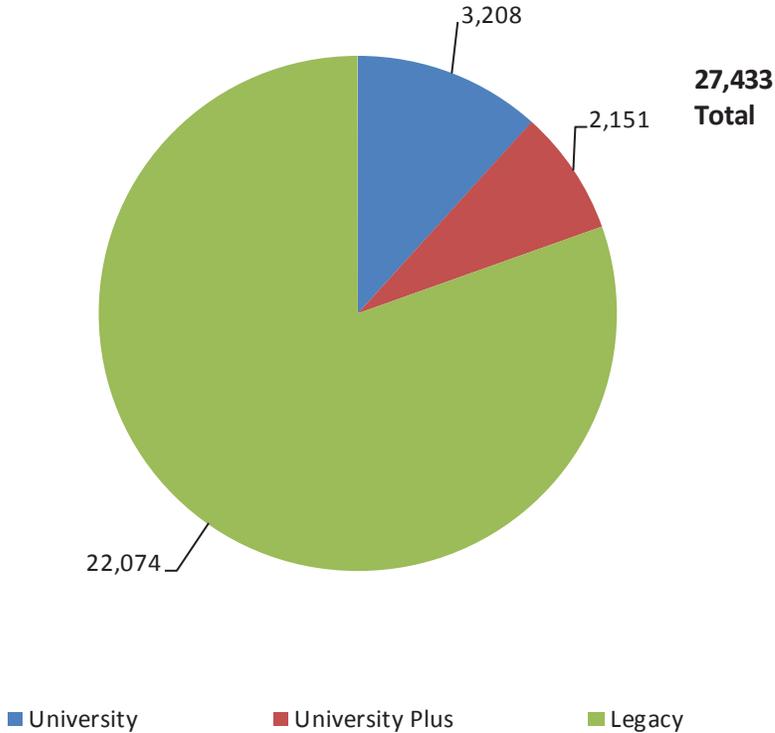
# College Illinois!® Prepaid Tuition Program Counts by Semesters Purchased Current Members as of 6/30/2019



**College Illinois!® Prepaid Tuition Program  
Counts by Contract Type  
Current Members as of 6/30/2019**



**College Illinois!® Prepaid Tuition Program  
University Counts by Type  
Current Members as of 6/30/2019**



## **SECTION E**

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### **ACTUARIAL VALUATION METHODS AND ASSUMPTIONS**

## Actuarial Valuation Methods

**Actuarial Value of Assets** – The Actuarial Value of Assets is equal to the Market Value of Assets plus the present value of expected future contract payments from current contract holders.

## Actuarial Valuation Assumptions

The rationale for the assumptions (except as indicated) may be found in the experience study report covering the period July 1, 2011 through June 30, 2014, which was issued on August 26, 2015. The assumptions were adopted for first use in the actuarial soundness valuation as of June 30, 2015.

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

**Measurement Date** June 30, 2019

**Net Investment Return Rate** The following select and ultimate rate structure, net of investment expenses and compounded annually, is assumed. Includes inflation assumption of 2.50 percent. (First effective with the actuarial soundness valuation as of June 30, 2019, and prescribed to us by ISAC.)

### Net Investment Return Rate

<u>Fiscal Year</u> <u>Ending 6/30</u>	<u>Net Investment Return Rate</u>
2020	6.000%
2021	5.583%
2022	5.166%
2023	4.749%
2024	4.332%
2025	3.915%
2026 +	3.500%

Considering the current asset allocation, current and future liquidity requirements and the fact that the program enrollment is on hold, we believe the current select and ultimate net investment rate of return assumption is reasonable, based on applicable Actuarial Standards of Practice.

**Weighted Average Tuition and Fees (WATF) by Contract Type  
Based on the Freshman Tuition Rates Adjusted for Differential Tuition (Blended)**

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy†
2019-2020 Weighted Tuition	\$4,012	\$11,025	\$13,885	\$11,805
2019-2020 Weighted Fees	516	4,174	4,174	4,174
2019-2020 Total WATF	4,528	15,199	18,059	15,979

†Legacy contracts refer to contracts sold prior to October 2008. These contracts can be used for full tuition and fees at any public University in the State of Illinois, including UIUC.

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.

**Weighted Average Tuition and Fees (WATF) Increase from Prior Year**

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy
2019-2020 Total WATF	\$4,528	\$15,199	\$18,059	\$15,979
2018-2019 Total WATF	4,444	14,829	17,853	15,608
WATF Increase	1.89%	2.50%	1.15%	2.38%

**Bias Load**

“Legacy,” Choice 1 and Choice 2 contract beneficiaries were assumed on average to attend more expensive schools than indicated by the headcount information that was used to determine the 2019-2020 WATF. The following bias loads were used to recognize this bias toward enrollment at more expensive schools. No bias load was applied to the “University Plus” beneficiaries due to the separation of UIUC.

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy
Bias Load	5.50%	2.50%	0.00%	4.00%

## Tuition and Fee Increase Assumption

Tuition and Fee Increase Assumption - June 30, 2019, Actuarial Valuation				
Effective Date	Community College	University	University Plus	Legacy
6/30/2019 and Beyond	4.75%	4.75%	4.75%	4.75%

(First effective with the actuarial soundness valuation as of June 30, 2019, and prescribed to us by ISAC.)

