State of Illinois
Illinois Student Assistance Commission

Financial Audit
For the Year Ended June 30, 2014

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

McGladrey

Assurance ▪ Tax ▪ Consulting

State of Illinois
Illinois Student Assistance Commission
Financial Audit
For the Year Ended June 30, 2014

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State of Illinois
Illinois Student Assistance Commission

Agency Officials

Executive Director	Eric Zarnikow
Chief Financial Officer	Shoba Nandhan
Chief Investment Officer	Kent Custer
General Counsel (04/16/14 to present)	Karen Salas
Acting General Counsel (10/12/13 to 04/16/14)	Karen Salas
General Counsel (through 10/11/13)	Annie Pike

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Financial Statement Report

Summary

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

Based on their audit, the auditors expressed an unmodified opinion 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 112, as finding 2014-001.

Exit Conference

In correspondence received from Wendy Funk, Director of Accounting and Finance, on January 12, 2015, the Commission elected to waive a formal exit conference. The responses to the recommendations were provided by Erik Zarnikow, Executive Director, Officer of the Illinois Designated Account Purchase Program, in correspondence dated January 12, 2015.

McGladrey

Independent Auditor's Report

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

Ms. Kym Hubbard
Honorable 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, 2014, 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 respective 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, 2014, 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 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, 2014, 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 17, beginning net position was restated to reflect the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Also, as discussed in Note 13, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2014 of $276 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 these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America, require that the budgetary comparison information on page 59 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 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 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 opinion on the basic financial statements is 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 information, consisting of combining and individual fund financial statements and schedules 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2015 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 Commission management and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey LLP

Schaumburg, Illinois
January 12, 2015

State of Illinois
Illinois Student Assistance Commission

Statement of Net Position
June 30, 2014
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Assets			
Current			
Unrestricted			
Unexpended appropriations	$ 153	$ -	$ 153
Cash and cash equivalents	489	79,574	80,063
Investments	-	167,196	167,196
Receivables			
Contracts	-	22,078	22,078
Intergovernmental	-	25,249	25,249
Accrued interest on investments	-	22	22
Other	864	-	864
Securities lending collateral	-	31,136	31,136
Due from other State funds	-	150	150
Due from State of Illinois component units	11	7	18
Due from other ISAC funds	-	2,560	2,560
Total current assets - unrestricted	1,517	327,972	329,489
Restricted			
Cash and cash equivalents	-	22,062	22,062
Receivables			
Student loans	-	78,290	78,290
Accrued interest on loans	-	12,376	12,376
Other	-	17	17
Total current assets - restricted	-	112,745	112,745
Non-current			
Unrestricted			
Investments	-	929,285	929,285
Contracts receivable	-	53,968	53,968
Notes receivable	5,018	-	5,018
Capital assets, net of accumulated depreciation	11,168	3,005	14,173
Total non-current assets - unrestricted	16,186	986,258	1,002,444
Restricted			
Student loans receivable, net	-	480,925	480,925
Total non-current assets - restricted	-	480,925	480,925
Total assets	$ 17,703	$ 1,907,900	$ 1,925,603

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Position (Continued)
June 30, 2014
(All dollar amounts are expressed in thousands)

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 248	$ 13,859	$ 14,107
Accrued interest payable	-	771	771
Federal special allowance and interest subsidy	-	1,522	1,522
Due to other State funds	13	294	307
Due to other ISAC funds	-	2,560	2,560
Due to State of Illinois component units	344	616	960
Unearned revenue	3	-	3
Securities lending collateral obligation	-	31,136	31,136
Intergovernmental payable	-	8,878	8,878
Compensated absences	-	235	235
Tuition obligation	-	174,039	174,039
Line of credit	-	211,857	211,857
Total current liabilities	608	445,767	446,375
Non-current			
Revenue bonds and notes payable, net	-	324,323	324,323
Compensated absences	-	1,921	1,921
Tuition obligation	-	1,272,617	1,272,617
Total non-current liabilities	-	1,598,861	1,598,861
Total liabilities	608	2,044,628	2,045,236
Deferred Inflows of Resources			
Unamortized deferred amount on refunding	-	49,184	49,184
Total deferred inflows of resources	-	49,184	49,184
Net Position			
Net investment in capital assets	11,168	3,005	14,173
Restricted for debt service	-	6,013	6,013
Restricted for federal programs	-	38,101	38,101
Unrestricted	5,927	(233,031)	(227,104)
Total net position	$ 17,095	$ (185,912)	$ (168,817)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Activities
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Governmental activities			
Education			
Scholarships, awards and grants	$ 387,548	$ -	$ 6,108
Total governmental activities	387,548	-	6,108
Business-type activities			
Education			
Student loan purchase program	22,714	25,358	-
Prepaid tuition	25,595	19,276	119,427
Loan guarantee program	196,089	43,801	161,475
Total business-type activities	244,398	88,435	280,902
Total Commission	$ 631,946	$ 88,435	$ 287,010

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

Change in net position

Net position (deficit) July 1, 2013, as restated

Net position (deficit) June 30, 2014

See Notes to Financial Statements.

Net (Expenses) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
$ (381,440)	$ -	$ (381,440)
(381,440)	-	(381,440)
-	2,644	2,644
-	113,108	113,108
-	9,187	9,187
-	124,939	124,939
(381,440)	124,939	(256,501)
384,316	-	384,316
(1,807)	-	(1,807)
(931)	-	(931)
-	236	236
264	-	264
270	(270)	-
382,112	(34)	382,078
672	124,905	125,577
16,423	(310,817)	(294,394)
$ 17,095	$ (185,912)	$ (168,817)

State of Illinois
Illinois Student Assistance Commission

Balance Sheet
Governmental Funds
June 30, 2014
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Unexpended appropriations	$ 153	$ -	$ 153
Cash and cash equivalents	-	489	489
Due from State of Illinois component units	11	-	11
Other receivables	440	424	864
Notes receivable, net of allowance of $27,926	5,018	-	5,018
Total assets	$ 5,622	$ 913	$ 6,535
Liabilities			
Accounts payable and accrued liabilities	$ 158	$ 90	$ 248
Due to other State funds	-	13	13
Due to State of Illinois component units	23	321	344
Unearned revenues	-	3	3
Total liabilities	181	427	608
Fund Balances			
Nonspendable - notes receivable	5,018	-	5,018
Committed	-	486	486
Unassigned	423	-	423
Total fund balances	5,441	486	5,927
Total liabilities and fund balances	$ 5,622	$ 913	$ 6,535

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Position
June 30, 2014
(All dollar amounts are expressed in thousands)

Total fund balances - governmental funds		$ 5,927
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	18,789	
Equipment	176	
Accumulated depreciation	(10,497)	
Total capital assets		11,168
Net position of governmental activities		$ 17,095

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Federal government	$ -	$ 6,108	$ 6,108
Other	1	263	264
Total revenues	1	6,371	6,372
Expenditures			
Education			
Scholarships, awards and grants	380,673	6,328	387,001
Salaries and employee benefits	-	71	71
Capital outlay - building improvement	-	269	269
Total expenditures	380,673	6,668	387,341
Deficiency of revenues over expenditures	(380,672)	(297)	(380,969)
Other sources (uses) of financial resources			
Appropriations from State resources	384,266	50	384,316
Lapsed appropriations	(1,807)	-	(1,807)
Receipts remitted to State Treasury	(931)	-	(931)
Transfers in	1	269	270
Net other sources (uses) of financial resources	381,529	319	381,848
Net change in fund balance	857	22	879
Fund balance, July 1, 2013	4,584	464	5,048
Fund balance, June 30, 2014	$ 5,441	$ 486	$ 5,927

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

Net change in fund balances - total governmental funds	$	879
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 ($475) exceeded capital outlay ($268) in FY2014.		(207)
Change in net position of governmental activities	$	672

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Net Position
Enterprise Funds
June 30, 2014
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Assets				
Current				
Unrestricted				
Cash and cash equivalents	$ 13,471	$ 3,835	$ 62,268	$ 79,574
Investments	4,009	163,187	-	167,196
Receivables				
Contracts	-	22,078	-	22,078
Intergovernmental	-	-	25,249	25,249
Accrued interest on investments	-	-	22	22
Securities lending collateral	-	-	31,136	31,136
Due from other State funds	-	-	150	150
Due from State of Illinois component units	-	-	7	7
Due from other ISAC funds	-	-	2,560	2,560
Total current assets - unrestricted	17,480	189,100	121,392	327,972
Restricted				
Cash and cash equivalents	22,062	-	-	22,062
Receivables				
Student loans receivable, net of allowance of $8,067	78,290	-	-	78,290
Accrued interest on loans	12,376	-	-	12,376
Other	17	-	-	17
Total current assets - restricted	112,745	-	-	112,745
Noncurrent				
Unrestricted				
Investments	-	929,285	-	929,285
Contracts receivable	-	53,968	-	53,968
Capital assets, net of accumulated depreciation	-	-	3,005	3,005
Total noncurrent assets - unrestricted	-	983,253	3,005	986,258
Restricted				
Student loans receivable, net of allowance of $49,556	480,925	-	-	480,925
Total noncurrent assets - restricted	480,925	-	-	480,925
Total assets	$ 611,150	$ 1,172,353	$ 124,397	$ 1,907,900

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Net Position (Continued)
Enterprise Funds
June 30, 2014
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 339	$ 773	$ 12,747	$ 13,859
Accrued interest payable	771	-	-	771
Tuition obligation	-	174,039	-	174,039
Federal special allowance and interest subsidy	1,522	-	-	1,522
Due to other ISAC funds	2,375	185	-	2,560
Due to other State funds	1	68	225	294
Due to State of Illinois component units	-	616	-	616
Securities lending collateral obligation	-	-	31,136	31,136
Intergovernmental payable	-	-	8,878	8,878
Compensated absences	7	-	228	235
Revolving credit line	211,857	-	-	211,857
Total current liabilities	216,872	175,681	53,214	445,767
Noncurrent				
Tuition obligation	-	1,272,617	-	1,272,617
Revenue bonds and notes payable, net	324,323	-	-	324,323
Compensated absences	64	-	1,857	1,921
Total noncurrent liabilities	324,387	1,272,617	1,857	1,598,861
Total liabilities	541,259	1,448,298	55,071	2,044,628
Deferred Inflows of Resources				
Unamortized deferred amount on refunding	49,184	-	-	49,184
Total deferred inflows of resources	49,184	-	-	49,184
Net Position				
Net investment in capital assets	-	-	3,005	3,005
Restricted for debt service	6,013	-	-	6,013
Restricted for federal grant programs	-	-	38,101	38,101
Unrestricted	14,694	(275,945)	28,220	(233,031)
Total net position	20,707	(275,945)	69,326	(185,912)
Total liabilities, deferred inflows of resources and net position	$ 611,150	$ 1,172,353	$ 124,397	$ 1,907,900

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Position -
Enterprise Funds
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Operating revenues				
Investment income				
Interest - student loans	$ 25,144	$ -	$ -	$ 25,144
Income - investments (net of closed end funds investment management fees of $3,902)	13	119,336	-	119,349
Interest - other	-	91	-	91
Total investment income	25,157	119,427	-	144,584
Other operating revenues				
Fees	214	551	-	765
Tuition contract revenue	-	18,725	-	18,725
Portfolio maintenance fees	-	-	2,850	2,850
Direct consolidation cost	-	-	5,903	5,903
Collections on student loans previously reimbursed by the U.S. Department of Education	-	-	33,716	33,716
Other	-	-	1,332	1,332
Total other operating revenues	214	19,276	43,801	63,291
Total operating revenues	25,371	138,703	43,801	207,875
Operating expenses				
Interest and other student loan expenses				
Interest expense				
Revenue bonds and notes	969	-	-	969
Amortization of loan premiums	1,395	-	-	1,395
Other student loan fees	1,895	-	-	1,895
Provision for loan losses	7,496	-	-	7,496
Total interest and other student loan expenses	11,755	-	-	11,755

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Revenues, Expenses and Changes in Net Position - Enterprise Funds (Continued)
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Other operating expenses				
Salaries and employee benefits	$ 853	$ 2,186	$ 24,716	$ 27,755
Loan guarantee	-	-	167,595	167,595
External loan servicing	2,477	-	-	2,477
Accreted tuition expenses	-	16,058	-	16,058
Investment management fees	-	1,466	-	1,466
Investment advisory fees	-	1,960	-	1,960
Management and professional services	1,094	3,925	3,442	8,461
MAP and other State grants	-	-	(5)	(5)
Depreciation	-	-	341	341
Other	48	-	-	48
Total other operating expenses	4,472	25,595	196,089	226,156
Total operating expenses	16,227	25,595	196,089	237,911
Operating income (loss)	9,144	113,108	(152,288)	(30,036)
Non-operating revenues (expenses)				
Federal government special allowance and interest subsidy	(6,487)	-	-	(6,487)
Federal government	-	-	161,475	161,475
Interest revenue	-	-	223	223
Total non-operating revenues (expenses)	(6,487)	-	161,698	155,211
Income before transfers	2,657	113,108	9,410	125,175
Transfers out	-	-	(270)	(270)
Change in fund net position	2,657	113,108	9,140	124,905
Net position (deficit), July 1, 2013, as restated	18,050	(389,053)	60,186	(310,817)
Net position (deficit), June 30, 2014	$ 20,707	$ (275,945)	$ 69,326	$ (185,912)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Cash flows from operating activities				
Cash received from fees and other charges	$ -	$ 551	$ 143,696	$ 144,247
Cash payments for tuition	-	(112,549)	-	(112,549)
Cash payments to suppliers for goods and services	(3,624)	(3,715)	(1,998)	(9,337)
Cash payments to employees for services	(1,029)	(2,186)	(22,741)	(25,956)
Cash payments for loan guarantees	-	-	(171,027)	(171,027)
Cash receipts from student loans and fees	102,541	-	-	102,541
Cash receipts from tuition contracts	-	35,599	-	35,599
Cash payments for student loans	(4,665)	-	-	(4,665)
Cash payments for refund of contracts	-	(15,399)	-	(15,399)
Cash payments for other operating activities	-	-	(102,568)	(102,568)
Net cash provided (used) by operating activities	93,223	(97,699)	(154,638)	(159,114)
Cash flows from noncapital financing activities				
Principal paid on revenue bonds and other borrowings	(80,797)	-	-	(80,797)
Interest paid on revenue bonds and other borrowings	(4,974)	-	-	(4,974)
Special allowance and interest subsidy	(6,710)	-	-	(6,710)
Transfers in	-	-	36,082	36,082
Transfers out	-	-	(36,352)	(36,352)
Federal government grants	-	-	163,292	163,292
Net cash provided (used) by noncapital financing activities	(92,481)	-	163,022	70,541
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	-	-	(296)	(296)
Cash flows from investing activities				
Purchase of investment securities	(2,012)	(335,561)	-	(337,573)
Proceeds from sales and maturities of investment securities	4,014	411,059	-	415,073
Interest and dividends on investments	9	20,504	218	20,731
Cash paid to investment managers	-	(1,466)	-	(1,466)
Net cash provided by investing activities	2,011	94,536	218	96,765
Increase (decrease) in cash and cash equivalents	2,753	(3,163)	8,306	7,896
Cash and cash equivalents, July 1, 2013	32,780	6,998	53,962	93,740
Cash and cash equivalents, June 30, 2014	$ 35,533	$ 3,835	$ 62,268	$ 101,636

(Continued)

State of Illinois
Illinois Student Assistance Commission

Statement of Cash Flows - Enterprise Funds (Continued)
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Illinois Designated Account Purchase Program Fund	Illinois Prepaid Tuition Program Fund	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ 9,144	$ 113,108	$ (152,288)	$ (30,036)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	-	-	341	341
Investment income	(13)	(115,912)	-	(115,925)
Interest expense	969	-	-	969
Amortization of student loan premiums	1,395	-	-	1,395
Accreted tuition expense	-	16,058	-	16,058
Provision for loan losses	7,496	-	-	7,496
Change in assets and liabilities				
Contracts receivable	-	15,730	-	15,730
Student loans receivable	74,354	-	-	74,354
Intergovernmental receivables	-	-	57	57
Accrued interest - loans and notes	109	-	-	109
Due from other ISAC funds	3	-	-	3
Due from other State funds	-	-	560	560
Due from State of Illinois component units	-	-	(3)	(3)
Other receivables	3	-	-	3
Accounts payable and accrued liabilities	(59)	(310)	(2,464)	(2,833)
Intergovernmental payables	-	-	(637)	(637)
Due to other ISAC funds	(45)	(119)	-	(164)
Due to other State funds and component units	1	638	(88)	551
Tuition obligation	-	(126,892)	-	(126,892)
Compensated absences	(134)	-	(116)	(250)
Total adjustments	84,079	(210,807)	(2,350)	(129,078)
Net cash provided (used) by operating activities	$ 93,223	$ (97,699)	$ (154,638)	$ (159,114)
Supplemental disclosure of noncash transactions:				
Net appreciation in fair value of investments	$ 6	$ 103,253	$ -	$ 103,259

See Notes to Financial Statements.

