

Fiscal Year 2019 Annual Report





**Illinois
Student
Assistance
Commission**



February 28, 2020

The Honorable JB Pritzker, Governor of the State of Illinois
The Honorable Don Harmon, President of the Illinois Senate
The Honorable Michael J. Madigan, Speaker of the Illinois House of Representatives
The Honorable William E. Brady, Illinois Senate Republican Leader
The Honorable Jim Durkin, Illinois House Republican Leader
The Honorable Frank Mautino, Auditor General of the State of Illinois
Members of the Illinois Board of Higher Education

The Illinois Student Assistance Commission (ISAC) is enclosing the Fiscal Year 2019 Annual Report for the College Illinois!® 529 Prepaid Tuition Program, required by the Illinois Prepaid Tuition Act 110 ILCS 979/30(d) to be submitted by March 1, 2020. In addition to this letter and summary, the complete report consists of the fiscal year 2019 audited financial statements, including the actuarial soundness and valuation report.

Revenues from all contract sales are deposited into the Illinois Prepaid Tuition Trust Fund and are invested to fund current and future program obligations. By Illinois statute, assets held by the Fund are required to remain segregated from state General Fund accounts. No amounts held in the Fund may be transferred to or allocated by the Commission, the State Treasurer, or the State Comptroller to any other fund, nor can the Governor authorize any transfer or allocation while contracts remain outstanding.

According to the statute that governs the Program, "If the Commission determines that there are insufficient moneys in the Illinois Prepaid Tuition Trust Fund to pay contractual obligations in the next succeeding fiscal year, the Commission shall certify the amount necessary to meet these obligations to the Board of Higher Education, the Governor, the President of the Senate, and the Speaker of the House of Representatives. The Governor shall submit the amount so certified to the General Assembly as soon as practicable, but no later than the end of the current State fiscal year." While no assurances can be made that sufficient moneys will be appropriated to meet the program's contractual obligations if the plan were ever to run short of funds at some future date, we understand that moral obligations of the State of Illinois have historically been honored.

As certified to the Governor on January 13, 2020, the College Illinois! 529 Prepaid Tuition Program will not require any state financial support to meet its contractual obligations during Fiscal Year 2021. However, as discussed below, actuarial projections indicate that State funding will likely be required in the near future.

Actuarial Valuation and Soundness Report

Although state financial support will not be required to pay contractual obligations next year, actuarial projections indicate that state support likely will be required in the future. The actuarial soundness valuation as of June 30, 2019, performed by independent actuaries, indicates that there is an unfunded liability with a present value of approximately \$317 million. Actuarial projections for a runoff scenario with no future contract sales indicate that the Program would require cumulative state funding of over \$480 million beginning in Fiscal Year 2026, with single-year funding requirements peaking at approximately \$88 million in FY27. If the state opted to amortize the unfunded liability beginning in FY21, annual payments of approximately \$30 million would be required for about 14 years to pay benefits for all current contract beneficiaries. Actuarial reports are available at <http://www.collegeillinois.org/AboutCollegeIllinois/529Financials.html>.

Program enrollment has been closed since the 2017-18 enrollment year and remains closed pending our ongoing collaboration with policymakers to help define proposals that will address the College Illinois! unfunded liability. As we have noted during these discussions with policymakers, we believe it would be appropriate and beneficial to the State and plan holders to begin to address the unfunded liability now before it becomes necessary to call upon the moral obligation of the State of Illinois.

Actuarial reports necessarily represent a point in time and make projections about the future based on information available as of the date of the report. Going forward, many circumstances such as investment performance, tuition and fee inflation, and contract purchases can significantly change future actuarial results, either in a positive or negative way. It is to be expected that for any given fiscal year, actual plan performance will vary from assumptions and that the funded status of the plan will fluctuate.

Investment Performance

The College Illinois! 529 Prepaid Tuition Program is administered by the Illinois Student Assistance Commission, with advice and counsel from the Investment Advisory Panel, which includes members recommended by the Treasurer, Comptroller, GOMB and IBHE, as stipulated in the Prepaid Tuition Act. Additional advice and monitoring is provided by the Investment Committee (a subcommittee of the Commission) and professional investment consultant, Callan LLC. Program moneys are held in the segregated Illinois Prepaid Tuition Trust Fund (the Fund) and prudently invested with the objective of obtaining the best possible return on investments consistent with the actuarial soundness of the program. Fund assets are invested in accordance with a formal Investment Policy, which is adopted annually by the Commission. The investment program is implemented by internal investment staff, with all investments professionally managed by external investment management firms.

Based on consultant reports, the net-of-fees returns for the Fund were 3.87% for the fiscal year ended 6/30/19, 5.76% for the trailing 3-year period, and 5.38% for the trailing 5-year period. The longer-term performance is consistent with our 6.00% actuarial assumption. Long-term performance is generally in line with expectations for the asset allocation, although private market returns have been below par. The risk profile for the asset allocation projects a standard deviation of 10.30%. This profile corresponds to a 28% probability of negative returns in a given year and a 6% probability of losses exceeding 10%. Actual standard deviation was 4.43% for the five years ending 6/30/19 and 4.89% for the trailing ten-year period. Liquidity is sound with 82% of assets available within one year.