These assumptions were chosen by ISAC and consider historical Illinois public tuition and fee inflation, typically over a 20-year horizon, as well as current economic and political conditions.

## Truth in Tuition

Under Illinois' Truth-in-Tuition law, the state's 12 public colleges and universities are required to charge incoming resident freshmen a fixed tuition rate for the first four years of college. The Truth in Tuition law does not apply to community colleges.

For contract beneficiaries with a Choice 2, Choice 3 or Legacy contract, 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 charged the year after the year they first enrolled. For contract beneficiaries with a Choice 1 contract, it was assumed that tuition will increase for each year enrolled. The fee portion of the WATF is assumed to increase each year for all contract types.

The following table shows the WAT (excluding fees) for the past four years that would be used for contract beneficiaries under the Truth-in-Tuition law. (Choice 1 is shown for informational purposes only.)

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy
2019-2020 Weighted Tuition	\$4,012	\$11,025	\$13,885	\$11,805
2018-2019 Weighted Tuition	3,942	10,925	13,885	11,687
2017-2018 Weighted Tuition	3,862	10,675	13,884	11,525
2016-2017 Weighted Tuition	3,698	10,410	14,136	11,318
2015-2016 Weighted Tuition	3,549	10,082	14,136	11,022

## Rates of Cancellation

These rates are used to measure the probability of eligible contract beneficiaries cancelling their contracts before and after projected college entrance date. The rates apply to contract beneficiaries who (1) have not yet matriculated and (2) those who have matriculated, but have not used credits within the past year. Once the contract beneficiaries are assumed to have matriculated and started using benefits, the cancellation rates do not apply.

Years from Projected College Entrance Year	Cancellation Rate	Years from Projected College Entrance Year	Cancellation Rate
-17	8.0%	-3	1.0%
-16	7.0%	-2	1.0%
-15	6.0%	-1	1.5%
-14	4.0%	0	1.5%
-13	4.0%	1	3.0%
-12	3.0%	2	3.0%
-11	3.0%	3	5.0%
-10	3.0%	4	5.0%
-9	2.0%	5	7.5%
-8	1.5%	6	7.5%
-7	1.5%	7	5.0%
-6	1.5%	8	5.0%
-5	1.5%	9	5.0%
-4	1.0%	10	100.0%

In the event of a cancellation, it was assumed that a refund will be paid equal to the amount of all contract payments made accumulated with applicable interest, less benefits paid. (Two percent annual interest is applicable to contracts purchased prior to the 2013/2014 enrollment period. No interest is applicable to contracts purchased during or after the 2013/2014 enrollment period.)

### Rates of Enrollment

These rates are used to measure the probability of eligible contract beneficiaries matriculating at and beyond their projected college entrance date. The rates apply to contract beneficiaries who (1) have not yet matriculated and (2) who have matriculated, but have not used credits within the past year.

Years From Projected College Entrance Year	Matriculation Rate
0	70%
1	35%
2	40%
3	30%
4	20%
5	15%
6	15%
7	10%
8	10%
9	10%
10	0%

## Utilization of Benefits

The following rates apply to contract beneficiaries who (1) have not yet matriculated and (2) those who have matriculated, but have not used credits within the past year. For those who have matriculated, the projected college entrance year is assumed to be the valuation year. Contract beneficiaries are assumed to use the benefits as described by the CIPTP Master Agreement.

Distribution of Benefit Utilization									
Number of Years Since Matriculation	Number of Semesters Purchased								
	1	2	3	4	5	6	7	8	9
1	73%	73%	49%	37%	29%	24%	21%	18%	16%
2	20%	20%	28%	35%	26%	24%	21%	18%	16%
3	7%	7%	14%	17%	19%	22%	21%	18%	16%
4			5%	6%	13%	15%	21%	18%	16%
5			5%	6%	7%	9%	8%	13%	16%
6					3%	4%	3%	6%	8%
7					2%	2%	2%	4%	6%
8							1%	2%	4%
9							1%	2%	1%

For contract beneficiaries who have matriculated and have used credits within the past year, it is assumed that the contract beneficiaries will utilize 22 credits per year until benefits are fully depleted.

## Administrative Expenses

Administrative expenses of the Program are assumed to be paid through a combination of investment earnings and fees assessed on purchasers. Marketing expenses were excluded from the liabilities (present value of future administrative expenses) for current contract beneficiaries as it is assumed those costs should be applicable to future contracts. Administrative expenses are projected to increase by the rate of the inflation assumption of 2.50 percent for two years and then decline at the same rate the present value of benefits declines (combined with a 2.50 percent increase for inflation). The present value of future administrative expenses was determined to be equal to approximately 2.3 percent of the total liabilities.

Effective with the actuarial soundness valuation as of June 30, 2018, total administrative expenses were assumed to be all non-marketing related due to the ongoing deferment in open enrollment. The amount of administrative expenses assumed to be non-marketing related is the basis for the present value of future administrative expenses for current contract beneficiaries.