Note 1. Organization

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

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

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

A. Monetary Award Program (MAP)

This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provides up to $4,968 in fiscal year 2014 for the payment of tuition and mandatory fees. The program is usually funded by the General Fund appropriation.

B. Illinois Veteran Grant

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

This grant is an entitlement program and is awarded to eligible applicants regardless of the funding level. If funds appropriated for the Illinois Student Assistance Commission (ISAC) are insufficient to reimburse public post-secondary institutions for all recipients, the obligation to pay is transferred to the institution. This program was not funded in fiscal year 2014.

C. Illinois National Guard Grant

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

The ING Grant is an entitlement program and is awarded to eligible recipients regardless of the funding level. If funds appropriated for the Illinois Student Assistance Commission (ISAC) are insufficient to reimburse public post-secondary institutions for all recipients, the obligation to pay is transferred to the institution where the veteran attends school. This program was not funded in fiscal year 2014.

Note 1. Organization (Continued)

D. 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.

In the summer of 2009, P.A. 96-0411 instituted a transition period during which the Illinois Future Teachers Corps program (IFTC) was phased out and state support was directed instead to the Golden Apple Scholars of Illinois Program. Like IFTC, the privately-operated Golden Apple program also 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.

E. Illinois Scholars Program

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

F. 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.

G. Ancillary Award Programs

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

- Illinois Incentive for Access Program (IIA)*
- Bonus Incentive Grant*
- Grant Program for Dependents of Police, Fire or Correctional Officers
- Illinois Special Education Teacher Tuition Waiver Program*
- Student to Student Program of Matching Grants*
- Teacher/Child Care Loan Forgiveness Program
- Merit Recognition Scholarships*
- Nurse Educator Loan Repayment Program
- Veterans' Home Nurse Loan Repayment Program
- Nurse Educator Scholarship Program*

* These programs were not funded in fiscal year 2014.

Note 1. Organization (Continued)

H. 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.

I. 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.

J. *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, 2014.

Note 1. Organization (Continued)

K. Illinois Designated Account Purchase Program (IDAPP)

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

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 renew 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.

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.

For additional information, refer to the Illinois Designated Account Purchase Program financial audit, for the year ended June 30, 2014.

L. Alternative Loan Program

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

Note 2. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Note 2. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

The Commission is not legally separate from the State of Illinois; the financial statements of the Commission are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

All funds appropriated to the Commission and all other cash received are under the custody and control of the State Treasurer, with the exception of IDAPP funds, 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.

B. 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 loaning activities (business-type activities) totaling $2,364 (including amortization) is included in student loan purchase program expense in the Statement of Activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all appropriations, are presented as general revenues.

Fund Financial Statements**.** The fund financial statements provide information about the Commission's funds. Separate statements for each fund category - governmental and proprietary (enterprise) - are presented. The emphasis 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.

Note 2. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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 2014, 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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

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

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, 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.

D. Shared Fund Presentation

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

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

Unexpended Appropriation

This "asset" account represents lapse period warrants issued between July and August for fiscal year 2014 in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Note 2. Summary of Significant Accounting Policies (Continued)

D. Shared Fund Presentation (Continued)

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.

E. Budgetary Process

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

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

Unexpended appropriations are available for subsequent expenditures to the extent that encumbrances have been incurred at June 30, provided they are presented for payment during the succeeding 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.

Note 2. Summary of Significant Accounting Policies (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand, cash in banks for locally held funds, and highly liquid investments purchased with maturities of three months or less.

G. Investments

ISAC presents investments on its Statement of Net Position at fair value. The net appreciation or depreciation in the fair value of investments since the prior fiscal year (or purchase date for fiscal year 2014 purchases) is included as investment income in the financial statements. Dividend and interest income are recorded in the period earned.

H. Contracts Receivable

Contracts receivable represents the amount *College Illinois!®* expects to receive from contract holders for contracts purchased on an installment basis. The actuarially determined present value of future contributions was $76,046 as of June 30, 2014 using a 7% discount rate. The program expects to receive contributions totaling $22,078 in fiscal year 2015. 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.

I. Student Loans Receivable/Premiums

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

J. Allowance for Possible Loan Losses

The allowance for possible loan losses is 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.

K. Interfund Transactions

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

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

(All dollar amounts are expressed in thousands)

Note 2. Summary of Significant Accounting Policies (Continued)

K. Interfund Transactions (Continued)

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.

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.

L. Capital Assets

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

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

M. Restricted Assets

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

N. Encumbrances

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

O. Compensated Absences

The liability for compensated absences reported in the government-wide and 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).

Note 2. Summary of Significant Accounting Policies (Continued)

O. Compensated Absences (Continued)

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

P. Debt Premiums, Discounts, and Refunding Gains

In the government-wide and proprietary fund financial statements, debt premiums and discounts are deferred and 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 8A) 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.

Q. Tuition Obligation

The tuition obligation in the Illinois Prepaid Tuition Program represents the net contract face value for the 45,838 contracts held by the fund as of June 30, 2014, plus the actuarially-determined present value of future benefits the Program expects to provide to contract holders for all contracts.

R. Fund Balances

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

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

R. Fund Balances (Continued)

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

S. Net Position

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

Net 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.

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."

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

T. 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.

U. Funding and Actuarial Assistance

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

Note 3. Deposits and Investments

A. Authorized Deposits and Investments

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

Note 3. Deposits and Investments (Continued)

A. Authorized Deposits and Investments (Continued)

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.

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).

B. Custodial Credit Risk - Deposits

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

Funds in the custody of the State Treasurer, or in transit, totaled $66,593 at June 30, 2014. 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 of Illinois' Comprehensive Annual Financial Report.

At June 30, 2014, the Commission had no amounts that were uninsured and uncollateralized.

C. Investments

Other than the securities lending program administered by the State Treasurer, in which the Commission participates, all investments held by the Commission as of June 30, 2014, 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.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP)

Interest Rate Risk

IDAPP invests its funds in a manner that meets its cash flow needs while conforming to state statutes governing the investment of funds, including without limitation the Investment Act and all requirements/limitations of the various documents applicable to bonds and other securities issued by ISAC. The portfolio's maturity characteristics at June 30, 2014 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Government securities (U.S. treasury bills/notes)	$ 4,009	0.5

Credit Risk

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

As of June 30, 2014, IDAPP's investments were subject to credit risk (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk) as follows:

		Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's
Money market funds	$ 23,192	AAAm	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, 2014.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Designated Account Purchase Program (IDAPP) (Continued)

Concentration of Credit Risk

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

As of June 30, 2014, 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 FY14 revision to the investment policy in June 2013; the most recent policy update was done in July 2014.

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

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

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

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

	Targets		Rebalancing Range	
Asset Allocation	**Long-term**	**Interim**	**Lower Limit**	**Upper Limit**
U.S. Equity	22.00%	22.00%	19.00%	25.00%
Non-U.S. Equity	20.00%	15.00%	12.00%	18.00%
Fixed Income	25.00%	21.00%	18.00%	24.00%
High Yield	3.00%	4.00%	3.00%	5.00%
REIT	5.00%	6.00%	4.00%	8.00%
Absolute Return	9.00%	9.00%	7.00%	11.00%
Real Estate	5.00%	10.00%	N/A	N/A
Infrastructure	5.00%	6.00%	N/A	N/A
Private Equity	5.00%	5.00%	N/A	N/A
Cash	1.00%	2.00%	0.00%	4.00%

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

Asset Class	Index	Weight
U.S. Equity	Russell 3000	22.00%
Non-U.S. Equity	MSCI EAFE	15.00%
Fixed Income	BC U.S. Aggregate	21.00%
High Yield	BofA MLHY	4.00%
REIT	MSCI US REIT	6.00%
Absolute Return	90-day T Bills +4%	9.00%
Real Estate	NCREIF ODCE	10.00%
Infrastructure	90-day T Bills +4%	6.00%
Private Equity	Russell 3000 + 3%	5.00%
Cash	90-day T-Bills	2.00%

The Commission has established investment guidelines for the investment managers and conducts thorough due diligence before the appointment of all investment managers. ISAC has retained State Street Global Advisors, Income Research Management, RhumbLine Advisers, Security Capital Research, Alinda Infrastructure, Portfolio Advisors, JP Morgan AIRRO, Morgan Stanley, Balestra Capital, Neuberger Berman, Pinnacle Natural Resource, Ativo, Cornerstone Capital Management, Harris/Pyrford, CM Growth/Camelot Secondary, Kennedy Wilson, Lyrical-Antheus, Mesirow Value, T. Rowe Price and DDJ Strategic Income Plus Fund as investment managers to assist with the investment of the Program assets for the Illinois Prepaid Tuition Program.

Use of funds invested on behalf of the Illinois Prepaid Tuition Program by the investment managers is restricted to the payout of tuition and fee benefits for Program beneficiaries and the administrative costs of running the program.

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

As of June 30, 2014, 23.29% of the funds were invested in Domestic Equities, 20.25% in Fixed Income, 16.32% in International Equities, 6.86% in Infrastructure Funds, 8.42% in Absolute Return Funds, 3.38% in Private Equity Funds, 10.47% in Real Estate, 6.12% in Real Estate Investment Trust, 3.65% in High Yield, and 1.24% in cash and equivalents.

Investments owned are reported at fair value as follows:

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

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

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

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

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

Investment Commitments

Private equity, real estate and infrastructure investment portfolios consist of passive interests in non-publicly traded companies. The Program had outstanding unfunded commitments of approximately $6,000 to private equity partnerships, $11,000 to real estate and $11,000 to infrastructure funds as of June 30, 2014. These commitments are to be paid through July 2018.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2014 are presented below at fair value by investment type and by investment manager:

Investment Managers
Asset Allocation
June 30, 2014

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Core Plus	T. Rowe Price	$ 81,021	7.39%
Fixed Income-Core	State Street Global Advisors	69,165	6.31%
Fixed Income-Intermediate	Income Research Management	71,843	6.55%
Total Fixed Income Portfolio		**222,029**	**20.25%**
High Yield	DDJ Strategic Income Plus	39,973	3.65%
High Yield		**39,973**	**3.65%**
REIT Stable Income	Security Capital Research	10,969	1.00%
REIT Preferred Growth	Security Capital Research	56,164	5.12%
REIT		**67,133**	**6.12%**
Real Estate-Value Added	Kennedy Wilson	22,756	2.08%
Real Estate-Value Added	Kennedy Wilson	43,947	4.01%
Real Estate-Opportunistic	Lyrical-Antheus	23,067	2.10%
Real Estate-Value Added	Mesirow Value	24,966	2.28%
Total Real Estate		**114,736**	**10.47%**
Large-Cap Core Equity	RhumbLine Advisers	101,096	9.22%
All-Cap Core Equity	RhumbLine Advisers	154,284	14.07%
Total Domestic Equity		**255,380**	**23.29%**
International Equity	Ativo	53,009	4.84%
International Equity	Cornerstone Capital Management	54,267	4.95%
International Equity	Harris/Pyrford	71,552	6.53%
Total International Equity		**178,828**	**16.32%**
Infrastructure	Alinda Infrastructure	42,637	3.89%
Infrastructure	JP Morgan AIRRO	32,584	2.97%
Total Infrastructure		**75,221**	**6.86%**
Absolute Return Fund	Balestra Capital	31,259	2.85%
Absolute Return Fund	Neuberger Berman	31,053	2.83%
Absolute Return Fund	Pinnacle Natural Resource	30,028	2.74%
Total Absolute Return Funds		**92,340**	**8.42%**
Private Equity Secondary FoFs	CM Growth Capital Partners LP	6,191	0.56%
Private Equity Secondary FoFs	Morgan Stanley	14,329	1.31%
Private Equity Secondary FoFs	Portfolio Advisors	16,547	1.51%
Total Private Equity		**37,067**	**3.38%**
Cash and Equivalents	Northern Trust	9,765	0.89%
Investment Cash Equivalents		**9,765**	**0.89%**
Total Investments		**1,092,472**	**99.65%**
Cash and Equivalents	Illinois Treasury and lock box	3,835	0.35%
Total Cash Equivalents		**3,835**	**0.35%**
TOTAL PORTFOLIO		**$ 1,096,307**	**100%**

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Investment Management Fees

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

For investment managers who invest moneys in publicly held securities the Program pays an investment management fee for investment management services. The investment management fee is based upon contractually agreed upon conditions and provisions. Investment management fees expense for investments in publicly held securities amounted to $1,466 for the year ended June 30, 2014 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 FY 2014 amounts to $1,960.

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 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:

- Kennedy Wilson
- Lyrical-Antheus
- Mesirow Value
- Alinda Infrastructure
- JP Morgan AIRRO
- CM Growth/Camelot Secondary
- Portfolio Advisors
- Morgan Stanley

Approximately $3,900 in investment advisory fees are included in the amount reported for income from investments for the fiscal year ending June 30, 2014 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.

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.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

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

Fixed Income Portfolio Manager	Portfolio Average Duration	BarCap Aggregate Index	BarCap Int. Government/ Credit Index
Income Research Management	3.8 Years	N/A	3.9 Years
SSGA U.S. Aggregate Bond Index (Common collective trust)	5.6 Years	5.6 Years	N/A
T. Rowe Price	5.3 Years	5.6 Years	N/A

Portfolio Weighted Average Maturity

Investment Type	Fair Value	Weighted Average Maturity (in Years)
U.S. treasury bills	$ 824	0.30
U.S. treasury notes	23,148	4.08
U.S. treasury bonds	3,559	26.16
U.S. agency obligations	2,319	2.76
Index linked government bonds (U.S. Treasuries)	2,326	9.75
Bond common collective trust	69,165	7.68
Municipal/provincial bonds	5,381	8.52
Non U.S. Government Bonds denominated in U.S. dollars	492	7.76
Non U.S. Government Bonds denominated in foreign dollars	2,043	8.04
Multi-sector funds	49,891	7.59
Corporate debt securities	37,113	4.84
U.S. agency asset-backed securities	5,735	16.73
Corporate asset-backed securities	8,681	4.68
Mortgage backed securities (MBS):		
Government agencies	6,112	14.78
Non-Government Backed	2,131	22.87
Commercial	12,526	31.07
Total Fair Value	**$ 231,446**	
Portfolio weighted average maturity		**8.8**

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk

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

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

The following tables indicate credit ratings, as of June 30, 2014, 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, 2014

	Total Fair Value	Credit Rating* Moody's
Money market mutual funds	$ 13,406	NR
Illinois Funds	94	NR
Mortgage backed securities - government agencies	6,112	NR
U.S. agency obligations	2,319	Aaa
Bond common collective trust	69,165	NR
U.S. agency asset backed	5,735	Aaa
Multi-sector funds	49,891	NR

*NR - not rated

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Credit Risk (Continued)

Credit Ratings (Multiple-Rated Securities)
June 30, 2014

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Commercial mortgage-backed	Aaa	$ 4,596
	Commercial mortgage-backed	Aa	1,701
	Commercial mortgage-backed	A	1,662
	Commercial mortgage-backed	Baa	826
	Commercial mortgage-backed	Ba	908
	Commercial mortgage-backed	NR	2,833
			12,526
Moody's:	Corporate asset-backed securities	Aaa	4,458
	Corporate asset-backed securities	Aa	414
	Corporate asset-backed securities	A	300
	Corporate asset-backed securities	Baa	231
	Corporate asset-backed securities	B	165
	Corporate asset-backed securities	NR	3,113
			8,681
Moody's:	Corporate bonds	Aa	744
	Corporate bonds	A	8,667
	Corporate bonds	Baa	18,397
	Corporate bonds	Ba	9,305
			37,113
Moody's:	Municipal/provincial bonds	Aaa	1,078
	Municipal/provincial bonds	Aa	1,755
	Municipal/provincial bonds	A	1,407
	Municipal/provincial bonds	NR	953
	Municipal/provincial bonds	WR	188
			5,381
Moody's:	Non-Government Backed C.M.O.s	Caa	1,909
	Non-Government Backed C.M.O.s	NR	222
			2,131
Moody's:	Non-U.S. Government Bonds	Aa	698
	Non-U.S. Government Bonds	A	457
	Non-U.S. Government Bonds	Baa	1,212
	Non-U.S. Government Bonds	NR	168
			2,535

* NR - not rated, WR - withdrawn

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Custodial Credit Risk

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

The Illinois Prepaid Tuition Program is not exposed to custodial credit risk at June 30, 2014.