The following table provides a summary of investment performance. Additional detail is provided in the appendix.

Investment Returns and Peer Group* Rankings

| Periods Ending June 30, 2019 | 1 year | | 3 years | | 5 years | |
|-------------------------------|--------|------|---------|------|---------|------|
| | Return | Rank | Return | Rank | Return | Rank |
| College Illinois gross** | 3.93% | 97% | 5.83% | 96% | 5.49% | 74% |
| College Illinois net** | 3.87% | NA** | 5.76% | NA** | 5.38% | NA** |
| Policy Benchmark | 6.95% | 23% | 7.78% | 85% | 6.10% | 44% |
| Public Fund Peer Group Median | 6.19% | 50% | 8.91% | 50% | 5.96% | 50% |

Source: Program Investment Consultant, Callan LLC

*Public peer group represents public funds in the Consultant database, including pension plans.

**College Illinois performance shown as gross and net of separate account investment management fees and net of all other investment fees. Gross performance is the relevant comparable for the Public Fund Peer Group.

Conclusion

The College Illinois! 529 Prepaid Tuition Program has actuarial assets around \$700 million and approximately 31,600 active accounts. As we work with policymakers to address the Program's unfunded liability, we continue to serve our current contract holders with no change in benefit payments, customer service, or plan administration.

If you have questions or would like to discuss the report, we are available to meet with you or your staff member or designees.

Sincerely,



Eric Zarnikow
Executive Director
Illinois Student Assistance Commission

Commissioners of the Illinois Student Assistance Commission*

Niketa Brar
Mark Donovan
James Hibbert
Kevin B. Huber
Elizabeth Lopez
Kim Savage

College Illinois!® Investment Advisory Panel*

Jeanna Cullins
James Hibbert
Karen Kissel
Louis Paster
Steven Powell
Janice Reodus
Chasse Rehwinkel

*as of June 30, 2019

PROGRAM OVERVIEW

The College Illinois!® 529 Prepaid Tuition Program is administered by the Illinois Student Assistance Commission, the state agency working to help make college accessible and affordable for Illinois students since 1957. As a qualified tuition program under Section 529 of the Internal Revenue Code, College Illinois! provides individuals with an opportunity to lock in contract rates for future tuition and mandatory fees, protecting against tuition inflation. The Program was enacted by the General Assembly and then signed into law by the Governor in November 1997.

The College Illinois! 529 Prepaid Tuition Program offers plans for public university semesters, community college semesters and a combined plan that includes two years at a community college and two years at a public university. Plans can be purchased one semester at a time or up to a maximum of nine semesters for any one future student. The value of plan benefits may also be used at private colleges within Illinois and at public universities and private colleges and universities across the country as well.

The plan must be in place for three years and paid in full before the student can use it. Beneficiaries of a plan do not have to choose the school they will attend until time of college enrollment. Plans can be purchased with a single lump-sum payment or in installments. College Illinois! 529 Prepaid Tuition Program benefits cover undergraduate tuition and mandatory fees, but do not cover other expenses such as room and board, books and transportation.

Benefits provided by the College Illinois! 529 Prepaid Tuition Program are entirely exempt from both federal and state income tax, when used for qualified educational expenses. In addition, annual contributions up to a maximum of \$10,000 per individual or \$20,000 per couple are deductible from Illinois taxable income.

A College Illinois! 529 Prepaid Tuition Program contract can help protect purchasers against tuition and fee increases that have historically averaged about 7.0 percent per year over the past 20 years at public universities in Illinois. Since its inception in 1998, more than 45,000 students have gone to college using College Illinois! benefits, and the Program has paid out more than \$1.2 billion in plan benefits.

Appendix A

ISAC Asset Class Performance and Peer Rankings* for periods ending on June 30, 2019