Fiscal Year	Assumed Current Contract Beneficiary Expenses			
	Marketing	Other Administration	Total Administrative Expenses	Marketing % of Total
2019	\$0	\$3,836,125	\$3,836,125	0.00%
2020	0	3,932,028	3,932,028	0.00%
2021	0	4,030,329	4,030,329	0.00%

## **Mortality and Disability**

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

## **Data Adjustments**

The following contract beneficiary records were excluded from the actuarial valuation:

- Records with a payment status indicating they were cancelled;
- Records with a contract usage status of depleted; and
- Records with less than one contract unit remaining (the number of contract units purchased minus the number of contract units used is less than one).

The projected college entrance year was adjusted for contract beneficiaries who are not scheduled to have completed payments for the contract by the college entrance year provided in the data.

The account balance that is eligible to be refunded is calculated by GRS based on the contract payment information provided, increased with applicable interest, less any tuition and fee benefits paid to date. Two percent annual interest is applicable to contracts purchased prior to the 2013/2014 enrollment period. No interest is applicable to contracts purchased during or after the 2013/2014 enrollment period.

## **SECTION F**

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### **PLAN PROVISIONS**

*(This is a summary only; the full terms and conditions of the College Illinois!® Prepaid Tuition 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”).*

**A. Type of Contract**

Three types of contracts are available for purchase: Choice 1 - Community College, Choice 2 – University and Choice 3 – University Plus.

**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.

The benefit shall never be less than the amount paid for the contract.

Benefits are available for use three years after the first payment due date. The plan must be paid in full prior to the use of any benefits. In addition, the beneficiary has up to 10 years from the projected college enrollment date to start using program benefits. Once the beneficiary starts using the prepaid benefits, they have 10 years to finish using benefits.

**C. Contract Payments**

The Program offers a variety of payment options, including the following:

- Lump Sum;
- 5-year installment plans paid monthly or annually;
- Extended installment plans of 6 to 15 years, depending on age, paid monthly or annually; and
- Down payment options are available for monthly installment plans.

**D. Private or Out-of-State Institutions**

For beneficiaries attending a 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.

**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 (Transfer)**

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.

**G. Cancellation/Refunds**

Refund equal to all contract payments made accumulated with applicable interest, less benefits paid and applicable cancellation fees. (Two percent annual interest is applicable to contracts purchased prior to the 2013/2014 enrollment period. No interest is applicable to contracts purchased during or after the 2013/2014 enrollment period.)

**H. Death/Disability of Qualified Beneficiary**

Refund equal to the value of the mean-weighted average cost of tuition at the colleges for the type of contract purchased will be made to the purchaser.

**I. Other Ancillary Benefits**

There are no ancillary benefits.

**J. Truth in Tuition**

Under Illinois’ Truth-in-Tuition law, enacted with the Fall 2004 semester, the state’s 12 public colleges and universities are required to charge incoming resident freshmen a fixed tuition rate for the first four years of college.

**K. Changes from Previous Valuation**

None.

# College Illinois!® Prepaid Tuition Program

Closed Group Run-Off Scenario Projection  
Based on Actuarial Soundness Valuation  
as of June 30, 2019





December 16, 2019

Mr. Eric Zarnikow  
Executive Director  
Illinois Student Assistance Commission  
1755 Lake Cook Road  
Deerfield, Illinois 60015-5209

**Re: College Illinois!® Prepaid Tuition Program  
Supplemental Actuarial Soundness Valuation Report as of June 30, 2019**

Dear Mr. Zarnikow:

In accordance with the request of the Illinois Student Assistance Commission ("ISAC"), Gabriel, Roeder, Smith & Company ("GRS") has performed a projection of the College Illinois!® Prepaid Tuition Program ("Program" or "CIPTP") under a Closed Group Run-Off scenario. The purpose of this projection is to provide additional information to ISAC regarding the Program's projected funding status.

GRS provides independent actuarial services and advice to ISAC. GRS has no decision making authority or other such responsibility for ISAC, the State of Illinois, the CIPTP and anyone else affiliated with ISAC or the CIPTP, and therefore, is specifically NOT serving in a fiduciary role in any way whatsoever.

Please understand that this projection was prepared at the request of ISAC and is intended for use by ISAC and those designated or approved by ISAC. This projection may be provided to parties other than ISAC only with the permission of ISAC. This projection should not be relied on for any purpose other than the purpose described above. GRS is not responsible for unauthorized use of this projection.

Future actuarial measurements may differ significantly from the current measurements presented in the attached projections 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.

This projection represent one of multiple documents providing actuarial soundness valuation results for the College Illinois!® Prepaid Tuition Program as of June 30, 2019. Additional information regarding the underlying financial and beneficiary data and important additional disclosures are provided in the June 30, 2019 Actuarial Soundness Valuation Report.

This projection is not a recommendation to anyone to participate or not participate in the CIPTP. GRS makes no representations or warranties to any person or persons participating in the CIPTP.

All calculations have been made in conformity with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements. There are currently no Actuarial Standards of Practice which specifically relate to prepaid tuition plans. We have looked to the Actuarial Standards of Practice related to pensions for guidance due to their similar nature.

For purposes of this projection, we used the actuarial soundness valuation results from the June 30, 2019 Actuarial Soundness Valuation, and unless noted differently, the same actuarial assumptions and methods as used for the June 30, 2019 Actuarial Soundness Valuation. The projection results 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 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, 2019, and does not reflect subsequent market volatility.