Concentration of Credit Risk

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

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

- For fixed income managers no more than 5% of the fixed income portfolio at time of purchase may be invested in any one company, except for 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, 2014, 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, 2014, 16.32% is invested in international equities. Certain alternative investments also hold investments located outside of the United States. Fluctuations in foreign exchange rates between the U.S. dollar and other currencies could have an effect on the amounts realized in U.S. dollars involving these investments. The Program has the following investments denominated in foreign currency.

(All dollar amounts are expressed in thousands)

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

Illinois Prepaid Tuition Program (Continued)

Foreign Currency Risk (Continued)

Investments Denominated in Foreign Currency
June 30, 2014
Fair Value in U.S. Dollars

Foreign Currency Denomination	Equity	Cash and cash equivalents - equity investments	Fixed income	Cash and cash equivalents - fixed income investments	Totals
Australian dollar	$ 9,573	$ (6,995)	$ -	$ (455)	$ 2,123
Brazilian real	1,276	-	-	-	1,276
British pound sterling	35,077	156	698	(1,316)	34,615
Canadian dollar	5,457	13	-	(310)	5,160
Czech koruna	4	-	-	-	4
Danish krone	3,097	436	-	-	3,533
Euro	49,184	210	-	(1,671)	47,723
Hong Kong dollar	10,065	(47)	-	1,920	11,938
Indonesian rupiah	1,174	-	197	-	1,371
Japanese yen	12,682	178	-	(911)	11,949
Malaysian ringgit	4,314	-	302	-	4,616
Mexican peso	549	-	155	1,059	1,763
New Israeli shekel	1,784	-	168	(161)	1,791
New Zealand dollar	-	-	-	(623)	(623)
Norwegian krone	2,255	-	-	-	2,255
Polish zloty	-	-	-	605	605
Singapore dollar	3,602	-	-	-	3,602
South African rand	2,656	-	523	(519)	2,660
Swedish krona	6,136	-	-	292	6,428
Swiss franc	14,000	244	-	-	14,244
Thai baht	867	1	-	-	868
Total	$ 163,752	(5,804)	$ 2,043	(2,090)	$ 157,901

Note 3. Deposits and Investments (Continued)

C. Investments (Continued)

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

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

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

During fiscal year 2014, Deutsche Bank AG lent U.S. Treasury and 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 market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available eligible securities. In the event of borrower default, Deutsche Bank 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, 2014 were $16,902 and $14,234, respectively.

Note 4. Student Loans Receivable

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

All FFELP loans originated or purchased by IDAPP prior to October 1, 1993 are guaranteed at 100% by Guarantors in accordance with the Higher Education Act. For loans disbursed between October 1, 1993 and prior to July 1, 2006 the loans are guaranteed at 98%. Loans disbursed after July 1, 2006 are guaranteed at 97%. All guaranteed loans are reinsured by the United States Department of Education (ED). ED has issued detailed loan servicing requirements, which, if not strictly adhered to, may result in the loss of the loan guaranty. The United States Department of Education has also issued specific guidelines to provide for the cure of such servicing deficiencies and the reinstatement of the guaranty. For servicing contracts established with outside vendors, contractual provisions require the contractors to indemnify IDAPP for losses due to their negligence in loan servicing. Such recoveries will be recognized as income when received. There is $1,119 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, 2014.

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 $217,592 at June 30, 2014. Of this amount, $55,267 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 $57,624 as of June 30, 2014. 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, 2014 as reported by ISAC was $34,361. Restricted net position, which includes $24,553 of claims in process, was $38,101. 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 $399,247 at June 30, 2014 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.

(All dollar amounts are expressed in thousands)

Note 5. Federal Special Allowance and Interest Subsidy

The Federal government pays IDAPP (interest subsidy) or IDAPP owes the federal government (excess interest) an interest amount on certain student loans during the time that the student is enrolled in an eligible educational institution or qualifies for deferment status. The federal interest payable at June 30, 2014 was $1,522.

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

Federal Interest Benefits	$	1,960
Special Allowance Payments (Interest Subsidy)		111
Excess Interest		(8,558)
Net Expense Incurred to DOE	$	(6,487)

Note 6. Interfund Balances and Activity

A. Balances Due To/From Other Funds

The balances at June 30, 2014 represent amounts due from other ISAC and State of Illinois funds and component units as follows:

Fund	Due from Primary Government Funds: ISAC	Due from Primary Government Funds: Other State	Due from Component Units	Description/Purpose
General	$ -	$ -	$ 2	Due from State universities for scholarship and MAP grants.
Education Assistance	-	-	9	Due from State universities for scholarship and grants.
Nonmajor Enterprise - Student Loan Operating	2,375	-	-	Due from IDAPP Fund for shared services.
	185	-	-	Due from Illinois Prepaid Tuition Fund for shared services.
	-	61	-	Due from Governor's Office of Management and Budget for refund of personnel costs.
	-	-	7	Due from Illinois Medical District Commission for refund of personnel costs.
	-	37	-	Due from Central Management Services (on behalf of DCFS) for rent and expenses.
	-	52	-	Due from Healthcare and Family Services for rent and expenses.
	2,560	150	7	
	$ 2,560	$ 150	$ 18	

(All dollar amounts are expressed in thousands)

Note 6. Interfund Balances and Activity (Continued)

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

The balances at June 30, 2014 represent amounts due to other ISAC and State of Illinois funds and component units as follows:

Fund	Due to Primary Government Funds		Due to Component Units	Description/Purpose
	ISAC	Other State		
General	$ -	$ -	$ 2	Due to State universities for scholarship and MAP grants.
Education Assistance	-	-	21	Due to State universities for scholarship and grants.
Illinois Designated Account Purchase Program	2,375	-	-	Due to Student Loan Operating Fund for shared services.
	-	1	-	Due to Auditor General for audit fees.
	2,375	1	-	
Nonmajor Governmental - College Access Challenge Grant	-	13	-	Due to Central Management Services for communications.
	-	-	321	Due to State universities for intergovernmental agreement.
	-	13	321	
Nonmajor Enterprise - Student Loan Operating	-	213	-	Due to Central Management Services for EDP, communications, and garage fund.
	-	7	-	Due to ISBE - Longitudinal data system subgrant
	-	5	-	Due to Court of Claims (P.A. 98-0642 pursuant to P.A. 92-0357).
	-	225	-	
Illinois Prepaid Tuition Program	-	-	616	Due to State universities for payment of tuition contracts.
	-	68	-	Due to Auditor General for audit costs.
	185	-	-	Due to Student Loan Operating Fund for shared services.
	185	68	616	
	$ 2,560	$ 307	$ 960	

Note 6. Interfund Balances and Activity (Continued)

B. Transfers To/From Other Funds

Interfund transfers in for the year ended June 30, 2014 were as follows:

Fund	Transfers In From Other ISAC Funds	Description/Purpose
General	$ 1	Transfer from Student Loan Operating Fund for share of receivable collections.
Nonmajor Governmental-ISAC COP Debt Service	269	Transfer from the Student Loan Operating Fund for capital asset payment.
	$ 270	

Interfund transfers out for the year ended June 30, 2014 were as follows:

Fund	Transfers Out To Other ISAC Funds	Description/Purpose
Nonmajor Enterprise - Student Loan Operating	$ 1	Transfer to General Revenue Fund for share of receivable collections.
	269	Transfer to ISAC COP Debt Service Fund for capital asset payment.
	$ 270	

(All dollar amounts are expressed in thousands)

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,700	$ -	$ -	$ 2,700
Capital assets being depreciated:				
Buildings	18,521	268	-	18,789
Equipment	216	-	(40)	176
Total capital assets being depreciated	18,737	268	(40)	18,965
Less accumulated depreciation:				
Buildings	(9,850)	(474)	-	(10,324)
Equipment	(212)	(1)	40	(173)
Total accumulated depreciation	(10,062)	(475)	40	(10,497)
Total capital assets being depreciated, net	8,675	(207)	-	8,468
Governmental activities capital assets, net	$ 11,375	$ (207)	$ -	$ 11,168
Business-type activities:				
Illinois Designated Account Purchase Program Fund:				
Capital assets being depreciated:				
Equipment	$ 323	$ -	$ (10)	$ 313
Less accumulated depreciation:				
Equipment	(323)	-	10	(313)
Total capital assets being depreciated, net	-	-	-	-
Nonmajor Enterprise Funds:				
Capital assets not being depreciated:				
Construction-in-progress	431	90	(431)	90
Capital assets being depreciated:				
Equipment and automobiles	774	39	(45)	768
Internally generated software	2,759	598	-	3,357
Less accumulated depreciation:				
Equipment and automobiles	(632)	(35)	45	(622)
Internally generated software	(282)	(306)	-	(588)
Total capital assets being depreciated, net	2,619	296	-	2,915
Business-type activities capital assets, net	$ 3,050	$ 386	$ (431)	$ 3,005

Depreciation expense for governmental activities on the Government-wide Statement of Activities for the year ended June 30, 2014 amounted to $207. Of that amount, 100% was charged to the Scholarships, awards and grants function.

Note 8. Long-Term Obligations Payable

A. Revenue Bonds and Notes Payable and Pledged Revenues

On 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 tranche has been paid off. $92,211 of the Class A-2 tranche has been paid off leaving a balance of $176,789. The total principal and interest remaining to be paid on the bonds is approximately $402,486. 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, 2014 variable interest rates were 1.27875% and 1.12875% for the LIBOR FRN Class A-2 and A-3, respectively.

Annual principal and interest payments on the bonds are expected to require approximately 93 percent of the related student loan collections. Principal and interest paid for the current year were $52,047 and $4,418, respectively. Total related student loan principal and interest received were $58,686 and $9,956, respectively.

(All dollar amounts are expressed in thousands)

Note 8. Long-Term Obligations Payable (Continued)

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

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 2014 is $4,043. Amortization is included as a reduction of interest expense on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

B. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2014, were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Business-type activities:					
Illinois Designated Account Purchase Program :					
Revenue bonds/notes payable:					
Series 2010, Class A-2	$ 228,836	$ -	$ (52,047)	$ 176,789	$ -
Series 2010, Class A-3	154,000	-	-	154,000	-
Unamortized discounts	(6,675)	-	209	(6,466)	-
Other long-term obligations:					
Compensated absences	206	46	(181)	71	7
Total Illinois Designated Account Purchase Program	376,367	46	(52,019)	324,394	7
Illinois Prepaid Tuition Program :					
Tuition obligation	1,557,490	17,114	(127,948)	1,446,656	174,039
Total Illinois Prepaid Tuition Program	1,557,490	17,114	(127,948)	1,446,656	174,039
Nonmajor Enterprise Fund:					
Compensated Absences	2,201	1,443	(1,559)	2,085	228
Total Nonmajor Enterprise Fund	2,201	1,443	(1,559)	2,085	228
Total business-type activities	$ 1,936,058	$ 18,603	$ (181,526)	$ 1,773,135	$ 174,274

(All dollar amounts are expressed in thousands)

Note 8. Long-Term Obligations Payable (Continued)

C. Future Maturities of Revenue Bonds and Notes

IDAPP issued bonds and notes to provide funds for student loan originations and purchases. IDAPP pledges the income derived from its assets to pay debt service. The majority of IDAPP's outstanding revenue bonds and notes are comprised of variable rate debt. As such, the interest figures shown above are calculated assuming the interest rate in effect on June 30, 2014. Actual interest paid in future years could be materially different.

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

Year Ending June 30	Principal	Interest	Total
2015	$ -	$ 3,999	$ 3,999
2016	-	3,999	3,999
2017	-	3,999	3,999
2018	-	3,999	3,999
2019	-	3,999	3,999
2020-2024	176,789	15,084	191,873
2025-2029	-	8,691	8,691
2030-2034	-	8,691	8,691
2035-2039	-	8,691	8,691
2040-2044	-	8,691	8,691
2045-2046	154,000	1,854	155,854
	330,789	$ 71,697	$ 402,486
Plus (minus):			
Unamortized discounts	(6,466)		
Net long-term principal outstanding	$ 324,323		

(All dollar amounts are expressed in thousands)

Note 8. Long-Term Obligations Payable (Continued)

D. Tuition Obligation

The tuition obligation is management's estimate of the present value of the estimated tuition payments to be made and is expected to be financed from investments of prepaid tuition contracts. The estimate for the future tuition obligation is based on a closed group projection for existing contracts assuming no new contract sales after June 30, 2014. See actuarial assumptions and additional information in Note 13 B.

Tuition obligation activity for the year ended June 30, 2014, is as follows:

Balance as of July 1, 2013	$ 1,557,490
Add:	
Contributions received in FY2014	35,511
Change in contracts receivable, at present value*	(15,730)
Adjust tuition obligation based on actuarial valuation	(2,667)
Less:	
Return of contributions	(15,399)
Tuition payments	(112,549)
Balance as of June 30, 2014**	$ 1,446,656
Reported as:	
Current	$ 174,039
Noncurrent	1,272,617
	$ 1,446,656

* See Note 13.B. Discount rate used in determining fair value was 7.0%.

**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. The reduction in the average increase in tuition assumption contributed to the decrease in the tuition obligation compared to the balance at June 30, 2013. 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.

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, 2014 was 0.151%.

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 2014 there was $25,704 in principal and $6,870 in interest collected all of which was transferred to the trust. During the same period the trust paid $1,327 for interest expense and other professional fees and $1,737 for servicing fees.

(All dollar amounts are expressed in thousands)

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

Changes in the revolving credit line are as follows:

	Balance, July 1, 2013	Borrowings	Repayments	Balance, June 30, 2014	Amounts Due Within One Year
Citibank	$ 240,607	$ -	$ (28,750)	$ 211,857	$ 211,857

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, 2014.

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

Note 11. Pension Plan

Substantially all of the Commission's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations 2014 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

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

The Commission pays employer contributions based upon an actuarially determined percentage of their payrolls. For fiscal years 2014, 2013, and 2012, the employer contribution rate was 40.3%, 38.0%, and 34.2%, respectively. For fiscal years 2014, 2013 and 2012, the required and actual contribution was $5,844, $5,852, and $5,690, respectively. Liabilities related to the SERS pension plan are recorded by the State of Illinois' however, these amounts are not separated by department, fund or component unit.

(All dollar amounts are expressed in thousands)

Note 12. Post-Employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits in accordance with Public Act 97-0695.

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

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

Note 13. Fund Balances and Net Position

A. Deficit in Fund Net Position

As of June 30, 2014, the Illinois Prepaid Tuition Program has a deficit in net position of $275,944. 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, 2014.