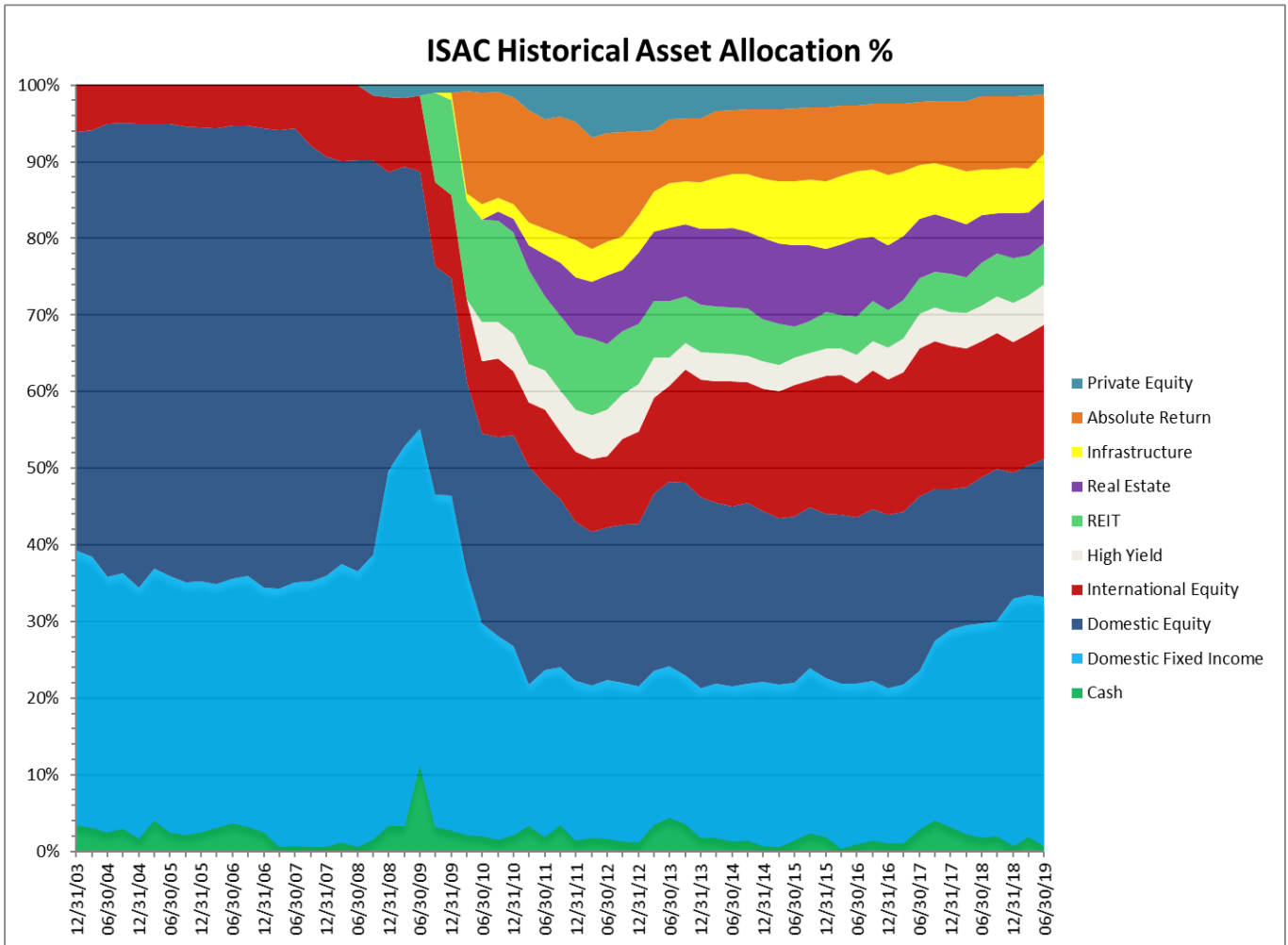
| | one year | | three years | | five years | |
|---------------------------------|----------|------|-------------|------|------------|------|
| | Return | Rank | Return | Rank | Return | Rank |
| ISAC- Domestic Equity | 9.60% | 43 | 14.08% | 42 | 10.51% | 35 |
| Russell 3000 index | 8.98% | 46 | 14.02% | 42 | 10.19% | 38 |
| Median asset class returns | 7.98% | 50 | 13.07% | 50 | 8.90% | 50 |
| ISAC- International Equity | 0.20% | 53 | 6.38% | 94 | 3.09% | 58 |
| Spliced Non-US Equity Benchmark | 0.26% | 52 | 9.02% | 55 | 2.20% | 73 |
| Median asset class returns | 0.46% | 50 | 9.48% | 50 | 3.40% | 50 |
| ISAC- Fixed Income | 7.38% | 96 | 2.69% | 54 | 3.11% | 80 |
| Barclays US Aggregate Index | 7.87% | 78 | 2.31% | 91 | 2.95% | 91 |
| Median asset class returns | 8.10% | 50 | 2.73% | 50 | 3.27% | 50 |
| ISAC- High Yield | 5.10% | 92 | 8.47% | 4 | 5.82% | 1 |
| MLHY | 7.58% | 39 | 7.54% | 13 | 4.71% | 13 |
| Median asset class returns | 7.00% | 50 | 6.76% | 50 | 3.84% | 50 |
| ISAC- Real Estate | 1.54% | 100 | 4.34% | 71 | 12.47% | 2 |
| Median asset class returns | 6.87% | 50 | 7.56% | 50 | 8.82% | 50 |
| ISAC- REIT | 9.30% | 80 | 6.23% | 28 | 7.27% | 83 |
| MSCI REIT Index | 11.06% | 66 | 4.14% | 74 | 7.81% | 69 |
| Median asset class returns | 12.11% | 50 | 5.17% | 50 | 8.60% | 50 |
| ISAC- Infrastructure | -15.49% | 100 | -5.68% | 100 | -2.23% | 100 |
| Median asset class returns | 6.87% | 50 | 7.56% | 50 | 8.82% | 50 |
| ISAC- Absolute Return | 3.91% | 14 | 4.33% | 69 | 2.81% | 44 |
| Median asset class returns | 1.34% | 50 | 5.06% | 50 | 2.69% | 50 |
| ISAC- Private Equity | -14.41% | 98 | -5.46% | 96 | -1.02% | 52 |
| Median asset class returns | -0.17% | 50 | 1.52% | 50 | 0.00% | 50 |
| College Illinois gross** | 3.93% | 97 | 5.83% | 96 | 5.49% | 74 |
| College Illinois net** | 3.87% | NA** | 5.76% | NA** | 5.38% | NA** |
| Policy Benchmark | 6.95% | 23 | 7.78% | 85 | 6.10% | 44 |
| Public Fund Peer Group | 6.19% | 50 | 8.91% | 50 | 5.96% | 50 |