The projection results involve actuarial calculations that require assumptions about future events. 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.

The College Illinois!® Prepaid Tuition Program stopped accepting new contracts as of the 2017/2018 enrollment period and is still not accepting new contracts for the 2019/2020 enrollment period. Program enrollment remains closed as ISAC continues to engage with legislators and the Governor's office to help define proposals that will address the Program's unfunded liability.

Under this Closed Group Run-Off Scenario, Trust assets are projected to be depleted in the future. Therefore, we have incorporated a "select and ultimate" approach to the investment return assumption (and also the related discount rate for the liabilities). Under this "select and ultimate" approach to the investment return assumption, we have assumed that the net investment return and discount rate grade down from 6.00% to 3.50% in yearly increments based on the number of years until the Trust assets are projected to be depleted and are no longer available to pay benefits. Implicit in this approach is the assumption that once the Trust is completely exhausted, and ISAC is relying on additional payments from the State of Illinois, the State will be making payments to the College Illinois!® Prepaid Tuition Program from the State Portfolio. (The State Portfolio provides the necessary liquidity to meet the state's daily obligations while investing remaining funds in authorized short/long-term investment opportunities.) Based on input from ISAC, we have assumed that the underlying return on such assets in the State Portfolio is 3.50%.

According to the College Illinois!® Prepaid Tuition Program Disclosure Statement and Master Agreement:

*There are risks associated with the Program Contracts. Though a Contract is not a savings program, Contract payments and related amounts are held in the Fund and invested.*



*The Program's ability to honor existing and future Contracts depends primarily upon a combination of three factors: (i) continued Contract sales within projections; (ii) achieving a projected annual net return on Fund investments; and (iii) actual tuition/fee increases being within projected amounts. Favorable or unfavorable experience in one or more of these factors can result in the improvement or decline of the Program's funding.*

*In the event Contract sales and/or investment returns are lower than expected or if tuition/fees increase beyond the Commission's expectations, the Program may not have sufficient funds to fulfill its obligations. The Program is a moral obligation of the State of Illinois requiring the Governor to request an appropriation from the State General Assembly in the event 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.*

*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.*

*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 State's prepaid tuition statute, if the Program is discontinued, Beneficiaries who are or will enroll at an eligible institution within five years 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, if any, up to the time the Program is discontinued. Illinois Compiled Statutes, Chapter 110, Section 979/35. In the event of Program termination, the Commission will endeavor to provide refunds to Purchasers to the greatest extent possible; however, the Commission is unable to guarantee Purchasers will receive a full refund.*

*Federal or state legislative action could diminish or even terminate the Program's tax advantages. There is no assurance that a change will not adversely affect the Program or the value of your interest in the Program. The Commission is not obligated to continue to offer the Program in the event that changes in state or federal laws reduce the Benefits available to Purchasers and Beneficiaries.*

This Closed Group Run-Off scenario was specifically prescribed to us by ISAC. Based on the actuarial assumptions and methods described above, the CIPTP will require additional solvency contributions from the State of Illinois in order to pay all of the required tuition and refund payments under this scenario.



Mr. Eric Zarnikow  
Illinois Student Assistance Commission  
Page 4

Lance J. Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein.

Lance J. Weiss and Amy Williams are independent of ISAC.

Respectfully submitted,

Gabriel, Roeder, Smith & Company

**Signed Originals on File**

Lance J. Weiss, EA, MAAA, FCA  
Senior Consultant and Team Leader

Amy Williams, ASA, MAAA, FCA  
Senior Consultant



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## SECTION A

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### BACKGROUND

# Background

## Purpose of Projection

In accordance with the request of the Illinois Student Assistance Commission (“ISAC”), Gabriel, Roeder, Smith & Company (“GRS”) has performed a projection of the College Illinois!® Prepaid Tuition Program (“Program” or “CIPTP”) under a Closed Group Run-Off scenario. The purpose of this projection is to provide additional information to ISAC regarding the Program’s projected funding status.

There are currently no Actuarial Standards of Practice which specifically relate to prepaid tuition plans. We have looked to the Actuarial Standards of Practice related to pensions for guidance due to their similar nature.

The Actuarial Standards Board (ASB) recently adopted Actuarial Standards of Practice (ASOP) No. 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*. ASOP No. 51 provides guidance to actuaries with regard to the assessment and disclosure of the risk that actual future measurements may differ significantly from expected future measurements when measuring obligations under a defined benefit pension plan and calculating actuarially determined contributions for such plans. The standard will be effective for any actuarial work product with a measurement date on or after November 1, 2018. Future supplemental projection reports for CIPTP may contain additional risk metrics, projections or calculations in accordance with guidance from ASOP No. 51 due to the similar nature of prepaid tuition plans to pension plans.

## Closed Group Run-Off Scenario

The College Illinois!® Prepaid Tuition Program stopped accepting new contracts as of the 2017/2018 enrollment period and is still not accepting new contracts for the 2019/2020 enrollment period. Program enrollment remains closed as ISAC continues to engage with legislators and the Governor’s office to help define proposals that will address the Program’s unfunded liability.