Unfunded liability per actuarial soundness report	$	(328,182)
Present value of accrued future administrative expense		53,880
Other accrued liabilities		(1,643)
Fund deficit per Statement of Net Position	$	(275,945)

B. Program Risks and Actuarial Data

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

Gabriel, Roeder, Smith and Company, the independent actuarial firm retained by *College Illinois!*®, has performed an actuarial soundness valuation of *College Illinois!*®, the State's section 529 prepaid tuition program, as of June 30, 2014 to evaluate the financial viability of the program as of June 30, 2014. The complete Actuarial Soundness Report as of June 30, 2014 is included in the Other Information Section.

(All dollar amounts are expressed in thousands)

Note 13. Fund Balances and Net Position (Continued)

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.

APV of future benefits obligation*	$ 1,446,655
Funded ratio	78.50 %
Actuarial assumptions:	
Actuarial valuation date	June 30, 2014
Assumed net investment return	7.00 %
Rates of cancellations	12.50 %
Tuition increases by contract type:	
Legacy:	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00
University Plus:	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00
University:	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00
Community College:	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00

* For all existing contracts as of June 30, 2014

The actuarial present value of future benefits obligation decreased by approximately $111,000 compared to the reported balance at June 30, 2013. Contributing to the overall decrease was the change in the tuition increase assumption which accounted for approximately $54,000 of the decrease.

Note 13. Fund Balances and Net Position (Continued)

C. Restrictions and Commitments

As of June 30, 2014, the Commission reported the following net position restrictions and fund balance commitments:

The Illinois Designated Account Purchase Program reported $6,013 of net position restricted for debt service. The Federal Student Loan Fund reported $38,101 of net position restricted for federal programs (loan guarantees). The ISAC Accounts Receivable Fund, the Future Teacher Corp Fund and the University Grant Fund reported $64, $326, and $96, 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 $145 in 2014. There are no future minimum rental commitments for non-cancelable operating leases to be satisfied by future Commission appropriations.

Note 15. Subsequent Event

On October 16, 2014, the Commission approved new pricing and fees for the College Illinois! Prepaid Tuition Program 2014-2015 enrollment period.

The June 30, 2014, actuarial soundness report compiled by Gabriel, Roeder, Smith and Company (GRS), indicates that the funded status of the Program has improved from 72.3% at June 30, 2013 to 78.1% at June 30, 2014 as a result of investment results exceeding assumptions, actual 2014-15 tuition rates below assumptions, modestly reduced expectations for future tuition increases, and modest contract sales. ISAC management recognized that moderation of tuition increases and the expectation for continued moderation provided an opportunity to reduce pricing, making contracts more appealing to and affordable for Illinois families.

The 2014-15 enrollment period pricing that was approved includes a price reduction for all plan options. Developed in consultation with the program's actuary, the new reduced pricing reflects the moderation in tuition inflation seen for the past several years and that is expected to continue in the future.

However, there will be a near-term negative actuarial impact as current contract holders, who purchased a contract at a higher price than the 2014-15 enrollment period prices would receive a price adjustment in 2015. Preliminary estimates indicate that price reductions for eligible current contract holders are expected to be approximately $8,000 to $10,000.

Note 16. New Governmental Accounting Standards

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

GASB Statement No. 68*, Accounting and Financial Reporting for Pensions* requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The Commission is required to implement this Statement for the year ending June 30, 2015; however, it is not clear if the net position liability will be reported by individual funds or departments of the State.

(All dollar amounts are expressed in thousands)

Note 16. New Governmental Accounting Standards (Continued)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Commission is required to implement this Statement for the year ending June 30, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and non-employer contributing entities. The provisions of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 (FY15).

Management has not yet completed its assessment of the impact these Statements may have on the financial statements.

Note 17. Restatement for Implementation of New Accounting Standard

As shown in the following table, the net position for the IDAPP fund and business-type activities have been restated for the implementation of GASB Statement 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The Statement of Net Position of IDAPP and business-type activities included deferred charges in previous years. However, pursuant to GASB 65 applicable debt issuance and student loan acquisition costs should now be recognized in the period incurred as an expense. Therefore, the Commission restated the Net Position of the financial statements as follows:

	Business-Type Activities	IDAPP Fund
Net Position, June 30, 2013	$ (305,467)	$ 23,400
Implementation of GASB 65:		
Debt issuance costs	(3,578)	(3,578)
Loan acquisition costs	(1,772)	(1,772)
Net Position, June 30, 2013 as restated	$ (310,817)	$ 18,050

State of Illinois
Illinois Student Assistance Commission

Required Supplementary Information
Budgetary Comparison Schedule - Major Governmental Fund - General Fund - Budgetary Basis
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Budgeted Amounts			Actual Amounts	Variance from
	Original	Final	Actual Amount	GAAP Basis	Final Budget
Revenues (inflows)					
Appropriations from State resources and other revenues					
General Revenue Account	$ 373,198	$ 373,198	$ 371,466	$ 371,466	$ (1,732)
Education Assistance Account	11,068	11,068	10,063	10,063	(1,005)
Combined totals	384,266	384,266	381,529	381,529	(2,737)
Expenditures (outflows)					
Education					
Program, administration, and capital outlay					
General Revenue Account	373,198	373,198	370,610	370,610	2,588
Education Assistance Account	11,068	11,068	10,063	10,063	1,005
Combined totals	384,266	384,266	380,673	380,673	3,593
Excess (deficiency) of revenues over expenditures	-	-	856	856	856
Other sources (uses) of financial resources					
Transfers in	-	-	1	1	1
Net change in fund balance	$ -	$ -	857	857	$ 857
Fund balance, July 1, 2013			4,584	4,584	
Fund balance, June 30, 2014			$ 5,441	$ 5,441	

See Notes to Required Supplementary Information.

State of Illinois
Illinois Student Assistance Commission

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

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

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

Actual revenue amounts on the budgetary basis	$ 371,466
Total revenues on the GAAP basis	$ 371,466

State of Illinois
Illinois Student Assistance Commission

Combining Schedule of Accounts
General Fund
June 30, 2014
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Assets			
Unexpended appropriations	$ 92	$ 61	$ 153
Due from State of Illinois component units	2	9	11
Other receivables	423	17	440
Notes receivable, net of allowance of $27,926	5,018	-	5,018
Total assets	$ 5,535	$ 87	$ 5,622
Liabilities			
Accounts payable and accrued liabilities	$ 92	$ 66	$ 158
Due to State of Illinois component units	2	21	23
Total liabilities	94	87	181
Fund Balances			
Nonspendable - notes receivable	5,018	-	5,018
Unassigned	423	-	423
Total fund balances	5,441	-	5,441
Total liabilities and fund balances	$ 5,535	$ 87	$ 5,622

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	General Revenue Account	Educational Assistance Account	Total
Revenues			
Other	$ 1	$ -	$ 1
Expenditures			
Education			
Scholarships, awards and grants	370,610	10,063	380,673
Deficiency of revenues over expenditures	(370,609)	(10,063)	(380,672)
Other sources (uses) of financial resources			
Appropriations from State resources	373,198	11,068	384,266
Lapsed appropriations	(870)	(937)	(1,807)
Receipts remitted to (from) State Treasury	(863)	(68)	(931)
Transfers in	1	-	1
Net other sources (uses) of financial resources	371,466	10,063	381,529
Net change in fund balance	857	-	857
Fund balance, July 1, 2013	4,584	-	4,584
Fund balance, June 30, 2014	$ 5,441	$ -	$ 5,441

State of Illinois
Illinois Student Assistance Commission

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014
(All dollar amounts are expressed in thousands)

	Special Revenue Funds		
	I S A C Accounts Receivable	College Access Challenge Grant	John R. Justice Grant
Assets			
Cash and cash equivalents	$ 64	$ -	$ -
Receivables			
Other	-	347	77
Total assets	$ 64	$ 347	$ 77
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	$ -	$ 13	$ 77
Due to other State funds	-	13	-
Due to State of Illinois component units	-	321	-
Unearned revenue	-	-	-
Total liabilities	-	347	77
Fund balances			
Committed	64	-	-
Total liabilities and fund balances	$ 64	$ 347	$ 77

Special Revenue Funds				Debt Service Fund	
Future Teacher Corp	University Grant	Optometric Education	Total	I S A C COP	Total Nonmajor Governmental Funds
$ 328	$ 97	$ -	$ 489	$ -	$ 489
-	-	-	424	-	424
$ 328	$ 97	$ -	$ 913	$ -	$ 913
$ -	$ -	$ -	$ 90	$ -	$ 90
-	-	-	13	-	13
-	-	-	321	-	321
2	1	-	3	-	3
2	1	-	427	-	427
326	96	-	486	-	486
$ 328	$ 97	$ -	$ 913	$ -	$ 913

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Special Revenue Funds		
	I S A C Accounts Receivable	**College Access Challenge Grant**	**John R. Justice Grant**
Revenues			
Federal government	$ -	$ 6,031	$ 77
Licenses, fees, and other	126	-	-
Total revenues	126	6,031	77
Expenditures			
Education			
Scholarships, awards and grants	86	6,031	77
Salaries and employee benefits	71	-	-
Capital outlay - building improvement	-	-	-
Total expenditures	157	6,031	77
Excess (deficiency) of revenues over expenditures	(31)	-	-
Other sources of financial resources			
Appropriations from State resources	-	-	-
Transfers in	-	-	-
Net other sources of financial resources	-	-	-
Net change in fund balance	(31)	-	-
Fund balance, July 1, 2013	95	-	-
Fund balance, June 30, 2014	$ 64	$ -	$ -

Special Revenue Funds				Debt Service Fund	
Future Teacher Corp	University Grant	Optometric Education	Total	I S A C COP	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ 6,108	$ -	$ 6,108
46	91	-	263	-	263
46	91	-	6,371	-	6,371
-	84	50	6,328	-	6,328
-	-	-	71	-	71
-	-	-	-	269	269
-	84	50	6,399	269	6,668
46	7	(50)	(28)	(269)	(297)
-	-	50	50	-	50
-	-	-	-	269	269
-	-	50	50	269	319
46	7	-	22	-	22
280	89	-	464	-	464
$ 326	$ 96	$ -	$ 486	$ -	$ 486

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2014
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Assets				
Current				
Cash and cash equivalents	$ 27,907	$ 34,361	$ -	$ 62,268
Receivables				
Intergovernmental	696	24,553	-	25,249
Accrued interest on investments	10	12	-	22
Securities lending collateral	14,234	16,902	-	31,136
Due from other State funds	150	-	-	150
Due from State of Illinois component units	7	-	-	7
Due from other ISAC funds	2,560	-	-	2,560
Due from Federal Student Loan fund	1,732	-	(1,732)	-
Due from Student Loan Operating fund	-	96	(96)	-
Total current assets	47,296	75,924	(1,828)	121,392
Noncurrent				
Capital assets, net of accumulated depreciation	3,005	-	-	3,005
Due from Student Loan Operating fund	-	1,918	(1,918)	-
Total noncurrent assets	3,005	1,918	(1,918)	3,005
Total assets	$ 50,301	$ 77,842	$ (3,746)	$ 124,397
Liabilities				
Current				
Accounts payable and accrued liabilities	$ 518	$ 12,229	$ -	$ 12,747
Due to Federal Student Loan fund	96	-	(96)	-
Due to Student Loan Operating fund	-	1,732	(1,732)	-
Due to other State funds	225	-	-	225
Securities lending collateral obligation	14,234	16,902	-	31,136
Due to U.S. Department of Education	-	8,878	-	8,878
Compensated absences	228	-	-	228
Total current liabilities	15,301	39,741	(1,828)	53,214
Noncurrent				
Due to Federal Student Loan fund	1,918	-	(1,918)	-
Compensated absences	1,857	-	-	1,857
Total noncurrent liabilities	3,775	-	(1,918)	1,857
Total liabilities	19,076	39,741	(3,746)	55,071

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Net Position
Nonmajor Enterprise Funds (Continued)
June 30, 2014
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Eliminations	Total
Net Position				
Net investment in capital assets	$ 3,005	$ -	$ -	$ 3,005
Restricted	-	38,101	-	38,101
Unrestricted	28,220	-	-	28,220
Total net position	31,225	38,101	-	69,326
Total liabilities and net position	$ 50,301	$ 77,842	$ (3,746)	$ 124,397

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Revenues, Expenses and Changes in Net Position -
Nonmajor Enterprise Funds
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Operating revenues			
Portfolio maintenance fees	$ 2,850	$ -	$ 2,850
Direct consolidation fees	5,903	-	5,903
Collections on student loans previously reimbursed by the U.S. Department of Education	-	33,716	33,716
Other	1,332	-	1,332
Total operating revenues	10,085	33,716	43,801
Operating expenses			
Salaries and employee benefits	24,716	-	24,716
Loan guarantees	-	167,595	167,595
Management and professional services	3,442	-	3,442
MAP and other State grants	(5)	-	(5)
Depreciation	341	-	341
Total operating expenses	28,494	167,595	196,089
Operating loss	(18,409)	(133,879)	(152,288)
Non-operating revenues			
Federal government	-	161,475	161,475
Interest revenue	89	134	223
Total non-operating revenues	89	161,609	161,698
Income (loss) before transfers	(18,320)	27,730	9,410
Transfers out to other ISAC funds	(270)	-	(270)
Transfers for:			
Collection retention fees	4,964	(4,964)	-
Repurchases/Rehabilitations/Consolidation Retention fees	27,643	(27,643)	-
Direct Consolidation fee refund	(2,778)	2,778	-
Default aversion fees	111	(111)	-
Other program expenditures	(22)	22	-
Net transfers	29,648	(29,918)	(270)
Change in net position	11,328	(2,188)	9,140
Net position, July 1, 2013	19,897	40,289	60,186
Net position, June 30, 2014	$ 31,225	$ 38,101	$ 69,326

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Cash flows from operating activities			
Cash received from fees and other charges	$ 10,323	$ 133,373	$ 143,696
Cash payments to suppliers for goods and services	(1,998)	-	(1,998)
Cash payments to employees for services	(22,741)	-	(22,741)
Cash payments for loan guarantees	-	(171,027)	(171,027)
Cash payments for other operating activities	(3,545)	(99,023)	(102,568)
Net cash used in operating activities	(17,961)	(136,677)	(154,638)
Cash flows from noncapital financing activities			
Federal government grants	-	163,292	163,292
Transfers in	33,092	2,990	36,082
Transfers out	(3,260)	(33,092)	(36,352)
Net cash provided by noncapital financing activities	29,832	133,190	163,022
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(296)	-	(296)
Cash flows from investing activities			
Interest and dividends on investments	85	133	218
Net increase (decrease) in cash and cash equivalents	11,660	(3,354)	8,306
Cash and cash equivalents, July 1, 2013	16,247	37,715	53,962
Cash and cash equivalents, June 30, 2014	$ 27,907	$ 34,361	$ 62,268

(Continued)

State of Illinois
Illinois Student Assistance Commission

Combining Statement of Cash Flows -
Nonmajor Enterprise Funds (Continued)
Year Ended June 30, 2014
(All dollar amounts are expressed in thousands)

	Student Loan Operating Fund	Federal Student Loan Fund	Total
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	$ (18,409)	$ (133,879)	$ (152,288)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	341	-	341
Change in assets and liabilities			
Intergovernmental receivables	57	-	57
Due from other State funds	560	-	560
Due from State of Illinois component units	(3)	-	(3)
Accounts payable and accrued liabilities	(303)	(2,161)	(2,464)
Intergovernmental payables	-	(637)	(637)
Due to other State funds and component units	(88)	-	(88)
Compensated absences	(116)	-	(116)
Total adjustments	448	(2,798)	(2,350)
Net cash used in operating activities	$ (17,961)	$ (136,677)	$ (154,638)

COLLEGE ILLINOIS!® PREPAID TUITION PROGRAM
ACTUARIAL SOUNDNESS VALUATION REPORT
AS OF JUNE 30, 2014

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

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November 13, 2014

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

Re: College Illinois!® Prepaid Tuition Program Actuarial Valuation as of June 30, 2014

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, 2014. 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, 2014.