Source: Program Investment Consultant, Callan Associates

*Public peer group represents public funds in the Consultant database, including pensions plans.

**College Illinois performance shown as gross and net of separate account investment management fees and net of a other investment fees. Gross performance is the relevant comparable for the Public Fund Peer Group.

Appendix B



Appendix - C
Utilization of Benefits
 Fiscal Year 2019

| Illinois Public 4-Year Institutions | Amount Paid | Number of Students * | % of Amount Paid | % of Students |
|--|--------------------|-----------------------------|-------------------------|----------------------|
| University of Illinois Urbana-Champaign | \$28,710,268 | 1,825 | 60.0% | 49.3% |
| Illinois State University | \$7,797,286 | 710 | 16.3% | 19.2% |
| University of Illinois Chicago | \$4,743,317 | 399 | 9.9% | 10.8% |
| Northern Illinois University | \$2,367,722 | 249 | 4.9% | 6.7% |
| Southern Illinois University Carbondale | \$1,273,177 | 131 | 2.7% | 3.5% |
| Southern Illinois University Edwardsville | \$883,457 | 114 | 1.8% | 3.1% |
| Western Illinois University | \$618,821 | 76 | 1.3% | 2.1% |
| Eastern Illinois University | \$590,819 | 73 | 1.2% | 2.0% |
| Northeastern Illinois University | \$397,254 | 56 | 0.8% | 1.5% |
| University of Illinois Springfield | \$342,755 | 48 | 0.7% | 1.3% |
| Governors State University | \$134,787 | 23 | 0.3% | 0.6% |
| Chicago State University | \$0 | 0 | 0.0% | 0.0% |
| | \$47,859,664 | 3,704 | | |

*Students (beneficiaries) are counted more than once if they attended more than one school.

| Top 10 Illinois Community Colleges | Amount Paid | Number of Students * | % of Amount Paid to Top 10 | % of Students of Top 10 |
|---|--------------------|-----------------------------|-----------------------------------|--------------------------------|
| College of DuPage | \$278,016 | 122 | 17.5% | 19.5% |
| Joliet Junior College | \$217,431 | 78 | 13.7% | 12.4% |
| Parkland College | \$208,516 | 64 | 13.1% | 10.2% |
| Lincoln Land Community College | \$176,011 | 65 | 11.1% | 10.4% |
| Harper College | \$166,978 | 75 | 10.5% | 12.0% |
| Moraine Valley Community College | \$160,523 | 56 | 10.1% | 8.9% |
| College of Lake County | \$102,168 | 50 | 6.4% | 8.0% |
| Heartland Community College | \$98,006 | 39 | 6.2% | 6.2% |
| Oakton Community College | \$92,827 | 45 | 5.8% | 7.2% |
| Illinois Central College | \$87,190 | 33 | 5.5% | 5.3% |
| | \$1,587,666 | 627 | | |

*Students (beneficiaries) are counted more than once if they attended more than one school.

Appendix - C
Utilization of Benefits
Fiscal Year 2019

| Top 10 Illinois Private Institutions | Amount Paid | Number of Students * | % of Amount Paid to Top 10 | % of Students of Top 10 |
|---|--------------------|-----------------------------|-----------------------------------|--------------------------------|
| DePaul University | \$2,663,701 | 196 | 23.1% | 23.0% |
| Loyola University Chicago | \$2,378,428 | 169 | 20.6% | 19.8% |
| Bradley University | \$1,595,187 | 121 | 13.8% | 14.2% |
| Northwestern University Evanston | \$942,033 | 62 | 8.2% | 7.3% |
| North Central College | \$918,508 | 69 | 8.0% | 8.1% |
| Augustana College | \$762,155 | 59 | 6.6% | 6.9% |
| Columbia College Chicago | \$658,167 | 49 | 5.7% | 5.7% |
| Lewis University | \$628,242 | 56 | 5.4% | 6.6% |
| Illinois Wesleyan University | \$602,776 | 39 | 5.2% | 4.6% |
| Elmhurst College | \$401,165 | 34 | 3.5% | 4.0% |
| | \$11,550,363 | 854 | | |