While the closing of the CIPTP has not occurred (although program enrollment is currently on hold), we have performed a projection of the College Illinois!® Prepaid Tuition Program (“Program” or “CIPTP”) under a Closed Group Run-Off scenario assuming no new contract sales after June 30, 2019. Please note that this closed group scenario was specifically requested by ISAC and is being presented for illustrative purposes only.

## Projection Assumptions

The projection results summarized in this supplemental report involve actuarial calculations that require assumptions about future events. 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.

For purposes of this analysis, we used the actuarial soundness valuation results from the June 30, 2019 Actuarial Soundness Valuation, and unless noted differently, the same actuarial assumptions and methods as used for the June 30, 2019 Actuarial Soundness Valuation.

## **SECTION B**

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### **PROJECTION RESULTS**

## Discussion of Scenario Results

### Closed Group -- Run-Off Scenario; Zero New Contracts Sold Per Year

Under this illustrative closed group scenario, we have assumed that the program continues to operate but with no new contract sales. Under this scenario, future payments from current contract holders, current Trust assets and future investment income are projected to be insufficient by the year 2026 to make the required tuition payments and additional funds will be required to maintain solvency (\$481.5 million for the period 2026 to 2053). The CIPTP funded status is projected to decrease from 69.6% in 2019 to 0.6% in 2026 (when additional solvency contributions are required) and then remain at about 0.0% for the remaining years in the projection period.

Under this scenario, the Trust assets are projected to be depleted in 2026. Therefore, we have incorporated a “select and ultimate” approach to the investment return assumption (and also the related discount rate for the liabilities). Under this “select and ultimate” approach to the investment return assumption, we have assumed that the net investment return and discount rate grade down from 6.00% for year ending June 30, 2020 to 3.50% beginning for year ending June 30, 2026, in equal yearly increments of 0.417%.

## SECTION C

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### PROJECTION TABLE

Closed Group Projections  
Scenario 1 — Run-Off Scenario  
Projection Based on Data as of June 30, 2019  
Assumed Net Investment Return and Discount Rates Graded Down from 6.00% to 3.50% in 0.417% Yearly Increments  
Other Assumptions Based on Those Used in the Actuarial Valuation as of June 30, 2019  
Zero New Contracts Per Year

Year Ending 6/30	Assumed Net Return	Annual New Contracts	Assets				Liabilities				Funded Ratio			
			Contributions	Additional Required Solvency	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 Admin Expenses	Total Present Value of Future Benefits, Fees and Expenses	
2019			\$ 10,961,412	\$ -	\$ 148,862,077	\$ 3,836,125	\$ 30,587,982	\$ 702,216,197	\$ 23,680,486	\$ 1,018,997,197	\$ 24,390,847	\$ 1,043,388,044	\$ 317,491,361	69.6%
2020	6.00%	0	6,843,750	-	145,488,627	3,932,028	37,917,969	597,557,262	18,055,243	930,347,320	21,806,028	952,153,347	336,540,842	64.7%
2021	5.58%	0	5,527,859	-	141,033,161	4,030,329	29,519,385	487,541,016	13,383,194	887,371,976	18,882,151	856,254,127	355,329,917	58.5%
2022	5.16%	0	4,620,214	-	138,921,920	3,718,242	21,666,204	371,187,272	9,336,518	738,165,523	16,044,528	754,210,051	373,686,261	50.5%
2023	4.74%	0	3,210,101	-	136,794,499	3,359,672	14,413,662	248,656,865	6,494,468	633,215,995	13,367,961	646,583,955	391,432,622	39.5%
2024	4.32%	0	2,230,264	-	124,777,365	2,954,057	8,082,279	131,237,986	4,497,749	533,195,521	10,929,698	544,125,219	408,389,484	24.9%
2025	3.91%	0	1,498,304	-	109,845,204	2,549,631	2,988,008	23,229,463	3,146,484	442,095,345	8,755,534	450,853,879	424,377,932	5.9%
2026	3.50%	0	1,000,867	-	99,938,574	2,166,859	404,754	-	2,238,380	355,896,224	6,860,630	362,756,854	360,518,474	0.6%
2027	3.50%	0	801,327	-	87,009,208	1,787,977	-	-	1,501,493	279,833,818	5,281,755	285,115,573	283,614,080	0.5%
2028	3.50%	0	602,845	-	73,765,048	1,440,995	-	-	940,741	214,583,167	4,000,620	218,583,788	217,643,047	0.4%
2029	3.50%	0	421,544	-	58,464,468	1,132,614	-	-	544,810	162,614,781	2,988,378	165,603,159	165,058,349	0.3%
2030	3.50%	0	324,056	-	48,214,380	879,772	-	-	234,200	119,255,424	2,197,935	121,453,359	121,219,159	0.2%
2031	3.50%	0	165,094	-	35,485,574	661,321	-	-	74,439	87,328,133	1,602,069	88,930,201	88,855,762	0.1%
2032	3.50%	0	70,205	-	26,442,911	496,377	-	-	5,621	63,482,935	1,153,152	64,636,087	64,630,466	0.0%
2033	3.50%	0	2,930	-	19,744,124	369,861	-	-	2,837	45,618,164	817,234	46,435,398	46,432,561	0.0%
2034	3.50%	0	2,886	-	14,566,980	272,423	-	-	-	32,395,089	568,688	32,963,777	32,963,777	0.0%
2035	3.50%	0	-	-	10,857,248	198,294	-	-	-	22,483,302	386,858	22,870,160	22,870,160	0.0%
2036	3.50%	0	-	-	7,975,359	141,063	-	-	-	15,156,490	256,888	15,413,378	15,413,378	0.0%
2037	3.50%	0	-	-	5,573,431	97,471	-	-	-	10,016,840	166,717	10,183,557	10,183,557	0.0%
2038	3.50%	0	-	-	3,880,060	66,029	-	-	-	6,420,052	105,378	6,525,430	6,525,430	0.0%
2039	3.50%	0	-	-	2,648,558	43,377	-	-	-	3,950,245	64,936	4,015,181	4,015,181	0.0%
2040	3.50%	0	-	-	1,643,195	27,357	-	-	-	2,416,800	39,377	2,456,177	2,456,177	0.0%
2041	3.50%	0	-	-	1,006,386	17,156	-	-	-	1,477,542	23,301	1,500,844	1,500,844	0.0%
2042	3.50%	0	-	-	660,880	10,751	-	-	-	856,911	13,180	870,090	870,090	0.0%
2043	3.50%	0	-	-	396,086	6,391	-	-	-	483,945	7,139	491,084	491,084	0.0%
2044	3.50%	0	-	-	241,310	3,659	-	-	-	255,386	3,626	259,012	259,012	0.0%
2045	3.50%	0	-	-	133,455	2,001	-	-	-	130,590	1,717	132,307	132,307	0.0%
2046	3.50%	0	-	-	88,513	1,049	-	-	-	46,179	710	46,889	46,889	0.0%
2047	3.50%	0	-	-	24,480	380	-	-	-	23,277	348	23,625	23,625	0.0%
2048	3.50%	0	-	-	12,971	196	-	-	-	11,095	160	11,256	11,256	0.0%
2049	3.50%	0	-	-	6,553	96	-	-	-	4,915	68	4,983	4,983	0.0%
2050	3.50%	0	-	-	3,046	44	-	-	-	2,033	26	2,059	2,059	0.0%
2051	3.50%	0	-	-	1,375	18	-	-	-	723	8	732	732	0.0%
2052	3.50%	0	-	-	567	7	-	-	-	179	2	181	181	0.0%
2053	3.50%	0	-	-	184	2	-	-	-	-	-	-	-	0.0%
2054	3.50%	0	-	-	-	-	-	-	-	-	-	-	-	0.0%
2055	3.50%	0	-	-	-	-	-	-	-	-	-	-	-	0.0%
2056	3.50%	0	-	-	-	-	-	-	-	-	-	-	-	0.0%