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

- A comparison of the actuarial present value of the obligations for prepaid tuition contracts purchased through June 30, 2014, 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 valuation results set forth in this report are based upon data and information, furnished by ISAC, concerning program benefits, financial transactions and beneficiaries of the CIPTP. We reviewed this information for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the Illinois Student Assistance Commission. Further, the data and information provided is through June 30, 2014, and do not reflect subsequent market volatility.

The valuation results summarized in this 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.

Given the current asset allocation and liquidity requirements, the net investment rate of return assumption of 7.00 percent, appears to be consistent with applicable Actuarial Standards of Practice. The valuation results reflect changes to the tuition and fee increase assumption.

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

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

To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the College Illinois!® Prepaid Tuition Program as of June 30, 2014. 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 Weiss, Paul Wood and Alex Rivera are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

The signing actuaries are independent of ISAC.

Respectfully submitted,

Gabriel, Roeder, Smith and Company

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

Paul T. Wood, ASA, MAAA, FCA
Consultant

Alex Rivera, FSA, EA, MAAA
Senior Consultant

SECTION A

EXECUTIVE SUMMARY

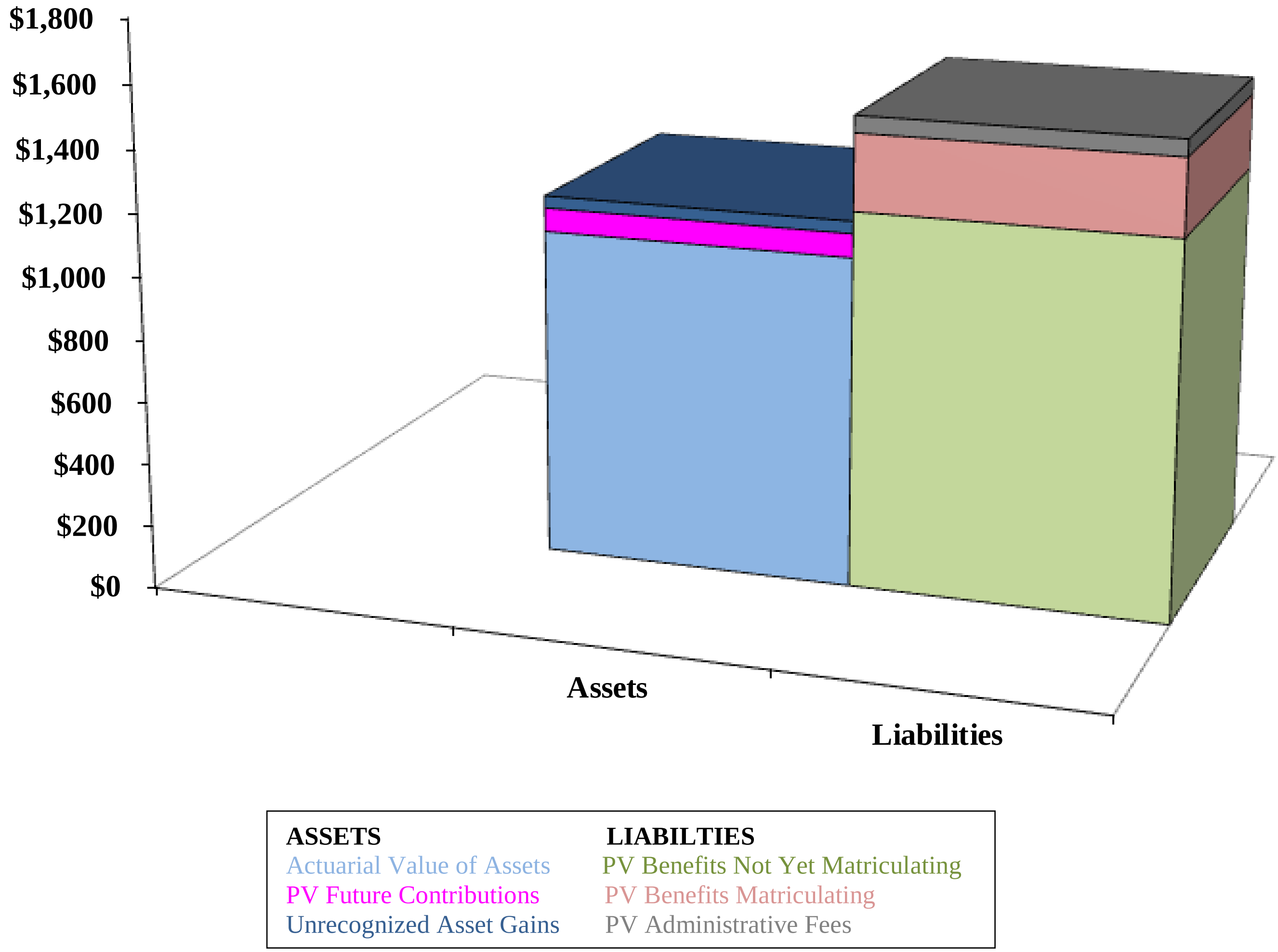
SUMMARY OF RESULTS

Principal Valuation Results

Valuation Date:	June 30, 2014	June 30, 2013
Membership Summary:		
Counts		
Not yet Matriculating	34,125	37,316
Matriculating	11,713	10,873
Total	45,838	48,189
Average years until Enrollment if Not yet Matriculating	5.0	5.4
Assets [1]		
· Market Value of Assets (MVA)	$1,172,353,201	$1,169,869,538
· Actuarial Value of Assets (AVA)	$1,133,409,021	$1,155,965,846
· Estimated Return on MVA	11.28%	8.47%
· Estimated Return on AVA	8.80%	3.50%
· Ratio – AVA to MVA	96.7%	98.8%
Actuarial Liabilities (Present Value of Future Tuition Payments, Fees, and Administrative Expenses)	$1,500,535,374	$1,618,375,861
Unfunded Liabilities (Based on Market Value of Assets)	$328,182,173	$448,506,323
Unfunded Liabilities (Based on Actuarial Value of Assets)	$367,126,353	$462,410,015
Funded Ratio		
· Based on Market Value	78.1%	72.3%
· Based on Actuarial Value	75.5%	71.4%

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

SUMMARY OF ASSETS AND LIABILITIES AS OF JUNE 30, 2014
$ IN MILLIONS



Funded Status as of June 30, 2014 (Based on Market Value of Assets)

	June 30, 2014
Actuarial Present Value of Future Tuition Payments, Fees and Expenses	$1,500,535,374
Market Value of Assets (Including the Present Value of Installment Contract Receivables)	$1,172,353,201
Deficit/(Surplus) as of June 30, 2014	$328,182,173

Funded Status as of June 30, 2014 (Based on Actuarial Value of Assets)

	June 30, 2014
Actuarial Present Value of Future Tuition Payments, Fees and Expenses	$1,500,535,374
Actuarial Value of Assets (Including the Present Value of Installment Contract Receivables)	$1,133,409,021
Deficit/(Surplus) as of June 30, 2014	$367,126,353

Gain/Loss Summary

	Unfunded Liability (Market Value of Assets)
Value at June 30, 2013	$ 448,506,323
Expected Value at June 30, 2014	$ 474,596,839
(Gain)/Loss Due to:	
Investment Experience	$ (44,221,698)
Change in Tuition Increase Assumption	(53,755,927)
Tuition/Fee Inflation	(45,359,154)
Other Demographic Experience*	(3,077,887)
Total	$ (146,414,666)
Actual Value at June 30, 2014	$ 328,182,173

**Other Demographic Experience includes deviations in actual participant experience from our assumptions related to rates of participant deaths and disabilities, rates of separation from active membership, rates of enrollment and utilization of benefits.*

Additional Details on the development of the Expected Value at June 30, 2014, can be found on Page 10.

DISCUSSION

Actuarial Valuation

Gabriel, Roeder, Smith & Company ("GRS") has performed an actuarial soundness valuation of the College Illinois!® Prepaid Tuition Program ("CIPTP") as of June 30, 2014.

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, 2014, 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, for illustrative purposes, also presents the results of a closed group business model. Finally, the report also presents the impact of variances in the rate of tuition and fee increases as well as the rate of investment return on assets.

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

The actuarial assumptions and methods, with the exception of the tuition and fee increase assumption used for this June 30, 2014, actuarial soundness valuation are consistent with the assumptions and methods used for the June 30, 2013, actuarial soundness valuation. The change in the tuition and fee increase assumption is discussed below.

Background

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

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

The first CIPTP contracts were offered for sale in 1998. As of June 30, 2014, the CIPTP had 45,838 contracts in force.

Actuarial Assumptions

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

Key Actuarial Assumptions – Changes Since Prior Valuation

For "Legacy," "University" and "University Plus" contracts, the select rates under the tuition and fee increase assumption were reduced to 6.50 percent per year in fiscal years 2015 through 2017 and 5.75 percent per year in fiscal years 2018 through 2022. The ultimate rate remained at 5.00 percent per year beginning in year 2023. Select rates for Community College contracts remain unchanged at 6.50 percent per year in fiscal years 2015 through 2017, 5.75 percent per year in fiscal years 2018 through 2022 and 5.00 percent per year beginning in year 2023. These assumptions were provided to us by ISAC.

The following tables illustrate the tuition and fee increase assumptions used in last year's actuarial soundness valuation and the updated assumptions used in this year's actuarial soundness valuation.

Tuition and Fee Increase Assumption - June 30, 2013, Actuarial Valuation				
Effective Date	Legacy	University	University Plus	Community College
6/30/2014 through 6/30/2017	7.25%	7.00%	7.50%	6.50%
6/30/2018 through 6/30/2022	6.75%	6.50%	7.25%	5.75%
6/30/2023 and Beyond	5.00%	5.00%	5.00%	5.00%

Tuition and Fee Increase Assumption - June 30, 2014, Actuarial Valuation				
Effective Date	Community College	University	University Plus	Legacy
6/30/2015 through 6/30/2017	6.50%	6.50%	6.50%	6.50%
6/30/2018 through 6/30/2022	5.75%	5.75%	5.75%	5.75%
6/30/2023 and Beyond	5.00%	5.00%	5.00%	5.00%

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

Financial Status of Program as of June 30, 2014

As of June 30, 2014, the present value of all future tuition obligations under contracts outstanding (and including future administrative expenses) at that date is $1,500,535,374. Fund assets as of June 30, 2014, including the actuarial value of program assets and the present value of installment contract receivables, is $1,133,409,021. Fund assets, including the market value of program assets and the present value of installment contract receivables, is $1,172,353,201.

The difference between the present value of future tuition obligations and the value of assets as of June 30, 2014, represents a program deficit of $367,126,353 on an actuarial value of assets basis, and $328,182,173 on a market value of assets basis. The comparable program deficit as of the last valuation as of June 30, 2013, was $462,410,015 on an actuarial value of assets basis, and $448,506,323 on a market value of assets basis.

The following table summarizes the deficit of the CIPTP as of June 30, 2014, with comparable figures from the prior actuarial valuation as of June 30, 2013.

CIPTP Deficit (Unfunded Liabilities)

Deficit based on:	June 30, 2014	June 30, 2013
Actuarial Value of Assets	$367,126,353	$462,410,015
Market Value of Assets	$328,182,173	$448,506,323

Gain/Loss Analysis

As described above, the program deficit decreased from $448.5 million as of June 30, 2013, to $328.2 million as of June 30, 2014, based on the market value of assets. Based on the actuarial assumptions, the deficit was expected to increase to $474.6 million. The primary factors which caused the expected deficit to decrease by $146.4 million include investment returns that were higher than expected, tuition and fee increases less than expected and the change in the tuition and fee increase assumption. There was a small gain due to other demographic experience which includes deviations in actual participant experience from our assumptions related to rates of participant deaths and disabilities, rates of separation from active membership, rates of enrollment and utilization of benefits.

The funded ratio on a market value of assets basis increased from 72.3 percent as of June 30, 2013, to 78.1 percent as of June 30, 2014.

Benefit Provisions

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

We understand there were no changes in the program provisions since the last actuarial valuation as of June 30, 2013.

Assets

CIPTP assets are held in trust. ISAC provided the asset information used in the June 30, 2014, actuarial valuation.

This report contains several exhibits summarizing the plan's assets, including a summary of the market value of assets broken down by asset category, a reconciliation of the assets from the last valuation date to the current valuation date and a development of the actuarial value of assets. The approximate return on market value of assets was 11.28 percent for the year ended June 30, 2014.

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

The actuarial value is currently 96.7 percent of the market value. Over any short time period, a disparity between actuarial value and market value may appear, but in the long-run, we would expect the actuarial value and the market value to continue to track each other fairly closely. As of June 30, 2014, there is $38,944,180 in deferred asset gains (the difference between the market and actuarial values) that will be recognized over the next four valuations.

Closed Group Business Model (Run-Off Scenario)

While the closing of the program has not occurred, in Exhibit III, we have provided a closed group projection (i.e., run off scenario) for illustration purposes assuming no new contract sales after June 30, 2014. Under this scenario, member payments, fund principal and investment income are projected to be insufficient to make the required tuition payments by the year 2024 and additional funds will be required to maintain solvency ($808.4 million for the period 2024 to 2051). Under this scenario, the shortfall is expected to grow from the current level of $328 million until it reaches a high of $604 million in 2023.

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 unforeseen changes in actuarial projections 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.

Contracts Sold by Enrollment Year

The chart on Page 18 in Section D illustrates the number of contracts sold by enrollment year.

As this chart indicates, the number of contracts sold has decreased significantly during the last four enrollment years from the number sold per year in previous years. The average annual number of contracts sold during the period 1999 to 2010 was 5,236; whereas the average annual number of contracts sold during the last four year period 2010 to 2014 was 584 including 2011/2012 when the plan was not open for new contract sales, or 779 excluding 2011/2012 when the plan was not open for new contract sales.