*Students (beneficiaries) are counted more than once if they attended more than one school.

| Top 10 Out-of-State Institutions | Amount Paid | Number of Students * | % of Amount Paid to Top 10 | % of Students of Top 10 |
|---|--------------------|-----------------------------|-----------------------------------|--------------------------------|
| Indiana University Bloomington | \$2,887,527 | 209 | 16.5% | 15.8% |
| University of Iowa | \$2,885,676 | 227 | 16.5% | 17.2% |
| Iowa State University | \$2,110,990 | 164 | 12.1% | 12.4% |
| Purdue University | \$1,733,432 | 127 | 9.9% | 9.6% |
| Marquette University | \$1,586,353 | 113 | 9.1% | 8.6% |
| University of Wisconsin Madison | \$1,344,794 | 101 | 7.7% | 7.7% |
| University of Missouri Columbia | \$1,343,622 | 129 | 7.7% | 9.8% |
| Saint Louis University | \$1,261,927 | 93 | 7.2% | 7.0% |
| University of Minnesota Twin Cities | \$1,180,023 | 77 | 6.8% | 5.8% |
| Miami University | \$1,137,267 | 80 | 6.5% | 6.1% |
| | \$17,471,610 | 1,320 | | |

*Students (beneficiaries) are counted more than once if they attended more than one school.

Appendix - C
Utilization of Benefits
 Fiscal Years 1998 through 2019

| Illinois Public 4-Year Institutions | Amount Paid | Number of Students * | % of Amount Paid | % of Students |
|--|--------------------|-----------------------------|-------------------------|----------------------|
| University of Illinois Urbana-Champaign | \$311,529,201 | 7,543 | 56.1% | 41.4% |
| Illinois State University | \$89,056,261 | 3,507 | 16.0% | 19.2% |
| University of Illinois Chicago | \$49,683,177 | 1,790 | 8.9% | 9.8% |
| Northern Illinois University | \$34,183,720 | 1,570 | 6.2% | 8.6% |
| Southern Illinois University Carbondale | \$22,033,571 | 1,036 | 4.0% | 5.7% |
| Eastern Illinois University | \$14,956,331 | 767 | 2.7% | 4.2% |
| Western Illinois University | \$13,454,907 | 702 | 2.4% | 3.8% |
| Southern Illinois University Edwardsville | \$12,152,767 | 688 | 2.2% | 3.8% |
| University of Illinois Springfield | \$3,831,534 | 263 | 0.7% | 1.4% |
| Northeastern Illinois University | \$3,307,099 | 259 | 0.6% | 1.4% |
| Governors State University | \$886,677 | 92 | 0.2% | 0.5% |
| Chicago State University | \$264,660 | 21 | 0.0% | 0.1% |
| | \$555,339,904 | 18,238 | | |

*Students (beneficiaries) are counted more than once if they attended more than one school.

| Top 10 Illinois Community Colleges | Amount Paid | Number of Students * | % of Amount Paid to Top 10 | % of Students of Top 10 |
|---|--------------------|-----------------------------|-----------------------------------|--------------------------------|
| College of DuPage | \$4,272,317 | 910 | 17.5% | 19.5% |
| Harper College | \$2,302,626 | 513 | 13.7% | 12.4% |
| Parkland College | \$1,984,967 | 446 | 13.1% | 10.2% |
| Moraine Valley Community College | \$1,868,283 | 379 | 11.1% | 10.4% |
| Lincoln Land Community College | \$1,802,765 | 418 | 10.5% | 12.0% |
| Joliet Junior College | \$1,755,868 | 427 | 10.1% | 8.9% |
| College of Lake County | \$1,326,070 | 344 | 6.4% | 8.0% |
| Illinois Central College | \$1,123,142 | 260 | 6.2% | 6.2% |
| Heartland Community College | \$940,278 | 251 | 5.8% | 7.2% |
| Oakton Community College | \$926,900 | 270 | 5.5% | 5.3% |
| | \$18,303,216 | 4,218 | | |

*Students (beneficiaries) are counted more than once if they attended more than one school.

Appendix - C
Utilization of Benefits
 Fiscal Years 1998 through 2019

| Top 10 Illinois Private Institutions | Amount Paid | Number of Students * | % of Amount Paid to Top 10 | % of Students of Top 10 |
|---|--------------------|-----------------------------|-----------------------------------|--------------------------------|
| DePaul University | \$25,516,284 | 879 | 23.1% | 23.0% |
| Loyola University Chicago | \$18,125,567 | 618 | 20.6% | 19.8% |
| Bradley University | \$15,920,797 | 545 | 13.8% | 14.2% |
| Columbia College Chicago | \$10,808,996 | 424 | 8.2% | 7.3% |
| Illinois Wesleyan University | \$10,023,166 | 312 | 8.0% | 8.1% |
| Northwestern University Evanston | \$9,747,711 | 264 | 6.6% | 6.9% |
| Augustana College | \$9,274,312 | 301 | 5.7% | 5.7% |
| North Central College | \$7,815,743 | 274 | 5.4% | 6.6% |
| Lewis University | \$5,840,239 | 237 | 5.2% | 4.6% |
| Elmhurst College | \$5,726,322 | 221 | 3.5% | 4.0% |
| | \$118,799,136 | 4,075 | | |