<sup>o</sup> Additional contributions in the amount of \$481,478,739 are needed over the years 2026 through 2053 to pay all benefits due.

## SECTION D

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### ACTUARIAL METHODS AND ASSUMPTIONS

## Actuarial Valuation Methods

**Actuarial Value of Assets** – The Actuarial Value of Assets is equal to the Market Value of Assets plus the present value of expected future contract payments from contract holders.

## Actuarial Valuation Assumptions

The rationale for the assumptions (except as indicated) may be found in the experience study report covering the period July 1, 2011 through June 30, 2014, which was issued on August 26, 2015. The assumptions were adopted for first use in the actuarial valuation as of June 30, 2015.

**The actuarial assumptions used in the actuarial soundness valuation and the projection scenario are shown in this Section.**

**Measurement Date** June 30, 2019

**Net Investment Return Rate** We used a select and ultimate rate structure beginning with 6.00 percent for fiscal year 2020 and grading down in increments of 0.417 percent to an ultimate investment return rate of 3.50 percent for fiscal years on and after fiscal year 2026, compounded annually. Includes inflation assumption of 2.50 percent. (First effective with the actuarial soundness valuation as of June 30, 2019, and provided by ISAC.)

We believe that this investment return assumption is consistent with applicable Actuarial Standards of Practice.

### Weighted Average Tuition and Fees (WATF) by Contract Type Based on the Freshman Tuition Rates Adjusted for Differential Tuition (Blended)

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy†
2019-2020 Weighted Tuition	\$4,012	\$11,025	\$13,885	\$11,805
2019-2020 Weighted Fees	516	4,174	4,174	4,174
2019-2020 Total WATF	4,528	15,199	18,059	15,979

†Legacy contracts refer to contracts sold prior to October 2008. These contracts can be used for full tuition and fees at any public University in the State of Illinois, including UIUC.

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.

## Weighted Average Tuition and Fees (WATF) Increase from Prior Year

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy
2019-2020 Total WATF	\$4,528	\$15,199	\$18,059	\$15,979
2018-2019 Total WATF	4,444	14,829	17,853	15,608
WATF Increase	1.89%	2.50%	1.15%	2.38%

### Bias Load

“Legacy,” Choice 1 and Choice 2 contract beneficiaries were assumed on average to attend more expensive schools than indicated by the headcount information that was used to determine the 2019-2020 WATF. The following bias loads were used to recognize this bias toward enrollment at more expensive schools. No bias load was applied to the “University Plus” beneficiaries due to the separation of UIUC.