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

SECTION B

VALUATION RESULTS

Exhibit I
Principal Valuation Results

Valuation Date:	June 30, 2014	June 30, 2013
1 Number of Members		
a. Not yet Matriculating:	34,125	37,316
b. Matriculating:	11,713	10,873
c. Total	45,838	48,189
Average Years until Enrollment if Not Yet Matriculating	5.0	5.4
2 Assets		
a. Market Value of Assets (in Trust)	$ 1,096,307,516	$ 1,078,094,274
b. PV Future Member Contributions	76,045,685	91,775,264
c. Unrecognized Gains and (Losses)	38,944,180	13,903,692
d. Total Actuarial Value of Assets (AVA) (2a + 2b - 2c)	$ 1,133,409,021	$ 1,155,965,846
3 Actuarial Results		
Liabilities		
a. Not yet Matriculating - Tuition and Fees	$ 1,202,693,448	$ 1,334,944,523
b. Matriculating - Tuition and Fees	243,961,994	222,544,960
c. Present Value of Future Administrative Expenses	53,879,932	60,886,378
d. Total	$ 1,500,535,374	$ 1,618,375,861
Unfunded Liability (Based on MVA)	$ 328,182,173	$ 448,506,323
Unfunded Liability (Based on AVA)	$ 367,126,353	$ 462,410,015
Funded Ratio		
Market Value of Assets	78.1%	72.3%
Actuarial Value of Assets	75.5%	71.4%

Exhibit II
Gain/Loss Summary

	Present Value of Benefits	Market Value of Assets	Unfunded Liability
1. Values at June 30, 2013	$ 1,618,375,861	$ 1,169,869,538	$ 448,506,323
2. Actual Tuition Payments, Refunds, and Administrative Expenses	$ (133,978,303)	$ (133,978,303)	$ -
3. Interest on 1. and 2. at 7.00%	$ 108,676,379	$ 77,280,936	$ 31,395,443
4. New Contracts	$ 9,727,537	$ 15,032,464	$ (5,304,927)
5. Projected Values at June 30, 2014 (1. + 2. + 3. + 4.)	$ 1,602,801,474	$ 1,128,204,635	$ 474,596,839
6. (Gain)/Loss Due to:			
Investment Experience	$ -	$ (44,221,698)	$ (44,221,698)
Change in Tuition Increase Assumption	(53,755,927)	-	(53,755,927)
Tuition/Fee Inflation	(45,359,154)	-	(45,359,154)
Other Demographic Experience*	(3,151,019)	73,132	(3,077,887)
Total	$ (102,266,100)	$ (44,148,566)	$ (146,414,666)
7. Actual Values at June 30, 2014 (5. + 6.)	$ 1,500,535,374	$ 1,172,353,201	$ 328,182,173

**Other Demographic Experience includes deviations in actual participant experience from our assumptions related to rates of participant deaths and disabilities, rates of separation from active membership, rates of enrollment and utilization of benefits.*

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

Closed Group Projections (No New Contracts)
Projection Based on Data as of June 30, 2014
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2014
7.00% Assumed Net Investment Return
0 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions[1]	Tuition Payments, Refunds, and Fees	Administrative Expenses	Net Investment Return	Market Value of Assets (EOY)	Total Present Value of Future Contributions	Total Fund Assets (MVA + PVFC)	Total Present Value of Future Benefits	Present Value of Future Admin Expenses	Total Present Value of Future Benefits, Fees, and Expenses	Unfunded Liability	Funded Ratio
2014			36,061,544	0	127,795,259	6,183,044	116,130,106	1,096,307,516	76,045,685	1,172,353,201	1,446,655,442	53,879,932	1,500,535,374	328,182,173	78.1%
2015	7.00%	0	22,078,048	0	174,038,889	5,441,079	71,232,459	1,010,138,056	58,531,172	1,068,669,228	1,367,894,111	52,023,231	1,419,917,342	351,248,114	75.3%
2016	7.00%	0	15,518,982	0	162,605,724	5,617,914	65,365,001	922,798,401	46,575,394	969,373,795	1,295,446,057	49,853,642	1,345,299,699	375,925,905	72.1%
2017	7.00%	0	13,218,350	0	157,020,568	5,750,564	59,361,541	832,607,160	36,162,504	868,769,664	1,223,703,978	47,394,967	1,271,098,945	402,329,281	68.3%
2018	7.00%	0	10,655,876	0	148,384,601	5,835,236	53,257,763	742,300,962	27,671,356	769,972,318	1,155,873,076	44,676,600	1,200,549,676	430,577,358	64.1%
2019	7.00%	0	8,214,456	0	153,060,359	5,869,292	46,686,036	638,271,803	21,111,252	659,383,055	1,078,457,375	41,732,719	1,120,190,094	460,807,039	58.9%
2020	7.00%	0	6,218,468	0	157,925,937	5,851,380	39,164,466	519,877,420	16,156,605	536,034,025	990,589,583	38,601,294	1,029,190,877	493,156,852	52.1%
2021	7.00%	0	5,258,657	0	161,058,792	5,781,517	30,736,062	389,031,830	11,847,970	400,879,800	893,330,396	35,322,938	928,653,334	527,773,533	43.2%
2022	7.00%	0	4,769,316	0	158,670,392	5,661,102	21,647,552	251,117,204	7,743,909	258,861,113	791,733,646	31,939,654	823,673,300	564,812,187	31.4%
2023	7.00%	0	3,468,695	0	155,341,933	5,492,879	12,070,390	105,821,477	4,697,937	110,519,414	686,468,107	28,493,552	714,961,659	604,442,245	15.5%
2024	7.00%	0	2,234,233	41,121,282	147,474,662	5,280,835	3,578,504	-1	2,715,684	2,715,683	581,971,946	25,025,563	606,997,509	604,281,826	0.4%
2025	7.00%	0	1,173,872	140,213,320	136,404,087	4,983,104	0	0	1,691,519	1,691,519	481,612,542	21,622,789	503,235,331	501,543,812	0.3%
2026	7.00%	0	748,920	126,418,968	122,554,307	4,613,581	0	0	1,035,237	1,035,237	388,554,298	18,364,059	406,918,357	405,883,120	0.3%
2027	7.00%	0	621,042	109,930,517	106,362,109	4,189,450	0	0	465,292	465,292	305,731,313	15,315,943	321,047,256	320,581,963	0.1%
2028	7.00%	0	358,724	93,352,780	89,981,666	3,729,838	0	0	126,796	126,796	234,054,775	12,529,884	246,584,659	246,457,863	0.1%
2029	7.00%	0	131,159	76,458,316	73,335,128	3,254,347	0	0	0	0	174,580,187	10,040,653	184,620,840	184,620,840	0.0%
2030	7.00%	0	0	59,806,658	57,025,033	2,781,625	0	0	0	0	127,813,665	7,866,164	135,679,829	135,679,829	0.0%
2031	7.00%	0	0	45,566,139	43,238,015	2,328,124	0	0	0	0	92,034,885	6,008,565	98,043,450	98,043,450	0.0%
2032	7.00%	0	0	34,366,928	32,459,753	1,907,175	0	0	0	0	64,900,708	4,456,367	69,357,075	69,357,075	0.0%
2033	7.00%	0	0	25,230,313	23,718,828	1,511,485	0	0	0	0	44,908,819	3,204,821	48,113,640	48,113,640	0.0%
2034	7.00%	0	0	18,138,623	16,981,034	1,157,589	0	0	0	0	30,487,123	2,231,739	32,718,862	32,718,862	0.0%
2035	7.00%	0	0	12,803,634	11,947,946	855,688	0	0	0	0	20,262,174	1,502,831	21,765,005	21,765,005	0.0%
2036	7.00%	0	0	8,780,580	8,170,873	609,707	0	0	0	0	13,228,512	977,343	14,205,855	14,205,855	0.0%
2037	7.00%	0	0	5,920,837	5,502,657	418,180	0	0	0	0	8,462,517	613,189	9,075,706	9,075,706	0.0%
2038	7.00%	0	0	3,925,739	3,650,072	275,667	0	0	0	0	5,279,230	370,960	5,650,190	5,650,190	0.0%
2039	7.00%	0	0	2,543,071	2,368,700	174,371	0	0	0	0	3,198,575	216,556	3,415,131	3,415,131	0.0%
2040	7.00%	0	0	1,598,352	1,492,704	105,648	0	0	0	0	1,878,411	122,432	2,000,843	2,000,843	0.0%
2041	7.00%	0	0	972,482	910,439	62,043	0	0	0	0	1,068,134	66,824	1,134,958	1,134,958	0.0%
2042	7.00%	0	0	574,910	539,630	35,280	0	0	0	0	584,706	35,008	619,714	619,714	0.0%
2043	7.00%	0	0	328,470	309,157	19,313	0	0	0	0	305,841	17,481	323,322	323,322	0.0%
2044	7.00%	0	0	180,378	170,276	10,102	0	0	0	0	151,115	8,256	159,371	159,371	0.0%
2045	7.00%	0	0	93,634	88,643	4,991	0	0	0	0	69,999	3,670	73,669	73,669	0.0%
2046	7.00%	0	0	45,023	42,711	2,312	0	0	0	0	30,719	1,536	32,255	32,255	0.0%
2047	7.00%	0	0	20,486	19,471	1,015	0	0	0	0	12,729	594	13,323	13,323	0.0%
2048	7.00%	0	0	8,946	8,526	420	0	0	0	0	4,801	200	5,001	5,001	0.0%
2049	7.00%	0	0	3,788	3,629	159	0	0	0	0	1,383	50	1,433	1,433	0.0%
2050	7.00%	0	0	1,276	1,230	46	0	0	0	0	207	7	214	214	0.0%
2051	7.00%	0	0	221	214	7	0	0	0	0	0	0	0	0	0.0%

[1] *Additional contributions in the amount of $808,405,671 are needed over the years 2024 through 2051 to pay all benefits due.*

Exhibit IV
Sensitivity Testing Results

The actuarial assumptions regarding future increases in tuition costs and fees and the future rate of investment return were provided to us by ISAC. In our opinion, the assumptions provided to us are reasonable for the purpose of the measurement. However, no one really knows what the future holds with respect to economic and other contingencies. For example, while it is assumed that the assets of the fund will earn 7.00 percent each year throughout the life of the contracts, actual returns are expected to vary from year to year. Therefore, we have projected CIPTP results under alternative assumptions for future investment income, tuition increases, and fee increases.

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

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

Exhibit IV
Sensitivity Testing Results (Continued)

$ in Millions

	Current Valuation Assumptions	Assumed Tuition Increases +100 Basis Points	Assumed Tuition Increases -100 Basis Points	Assumed Fee Increases +100 Basis Points	Assumed Fee Increases -100 Basis Points	Assumed Investment Return +50 Basis Points	Assumed Investment Return -50 Basis Points
1 Assets							
a. Market Value of Assets (in Trust)	$1,096.4	$1,096.4	$1,096.4	$1,096.4	$1,096.4	$1,096.4	$1,096.4
b. PV Future Member Contributions	76.0	76.0	76.0	76.0	76.0	75.0	77.1
c. Unrecognized Gains and (Losses)	38.9	38.9	38.9	38.9	38.9	38.9	38.9
d. Total Actuarial Value of Assets (AVA) (2a + 2b - 2c)	$1,133.5	$1,133.5	$1,133.5	$1,133.5	$1,133.5	$1,132.5	$1,134.6
2 Actuarial Results							
Liabilities							
a. Not yet Matriculating - Tuition and Fees	$1,202.7	$1,253.6	$1,155.6	$1,221.6	$1,185.3	$1,163.5	$1,243.9
b. Matriculating - Tuition and Fees	243.9	244.1	243.8	244.4	243.5	242.6	245.3
c. Present Value of Future Administrative Expenses	53.9	53.9	53.9	53.9	53.9	52.3	55.6
d. Total	$1,500.5	$1,551.6	$1,453.3	$1,519.9	$1,482.7	$1,458.4	$1,544.8
Unfunded Liability (Based on MVA)	$328.1	$379.2	$280.9	$347.5	$310.3	$287.0	$371.3
Unfunded Liability (Based on AVA)	$367.0	$418.1	$319.8	$386.4	$349.2	$325.9	$410.2
Funded Ratio							
Market Value of Assets	78.1%	75.6%	80.7%	77.1%	79.1%	80.3%	76.0%
Actuarial Value of Assets	75.5%	73.1%	78.0%	74.6%	76.4%	77.7%	73.4%
Difference From Current Assumptions							
Unfunded Liability (Based on MVA)	$0.0	$51.1	-$47.2	$19.4	-$17.8	-$41.1	$43.2
Funded Ratio (Based on MVA)	0.0%	-2.5%	2.6%	-1.0%	1.0%	2.2%	-2.1%
Unfunded Liability (Based on AVA)	$0.0	$51.1	-$47.2	$19.4	-$17.8	-$41.1	$43.2
Funded Ratio (Based on AVA)	0.0%	-2.4%	2.5%	-0.9%	0.9%	2.2%	-2.1%

SECTION C

FUND ASSETS

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

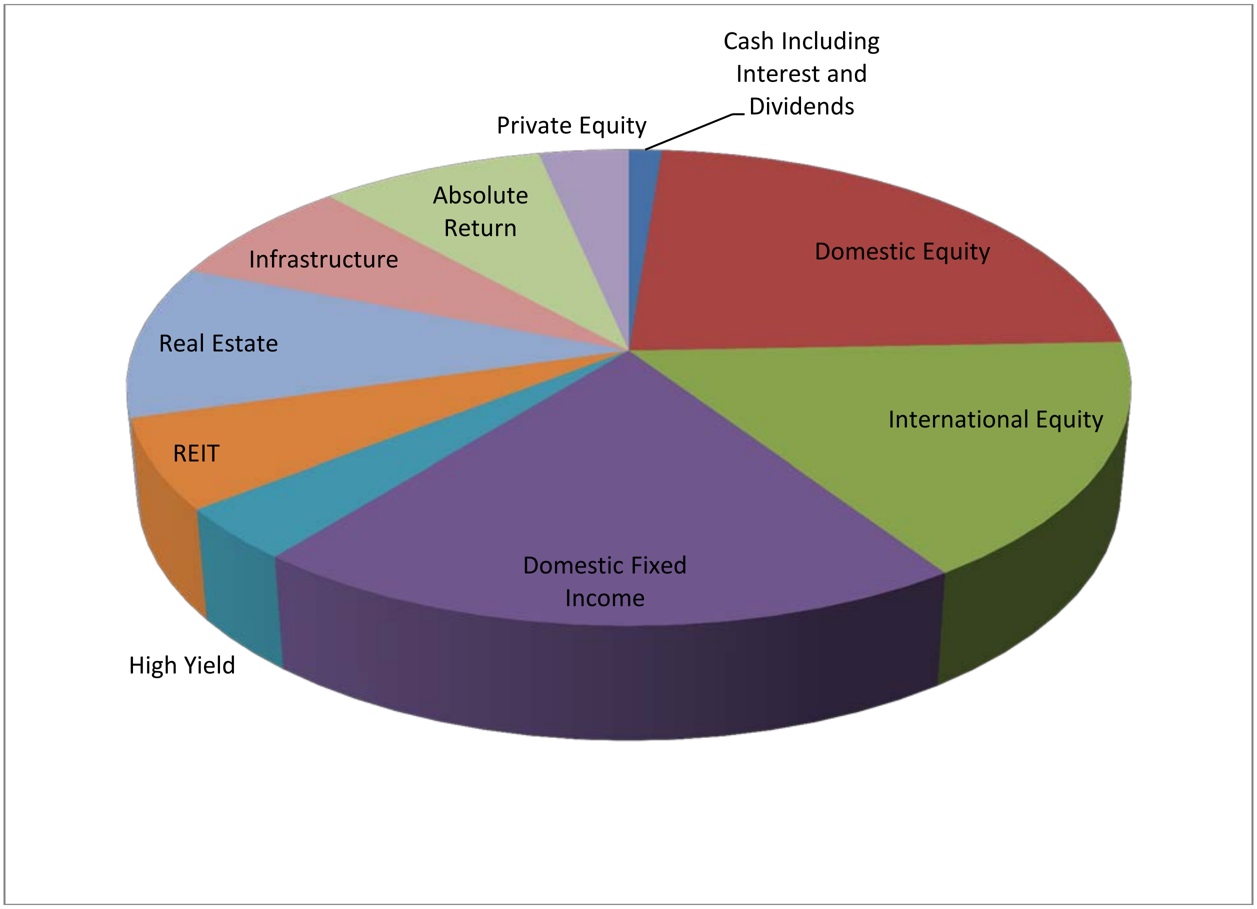
College Illinois!® Prepaid Tuition Program

Statement of Plan Net Assets

Year ended June 30, 2014

Cash Including Interest and Dividends	$	13,600,338
Investments		
Domestic Equity	$	255,380,327
International Equity		178,827,683
Domestic Fixed Income		222,028,744
High Yield		39,972,520
REIT		67,133,082
Real Estate		114,735,791
Infrastructure		75,221,443
Absolute Return		92,340,162
Private Equity		37,067,426
Total Investments	$	1,082,707,178
Other		0
Total Assets	$	1,096,307,516

ALLOCATION OF ASSETS AT JUNE 30, 2014



RECONCILIATION OF MARKET VALUE OF PLAN ASSETS

College Illinois!® Prepaid Tuition Program
Statement of Changes in Plan Net Assets
Twelve Month Period ended June 30, 2014

Beginning of Period		7/1/2013
End of Period		6/30/2014
Additions:		
Contributions received	$	36,061,544
Gross investment income		19,869,136
Realized/Unrealized investment gains/(losses)		99,557,625
Total Additions	$	155,488,305
Deductions:		
Tuition payments	$	112,056,333
Refunds to Purchasers		15,738,926
Investment expenses & advisory fees		3,296,655
Administrative expenses		6,183,044
Total Deductions	$	137,274,958
Net increase	$	18,213,347
Market Value of Assets:		
Beginning of period	$	1,078,094,169
End of period (6/30/2014)	$	1,096,307,516
Present Value of Future Contributions by Current Contract Holders		76,045,685
Market Value of Total Fund Assets as of June 30, 2014	$	1,172,353,201