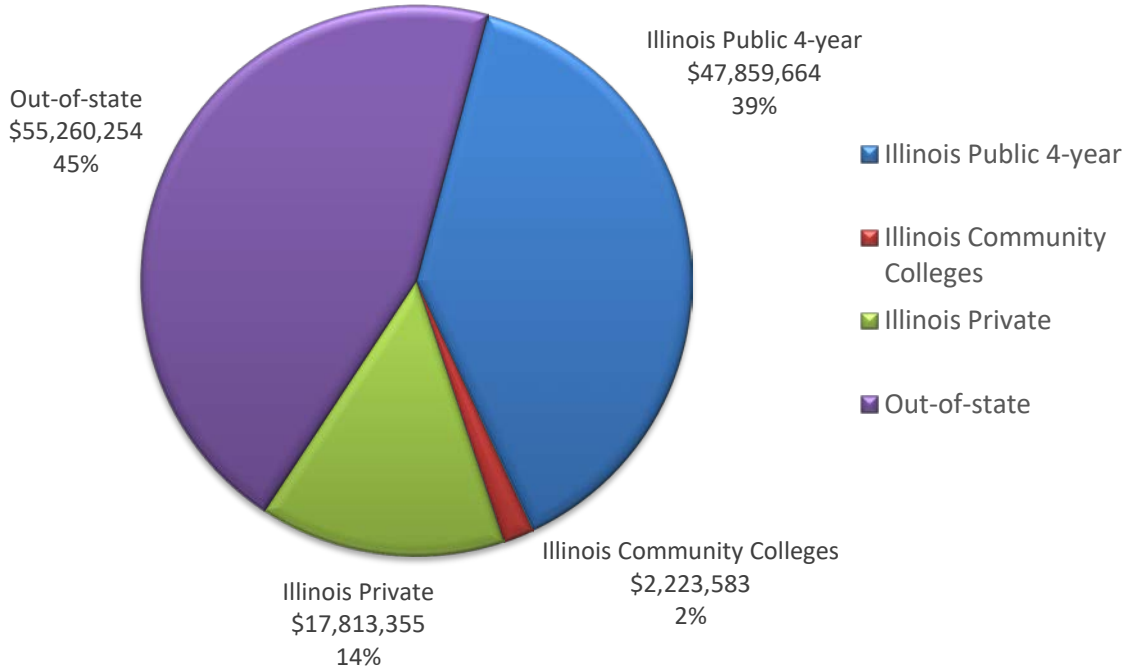
*Students (beneficiaries) are counted more than once if they attended more than one school.

| Top 10 Out-of-State Institutions | Amount Paid | Number of Students * | % of Amount Paid to Top 10 | % of Students of Top 10 |
|---|--------------------|-----------------------------|-----------------------------------|--------------------------------|
| University of Iowa | \$30,220,308 | 971 | 19.3% | 20.2% |
| Indiana University Bloomington | \$27,044,145 | 788 | 17.3% | 16.4% |
| Purdue University | \$16,373,207 | 514 | 10.5% | 10.7% |
| University of Missouri Columbia | \$14,933,881 | 514 | 9.5% | 10.7% |
| Marquette University | \$14,850,039 | 438 | 9.5% | 9.1% |
| University of Wisconsin Madison | \$13,178,152 | 385 | 8.4% | 8.0% |
| Iowa State University | \$12,742,136 | 423 | 8.1% | 8.8% |
| Saint Louis University | \$12,431,805 | 362 | 7.9% | 7.5% |
| Miami University | \$7,625,921 | 219 | 4.9% | 4.6% |
| University of Notre Dame | \$7,181,791 | 195 | 4.6% | 4.1% |
| | \$156,581,385 | 4,809 | | |