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy
Bias Load	5.50%	2.50%	0.00%	4.00%

### Tuition and Fee Increase Assumption

Tuition and Fee Increase Assumption - June 30, 2019, Actuarial Valuation				
Effective Date	Community College	University	University Plus	Legacy
6/30/2019 and Beyond	4.75%	4.75%	4.75%	4.75%

(First effective with the actuarial soundness valuation as of June 30, 2019, and provided by ISAC.)

These assumptions were chosen by ISAC and consider historical Illinois public tuition and fee inflation, typically over a 20-year horizon, as well as current economic and political conditions.

### Truth in Tuition

Under Illinois’ Truth-in-Tuition law, the state’s 12 public colleges and universities are required to charge incoming resident freshmen a fixed tuition rate for the first four years of college. The Truth-in-Tuition law does not apply to community colleges.

For contract beneficiaries with a Choice 2, Choice 3 or Legacy contract, 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 charged the year after the year they first enrolled. For contract beneficiaries with a Choice 1 contract, it was assumed that tuition will increase for each year enrolled. The fee portion of the WATF is assumed to increase each year for all contract types.

The following table shows the WAT (excluding fees) for the past four years that would be used for contract beneficiaries under the Truth-in-Tuition law. (Choice 1 is shown for informational purposes only.)

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy
2019-2020 Weighted Tuition	\$4,012	\$11,025	\$13,885	\$11,805
2018-2019 Weighted Tuition	3,942	10,925	13,885	11,687
2017-2018 Weighted Tuition	3,862	10,675	13,884	11,525
2016-2017 Weighted Tuition	3,698	10,410	14,136	11,318
2015-2016 Weighted Tuition	3,549	10,082	14,136	11,022

## Rates of Cancellation

These rates are used to measure the probability of eligible contract beneficiaries cancelling their contracts before and after their projected college entrance date. The rates apply to contract beneficiaries who have not yet matriculated and those who have matriculated, but have not used credits within the past year. Once the contract beneficiaries are assumed to have matriculated and started using benefits, the cancellation rates do not apply.

Years from Projected College Entrance Year	Cancellation Rate	Years from Projected College Entrance Year	Cancellation Rate
-17	8.0%	-3	1.0%
-16	7.0%	-2	1.0%
-15	6.0%	-1	1.5%
-14	4.0%	0	1.5%
-13	4.0%	1	3.0%
-12	3.0%	2	3.0%
-11	3.0%	3	5.0%
-10	3.0%	4	5.0%
-9	2.0%	5	7.5%
-8	1.5%	6	7.5%
-7	1.5%	7	5.0%
-6	1.5%	8	5.0%
-5	1.5%	9	5.0%
-4	1.0%	10	100.0%

In the event of a cancellation, it was assumed that a refund will be paid equal to the amount of all contract payments made accumulated with applicable interest, less benefits paid. (Two percent annual interest is applicable to contracts purchased prior to the 2013/2014 enrollment period. No interest is applicable to contracts purchased during or after the 2013/2014 enrollment period.)

## Rates of Enrollment

These rates are used to measure the probability of eligible contract beneficiaries matriculating at and beyond their projected college entrance date. The rates apply to contract beneficiaries who have not yet matriculated and those who have matriculated, but have not used credits within the past year.

Years From Projected College Entrance Year	Matriculation Rate
0	70%
1	35%
2	40%
3	30%
4	20%
5	15%
6	15%
7	10%
8	10%
9	10%
10	0%

## Utilization of Benefits

The following rates apply to contract beneficiaries who have not yet matriculated and those who have matriculated, but have not used credits within the past year. For those who have matriculated, the projected college entrance year is assumed to be the valuation year. Contract beneficiaries are assumed to use the benefits as described by the CIPTP Master Agreement.

Distribution of Benefit Utilization									
Number of Years Since Matriculation	Number of Semesters Purchased								
	1	2	3	4	5	6	7	8	9
1	73%	73%	49%	37%	29%	24%	21%	18%	16%
2	20%	20%	28%	35%	26%	24%	21%	18%	16%
3	7%	7%	14%	17%	19%	22%	21%	18%	16%
4			5%	6%	13%	15%	21%	18%	16%
5			5%	6%	7%	9%	8%	13%	16%
6					3%	4%	3%	6%	8%
7					2%	2%	2%	4%	6%
8							1%	2%	4%
9							1%	2%	1%

For contract beneficiaries who have matriculated and have used credits within the past year, it is assumed that the contract beneficiaries will utilize 22 credits per year until benefits are fully depleted.

## Administrative Expenses

Administrative expenses of the Program are assumed to be paid through a combination of investment earnings and fees assessed on contract holders.

For the closed group run-off scenario, marketing expenses were excluded from the liabilities (present value of future administrative expenses) for current contract beneficiaries as it is assumed those costs should be applicable to future contracts. Administrative expenses of \$3,836,125 for 2019 as provided by ISAC are projected to increase by the rate of the inflation assumption of 2.50 percent for two years and then decline at the same rate the present value of benefits declines (combined with a 2.50 percent increase for inflation). The present value of future administrative expenses was determined to be equal to approximately 2.3 percent of the total liabilities.

## Mortality and Disability

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

## Data Adjustments

The following contract beneficiary records were excluded from the actuarial valuation:

- Records with a payment status indicating they were cancelled;
- Records with a contract usage status of depleted; and
- Records with the number of contract units used equal to the number of contract units purchased.