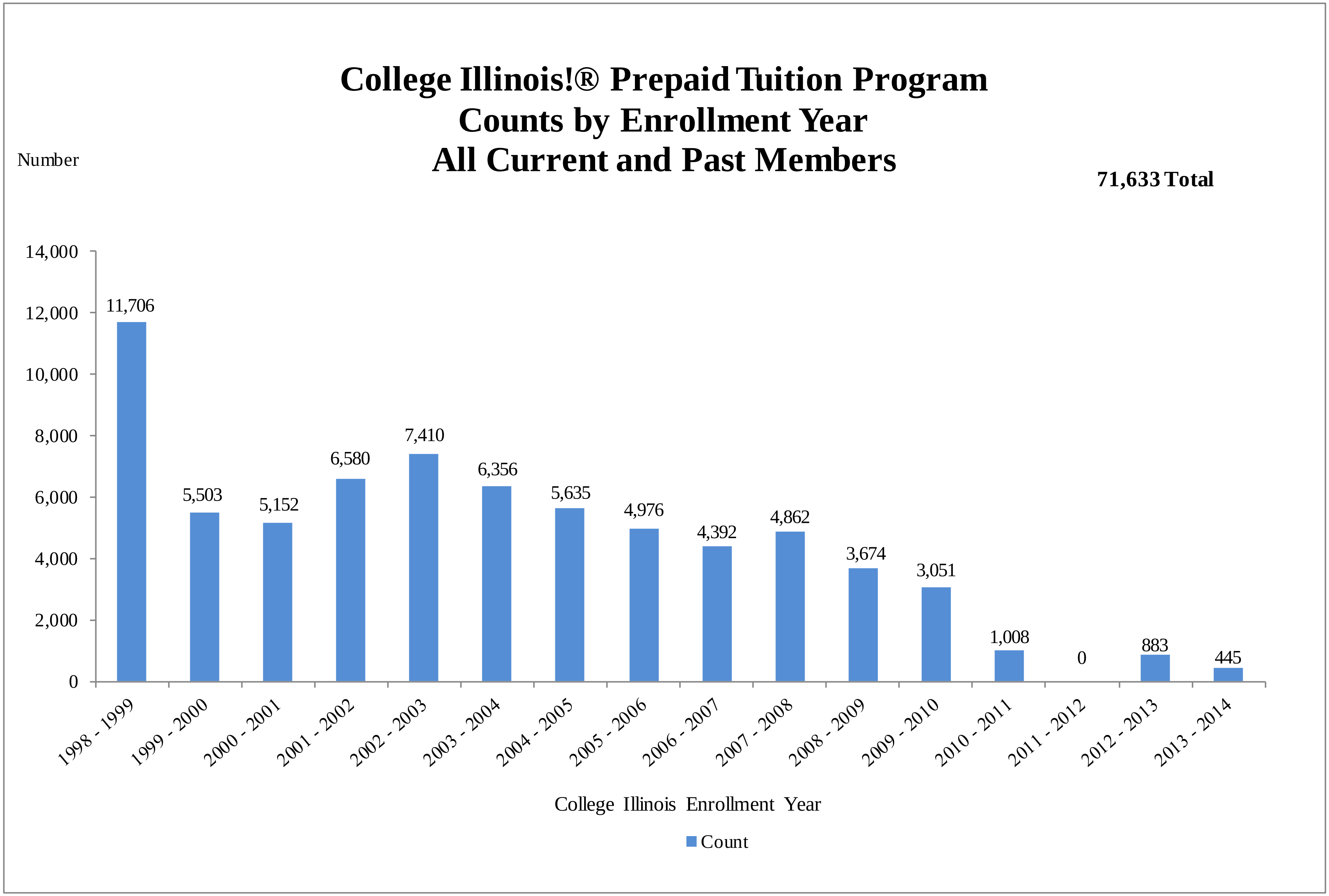
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

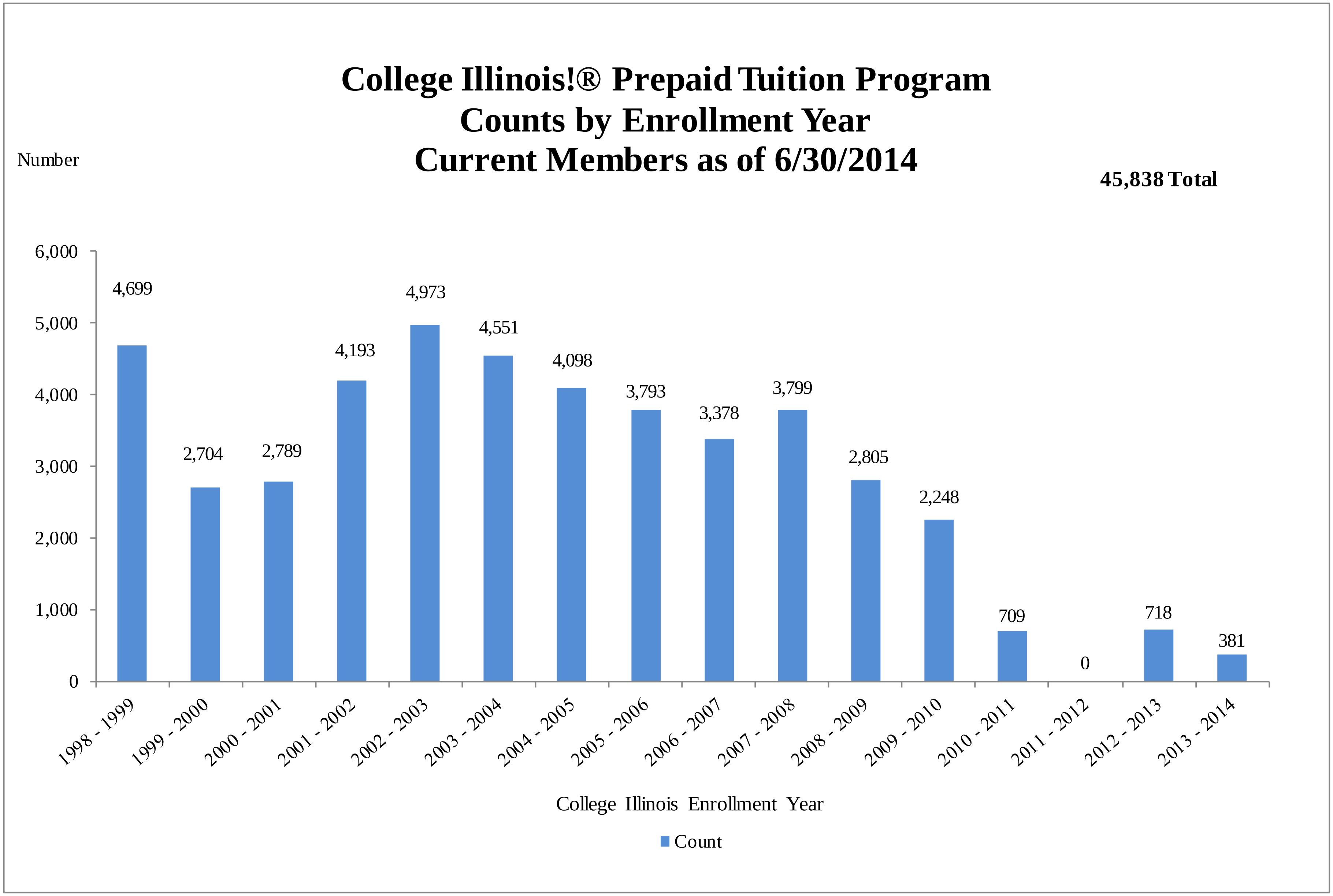
Year Ending June 30	2014	2015	2016	2017	2018
Beginning of Year:					
(1) Market Value of Assets	$ 1,078,094,274				
(2) Adjustment to the Market Value of Assets	(105)				
(3) Revised Market Value of Assets	1,078,094,169				
(4) Actuarial Value of Assets	1,064,190,582				
End of Year:					
(5) Market Value of Assets	1,096,307,516				
(6) Contributions and Disbursements					
(6a) Actual Contributions	36,061,544				
(6b) Tuition Payments and Refunds	(127,795,259)				
(6c) Administrative Expenses	(6,183,044)				
(6d) Net of Contributions and Disbursements	(97,916,759)				
(7) Total Investment Income					
=(5)-(3)-(6d)	116,130,106				
(8) Projected Rate of Return	7.00%				
(9) Projected Investment Income					
=(3)x([1+(8)]^1.00-1)+([1+(8)]^.50-1)x(6d)	72,097,468				
(10) Investment Income in					
Excess of Projected Income	44,032,638				
(11) Excess Investment Income Recognized					
This Year (5-year recognition)					
(11a) From This Year	8,806,528				
(11b) From One Year Ago	2,510,765	$ 8,806,528			
(11c) From Two Years Ago	(10,188,238)	2,510,765	$ 8,806,528		
(11d) From Three Years Ago	16,562,252	(10,188,238)	2,510,765	$ 8,806,528	
(11e) From Four Years Ago	1,300,843	16,562,252	(10,188,238)	2,510,765	$ 8,806,525
(11f) Total Recognized Investment Gain	18,992,150	17,691,307	1,129,055	11,317,293	8,806,525
(12) Change in Actuarial Value of Assets					
=(2)+(6d)+(9)+(11f)	(6,827,246)				
End of Year:					
(5) Market Value of Assets	**1,096,307,516**				
(13) Actuarial Value of Assets					
=(4)+(12)	**1,057,363,336**				
(14) Present Value of Future Expected Contributio	76,045,685				
(15) Final Actuarial Value of Assets = (13) + (14)	**1,133,409,021**				

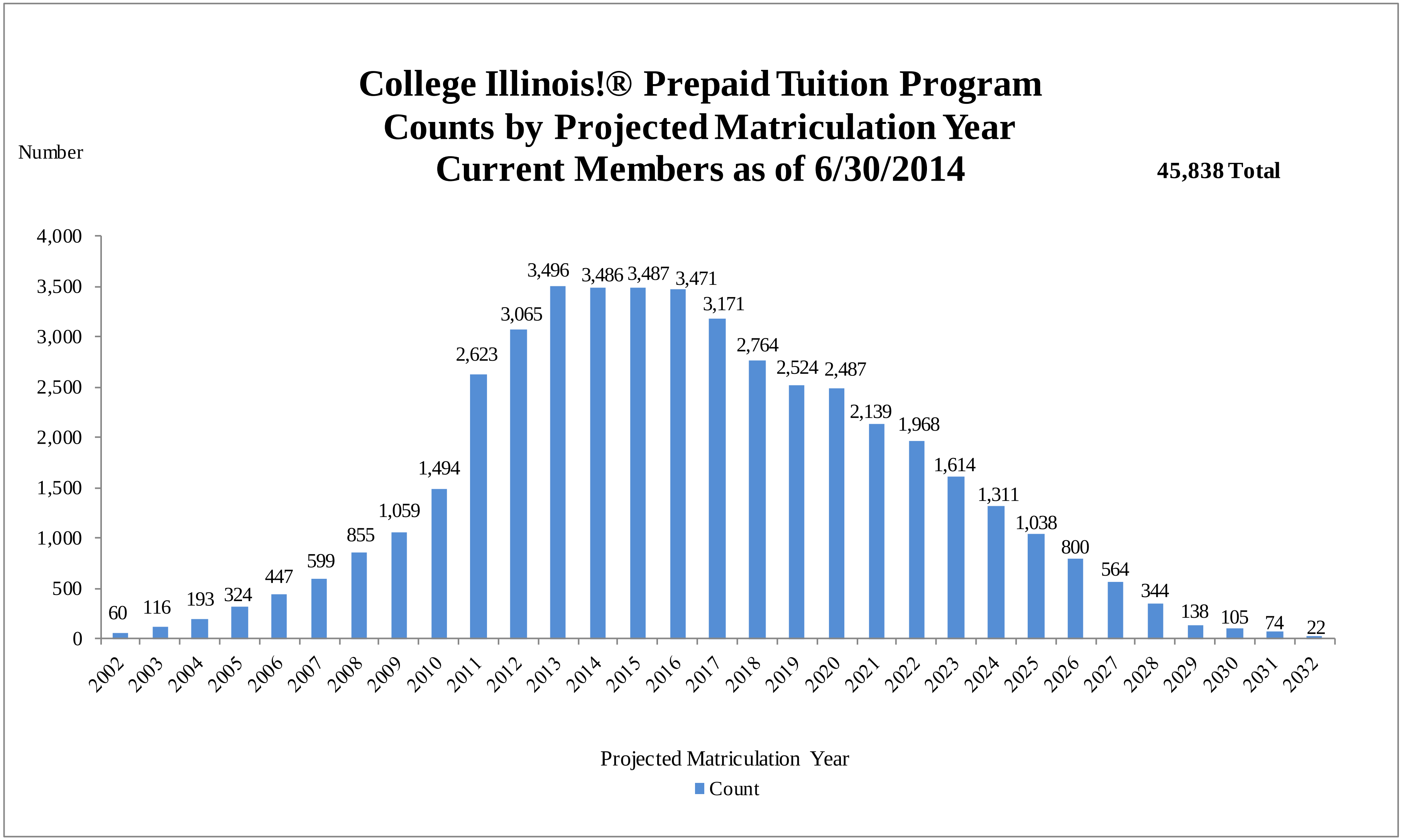
The Actuarial Value of Assets recognizes assumed investment return (line 9) fully each year. Differences between actual and assumed investment income (Line 10) are phased-in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will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