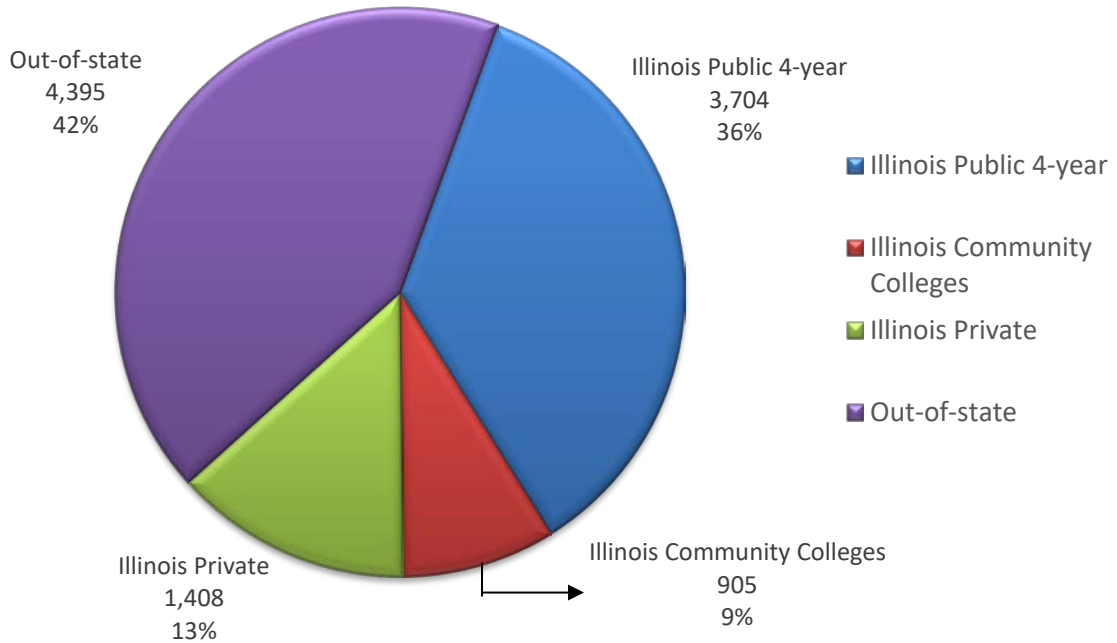
*Students (beneficiaries) are counted more than once if they attended more than one school.