The projected college entrance year was adjusted for contract beneficiaries who are not scheduled to have completed payments for the contract by the college entrance year provided in the data.

The account balance that is eligible to be refunded is calculated by GRS based on the contract payment information provided, increased with applicable interest, less any tuition and fee benefits paid to date. Two percent annual interest is applicable to contracts purchased prior to the 2013/2014 enrollment period. No interest is applicable to contracts purchased during or after the 2013/2014 enrollment period.

## **SECTION E**

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### **PLAN PROVISIONS**

## Plan Provisions

*(This is a summary only; the full terms and conditions of the College Illinois!® Prepaid Tuition 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”).*

### **A. Type of Contract**

Three types of contracts are available for purchase: Choice 1 - Community College, Choice 2 – University and Choice 3 – University Plus.

### **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.

The benefit shall never be less than the amount paid for the contract.

Benefits are available for use three years after the first payment due date. The plan must be paid in full prior to the use of any benefits. In addition, the beneficiary has up to 10 years from the projected college enrollment date to start using program benefits. Once the beneficiary starts using the prepaid benefits, they have 10 years to finish using benefits.

### **C. Member Contributions**

The Program offers a variety of payment options, including the following:

- Lump Sum;
- 5-year installment plans paid monthly or annually;
- Extended installment plans of 6 to 15 years, depending on age, paid monthly or annually; and
- Down payment options are available for monthly installment plans.

### **D. Private or Out-of-State Institutions**

For beneficiaries attending a 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.

**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 (Transfer)**

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.

**G. Cancellation/Refunds**

Refund equal to all contract payments made accumulated with applicable interest, less benefits paid and applicable cancellation fees. (Two percent annual interest is applicable to contracts purchased prior to the 2013/2014 enrollment period. No interest is applicable to contracts purchased during or after the 2013/2014 enrollment period.)

**H. Death/Disability of Qualified Beneficiary**

Refund equal to the value of the mean-weighted average cost of tuition at the colleges for the type of contract purchased will be made to the purchaser.

**I. Other Ancillary Benefits**

There are no ancillary benefits.

**J. Truth in Tuition**

Under Illinois’ Truth-in-Tuition law, enacted with the fall 2004 semester, the state’s 12 public colleges and universities are required to charge incoming resident freshmen a fixed tuition rate for the first four years of college.

**K. Changes from Previous Valuation**

None.



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

Honorable Frank J. Mautino  
Auditor General  
State of Illinois, and

Mr. Kevin B. Huber  
Chair of the Governing Board  
Illinois Student Assistance Commission

**Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited, 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, 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, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Student Assistance Commission's basic financial statements, and have issued our report thereon dated February 10, 2020. That report contains an emphasis of matter paragraph which states "as discussed in Note 13, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2019 of \$295 million. The amount of the fund deficit is highly dependent on the actuarial assumptions used to calculate the present value of the future tuition benefits obligation." Our opinion is not modified with respect to this matter.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Student Assistance Commission's financial statements are free from 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 these 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 matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2019-001.

**Internal Control Over Financial Reporting**

Management of the State of Illinois, Illinois Student Assistance Commission is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 State of Illinois, Illinois Student Assistance Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the above paragraphs of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **State of Illinois, Illinois Student Assistance Commission's Response to Findings**

The State of Illinois, Illinois Student Assistance Commission's response to the finding identified in our audit is described in the accompanying schedule of findings. The State of Illinois, Illinois Student Assistance Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely 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 effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Student Assistance Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

### **Signed Originals on File**

Crowe, LLP

Oak Brook, Illinois  
February 10, 2020

STATE OF ILLINOIS  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
June 30, 2019  
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS

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**FINDING 2019-001 – DEBT COVENANT VIOLATION**

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

During our audit of Fiscal Year 2019 financial statements, we noted that IDAPP was in violation of one of the debt covenants related to the agency's revolving credit (loan) agreement. In addition, the Three-Year Asset Backed Revolving Credit Facility (Facility) matured on July 27, 2010 and has not been repaid. Per the agreement, the default ratio is set at a maximum three-month rolling average of 5.0% or a maximum of 6.25% for any settlement period. We reviewed the monthly reports noting that 10 of these months rose above at least one of these ratios, ranging from 5.60% to 7.61% for the three-month average and 7.39% to 9.29% for the settlement period.

As a result of the debt covenant violation and the maturity of the facility, 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 default ratio issues and the maturity of the loan and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. The balance of the line of credit with the bank was \$93,356,827 at June 30, 2019.

According to the Commission's management, the default ratio issues are due to the poor performance of the portfolio. The portfolio continues to experience a high level of delinquent accounts. The line of credit has not been refinanced because of the conditions in the private loan credit market.

As a result of the violation, the bank may have certain remedies under the terms of the loan agreement, 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 No. 2019-001, 2018-001, 2017-001, 2016-001, 2015-001, 2014-001, 2013-001, 12-2, 11-10, 10-6, 09-1)

**Recommendation**

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

**Commission Response**

We agree with the recommendation. The loan covenants are reviewed on a monthly basis. We continue to talk to the bank about the portfolio.