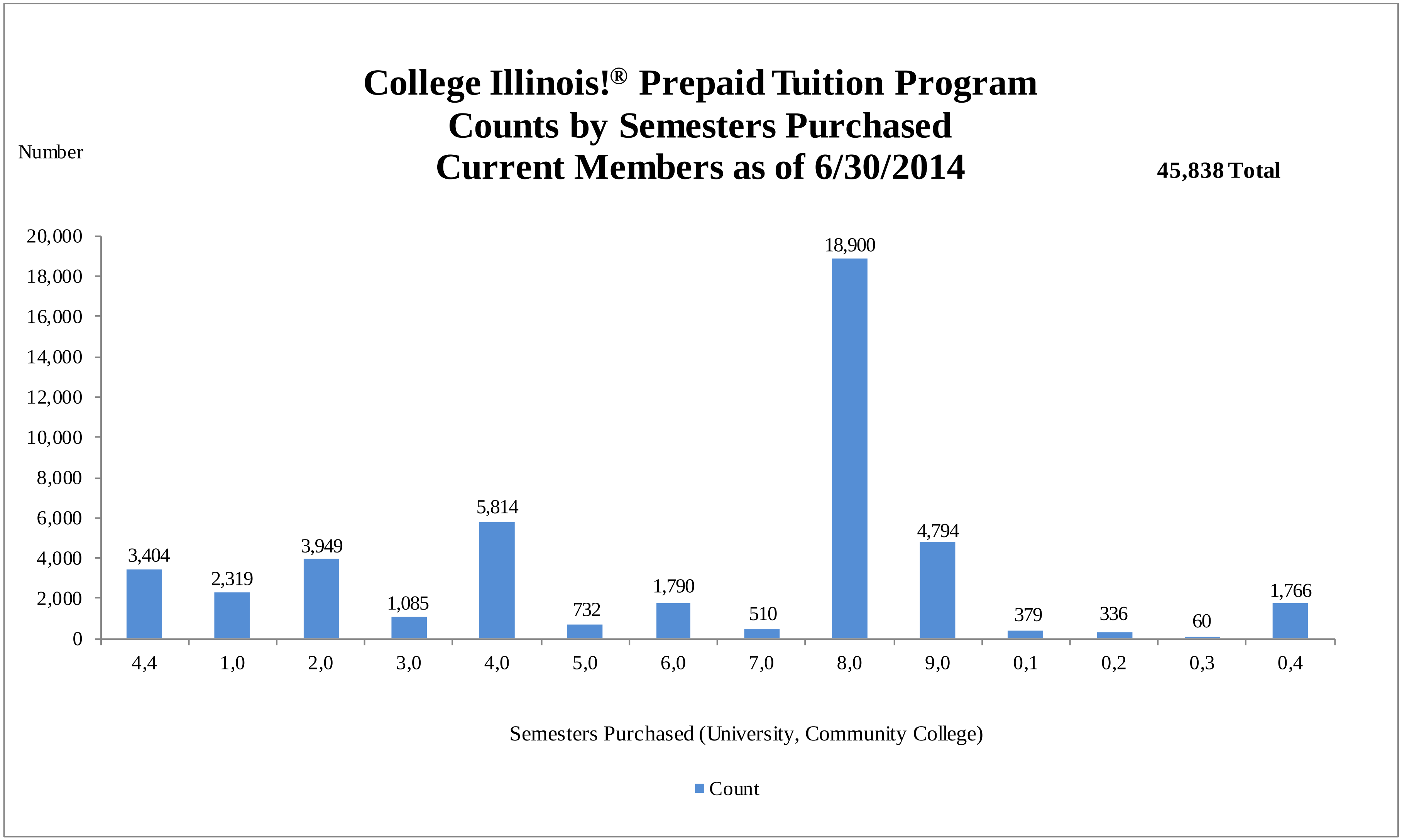
SECTION D

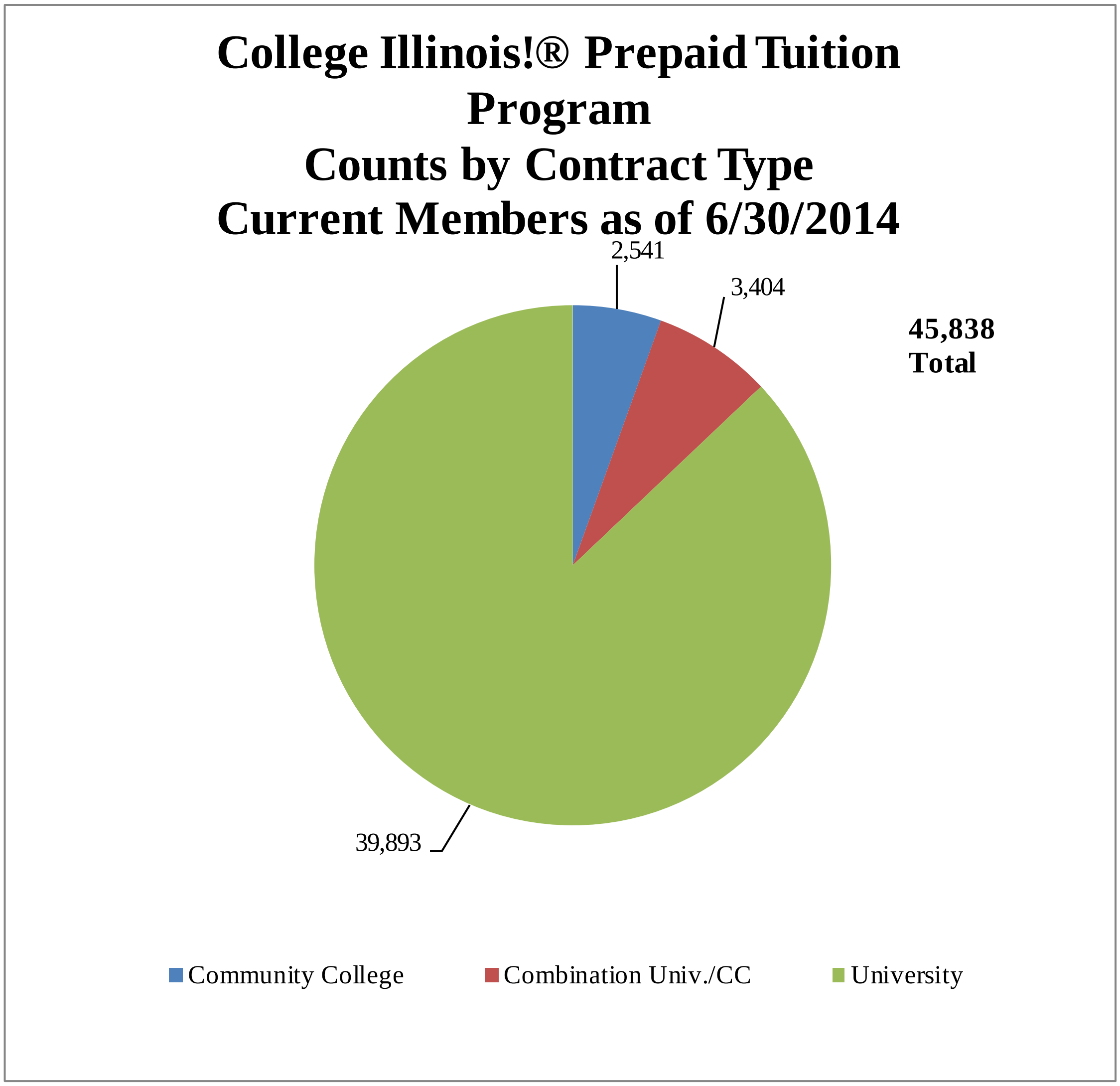
PARTICIPANT DATA

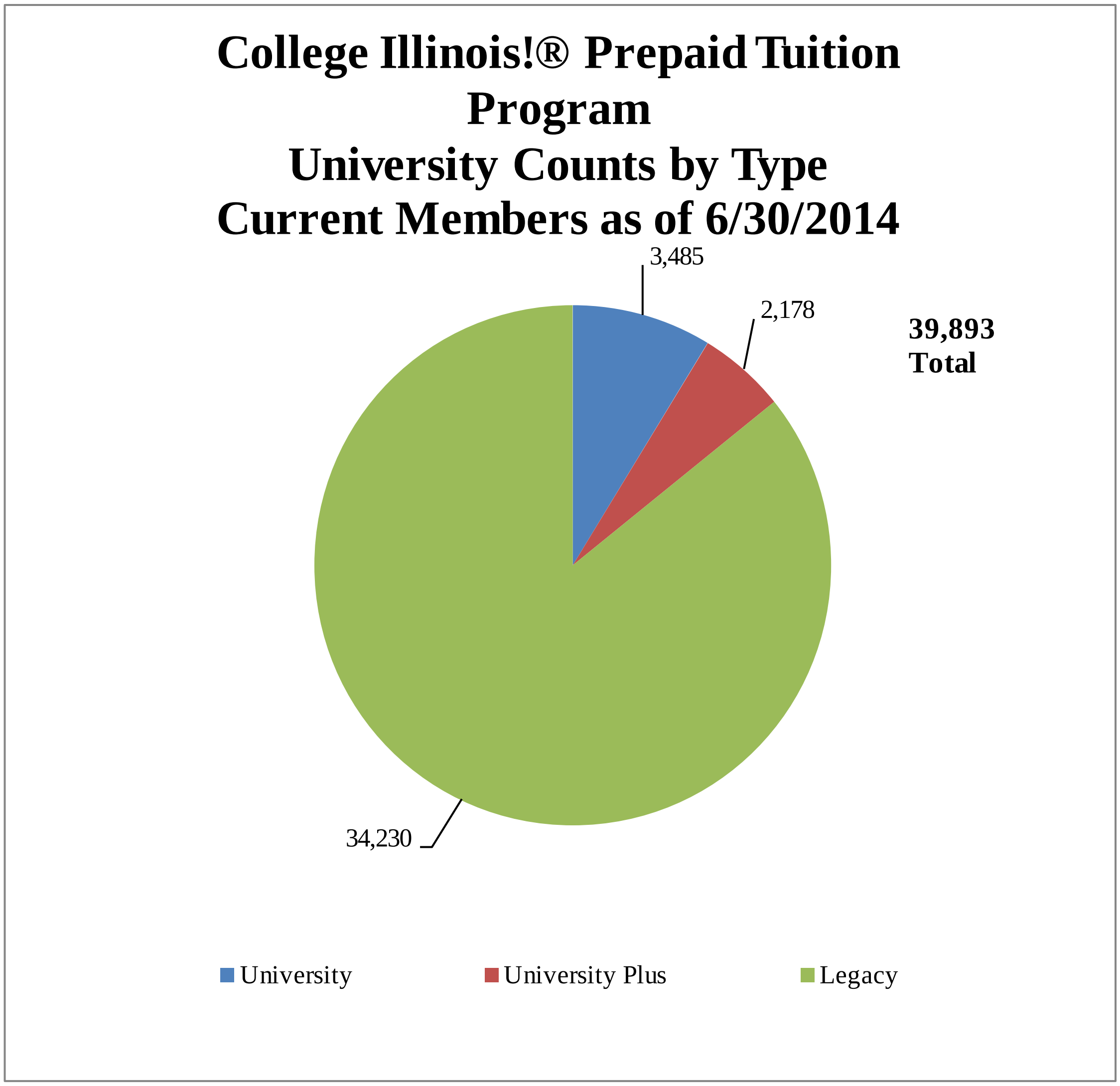

College Illinois!® Prepaid Tuition Program
Counts by Enrollment Year
All Current and Past Members
Number
71,633 Total
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
11,706
5,503
5,152
6,580
7,410
6,356
5,635
4,976
4,392
4,862
3,674
3,051
1,008
0
883
445
1998 - 1999
1999 - 2000
2000 - 2001
2001 - 2002
2002 - 2003
2003 - 2004
2004 - 2005
2005 - 2006
2006 - 2007
2007 - 2008
2008 - 2009
2009 - 2010
2010 - 2011
2011 - 2012
2012 - 2013
2013 - 2014
College Illinois Enrollment Year
Count


College Illinois!® Prepaid Tuition Program
Counts by Enrollment Year
Current Members as of 6/30/2014
Number
45,838 Total
6,000
5,000
4,000
3,000
2,000
1,000
0
4,699
2,704
2,789
4,193
4,973
4,551
4,098
3,793
3,378
3,799
2,805
2,248
709
0
718
381
1998 - 1999
1999 - 2000
2000 - 2001
2001 - 2002
2002 - 2003
2003 - 2004
2004 - 2005
2005 - 2006
2006 - 2007
2007 - 2008
2008 - 2009
2009 - 2010
2010 - 2011
2011 - 2012
2012 - 2013
2013 - 2014
College Illinois Enrollment Year
Count


College Illinois!® Prepaid Tuition Program
Counts by Projected Matriculation Year
Current Members as of 6/30/2014
Number
45,838 Total
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
60
116
193
324
447
599
855
1,059
1,494
2,623
3,065
3,496
3,486
3,487
3,471
3,171
2,764
2,524
2,487
2,139
1,968
1,614
1,311
1,038
800
564
344
138
105
74
22
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
Projected Matriculation Year
Count


College Illinois!® Prepaid Tuition Program
Counts by Semesters Purchased
Current Members as of 6/30/2014
45,838 Total
Number
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
3,404
2,319
3,949
1,085
5,814
732
1,790
510
18,900
4,794
379
336
60
1,766
4,4
1,0
2,0
3,0
4,0
5,0
6,0
7,0
8,0
9,0
0,1
0,2
0,3
0,4
Semesters Purchased (University, Community College)
Count


College Illinois!® Prepaid Tuition Program
Counts by Contract Type
Current Members as of 6/30/2014
2,541
3,404
45,838 Total
39,893
Community College
Combination Univ./CC
University


College Illinois!® Prepaid Tuition Program
University Counts by Type
Current Members as of 6/30/2014
3,485
2,178
39,893 Total
34,230
University
University Plus
Legacy

SECTION E

METHODS & ASSUMPTIONS

VALUATION METHODS

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

VALUATION ASSUMPTIONS

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

Measurement Date June 30, 2014

The net investment return rate 7.00 percent per annum, compounded annually

Weighted Average Tuition and Fees (WATF) Based on the Freshman Blended Tuition Rate and Increases by Contract Type

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy†
2014-2015 Weighted Tuition	$3,331	$9,903	$14,145	$10,871
2014-2015 Weighted Fees	$478	$3,459	$3,566	$3,483
2014-2015 Total WATF	$3,809	$13,362	$17,711	$14,354

†"Legacy" contracts refer to contracts sold prior to 2010. These contracts can be used for full tuition and fees at any public University in the State of Illinois, including the 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.

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.

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy†
2014-2015 WATF	$3,809	$13,362	$17,711	$14,354
2013-2014 WATF	$3,626	$12,895	$17,265	$13,854
WATF Increase	5.05%	3.62%	2.58%	3.61%

Tuition and Fee Increase Assumption - June 30, 2014, Actuarial Valuation				
Effective Date	Community College	University	University Plus	Legacy
6/30/2015 through 6/30/2017	6.50%	6.50%	6.50%	6.50%
6/30/2018 through 6/30/2022	5.75%	5.75%	5.75%	5.75%
6/30/2023 and Beyond	5.00%	5.00%	5.00%	5.00%

Truth in Tuition

We have segregated the beneficiaries into two categories, those beneficiaries that fall under the Truth in Tuition law and those that do not. The Truth in Tuition law does not apply to community colleges.

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

Administrative Expenses

Administrative expenses of the Program are assumed to be paid through a combination of investment earnings and fees assessed on purchasers. For purposes of the closed group projections, marketing expenses were excluded as it is assumed those costs should be applicable only to future contracts. The present value of future administrative expenses was determined to be equal to approximately 3.6 percent of the total liabilities.

Bias Load

"Legacy" contract beneficiaries were assumed on average to attend more expensive schools than indicated by the headcount information that was used to determine the 2014-2015 WATF. A load of 4.6 percent was added to the tuition assumption to recognize this bias toward enrollment at more expensive schools. No bias load was applied to the "University" and "University Plus" beneficiaries due to the separation of UIUC which historically has been the significant driver behind the need for the bias load.

Mortality and Disability

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

Future Beneficiary Profile

The characteristics of future beneficiaries are assumed to be the same as the characteristics of 2013 new beneficiaries.

The Rates of Enrollment

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

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

Rates of Separation from Active Membership

It was assumed that 12.5 percent of contracts sold will not be utilized. This assumption was based on the historical experience of the Program. In the event of a cancellation, it was assumed that a refund will be paid equal to the amount of contributions paid by the contract holder, increased by 2 percent for each subsequent year after purchase for contracts sold prior to October 1, 2013.

Utilization of Benefits

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

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

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

SECTION F

PLAN PROVISIONS

PLAN PROVISIONS

A. Type of Contract

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

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

B. Benefit

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

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

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

Benefit shall never be less than payment amount.

C. Member Contributions

Optional forms of payment which were historically available include the following:

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

D. Private or Out-of-State Institutions

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

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

PLAN PROVISIONS (CONTINUED)

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

McGladrey

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

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

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

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, 2014, 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 January 12, 2015. 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, 2014 of $276 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," and "as discussed in Note 17, beginning net position was restated to reflect the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*."

Internal Control Over Financial Reporting

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 opinion 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

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 those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2014-001.

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control 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.

McGladrey LLP

Schaumburg, Illinois
January 12, 2015

Current Findings – *Government Auditing Standards*

Finding 2014-001 Debt Covenant Violation

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

During our audits of the agency's June 30, 2009, 2010, 2011, 2012, and 2013 financial statements, we noted that IDAPP was in violation of one or more debt covenants related to the agency's revolving credit (loan) agreement. In addition, the Three-Year Asset Backed Revolving Credit Facility (the facility) matured on July 27, 2010 and has not been repaid. Per the agreement, the minimum required coverage condition ratio is 104%, while the ratio as of June 30, 2014 was 101.7%. Also per the agreement, the default ratio is set at a maximum of 6.25%, but at June 30, 2014 this ratio was 6.72%.

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 event of default 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 $211,856,827 at June 30, 2014.

According to Commission management, the coverage condition and default 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 agreements, principal of which would be the right to call the loan and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code Nos. 2014-001, 2013-001, 12-2, 11-10, 10-6, 09-1)

Recommendation

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

Commission Response

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

Prior Findings Not Repeated

A. Inadequate Collateral Coverage

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not properly collateralize excess funds over the Federal Deposit Insurance Company (FDIC) coverage amount, for certain Agency's depository amounts.

During the current audit, our audit testing results indicated the Commission implemented corrective action by entering into a new collateral agreement that is in place until the accounts are closed. The required coverage is reviewed on an ongoing basis. As of June 30, 2014, all accounts were properly collateralized. (Finding Code No. 2013-002)