Appendix - D
Utilization of Benefits by Location
Fiscal Year 2019

Benefits Paid by School Type and Location

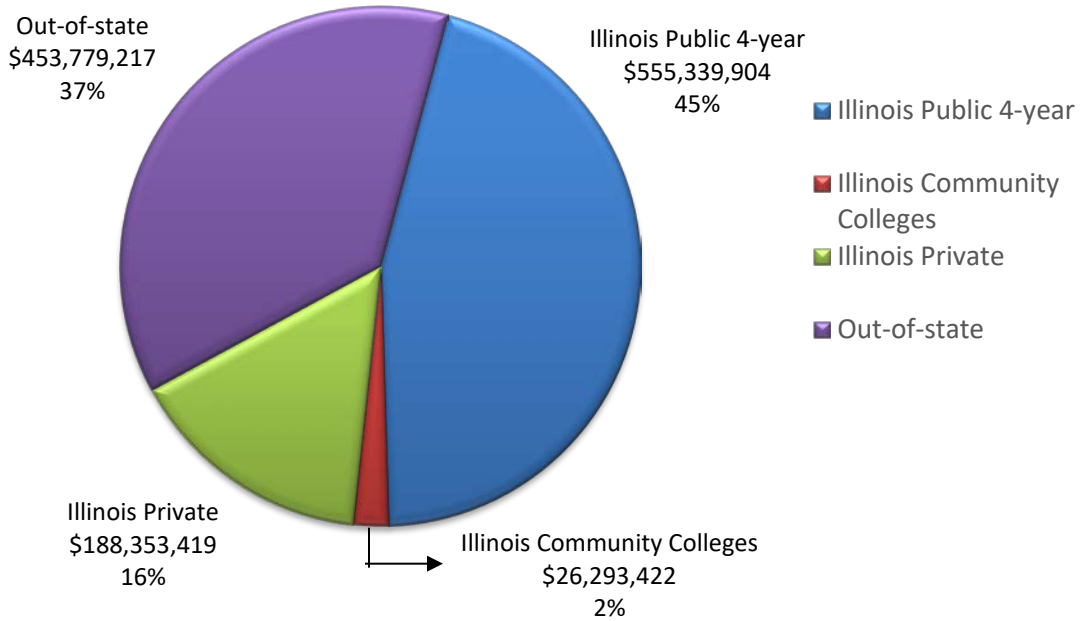


Beneficiaries by School Type and Location

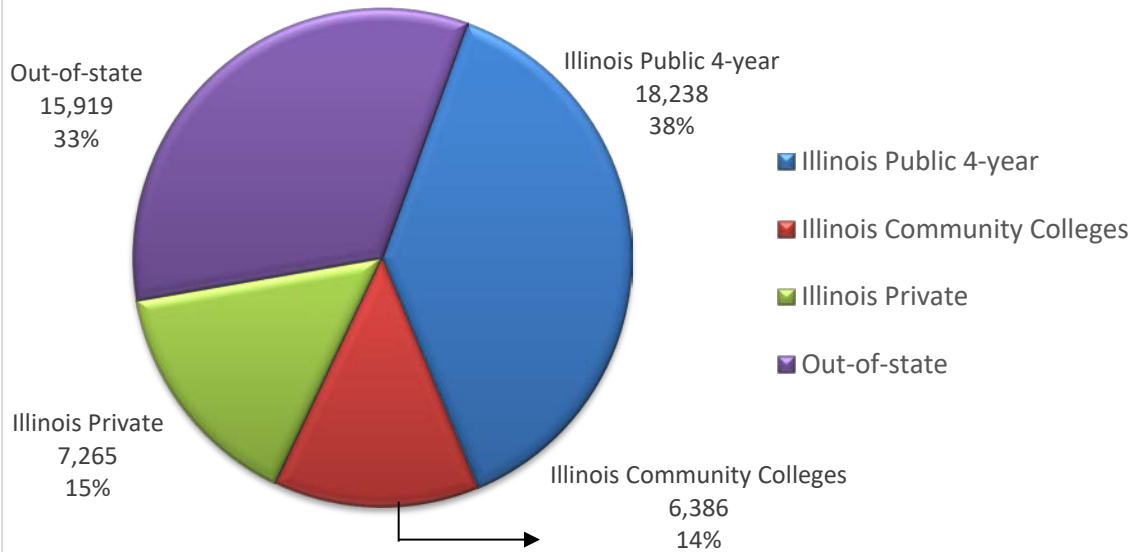


Appendix - D
 Utilization of Benefits by Location
 Fiscal Years 1998 through 2019

Benefits Paid by School Type and Location



Beneficiaries by School Type and Location



**STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM**

FINANCIAL AUDIT
June 30, 2019

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

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM

FINANCIAL AUDIT
June 30, 2019

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STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
AGENCY OFFICIALS

Commission Officials:

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

Governing Board:

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

Commission Offices:

1755 Lake Cook Road
Deerfield, IL 60015-5209

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

FINANCIAL STATEMENT REPORT

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
SUMMARY
June 30, 2019

SUMMARY

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

Based on their audit, the auditors expressed an unmodified opinion on the Program's financial statements.

EXIT CONFERENCE

In correspondence received from Wendy Funk, Managing Director of Finance and Accounting, on December 19, 2019, the Commission elected to waive an exit conference.

Independent Auditor's Report

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

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Illinois Prepaid Tuition Program of 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2019, and the changes in financial position and its 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 present only the Illinois Prepaid Tuition Program, and do not purport to, and do not present fairly the financial position of the State of Illinois or the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2019, and the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Notes 9 and 10, the Illinois Prepaid Tuition Program has a net position deficit as of June 30, 2019 of \$295 million. The amount of the net position deficit is highly dependent on the actuarial assumptions used to calculate the actuarial present value of future tuition benefit obligations.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission. The Other Information, consisting of the actuarial soundness reports, are presented for purposes of additional analysis and are not a required part of the financial statements. The actuarial soundness reports have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2020, on our consideration of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Prepaid Tuition Program 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 Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Prepaid Tuition Program and its compliance.


Crowe LLP

Oak Brook, Illinois
February 10, 2020

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
STATEMENT OF NET POSITION
June 30, 2019

ASSETS

Current

| | |
|---------------------------------|--------------------|
| Cash and cash equivalents | \$ 5,046,908 |
| Investments | 146,725,531 |
| Receivables: | |
| Contracts receivable | 6,647,238 |
| Recoverable Taxes | 35,586 |
| Accrued interest on investments | <u>7,030</u> |
| Total current assets | <u>158,462,293</u> |

Noncurrent

| | |
|--------------------------|--------------------|
| Investments | 550,408,172 |
| Contracts receivable | <u>17,033,248</u> |
| Total non-current assets | <u>567,441,420</u> |

Total assets 725,903,713

LIABILITIES

Current

| | |
|--|--------------------|
| Accounts payable and accrued expenses | 1,669,441 |
| Due to other ISAC funds | 179,020 |
| Due to State of Illinois component units | 10,194 |
| Tuition obligation | <u>145,130,169</u> |
| Total current liabilities | <u>146,988,824</u> |

Noncurrent

| | |
|--------------------|--------------------|
| Tuition obligation | <u>873,867,028</u> |
|--------------------|--------------------|

Total liabilities 1,020,855,852

Net position, unrestricted (deficit) \$ (294,952,139)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2019

Operating revenues:

| | |
|---|------------|
| Income from investment securities (net of closed end funds investment management fees of \$1,030,140 and performance allocation of 6,458,837; see Note 3) | 32,622,636 |
| Interest revenue, other | 181,793 |
| Fees | 247,516 |
| Total operating revenues | 33,051,945 |

Operating expenses:

| | |
|--------------------------------------|-------------------|
| Salaries and employee benefits | 1,725,709 |
| Accreted tuition expense | 41,669,077 |
| Management and professional services | 2,068,584 |
| Investment management fees | 400,277 |
| Investment advisory fees | 1,810,641 |
| Total operating expenses | <u>47,674,287</u> |

Operating loss, change in net position (14,622,342)

Net position (deficit), July 1, 2018 (280,329,797)

Net position (deficit), June 30, 2019 (294,952,139)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

| | |
|---|----------------------------|
| Cash flows from operating activities | |
| Cash receipts from tuition contracts | \$ 10,713,896 |
| Cash received from fees | 247,516 |
| Cash paid for refund of contracts | (25,667,630) |
| Cash paid for tuition | (123,649,951) |
| Cash payments to suppliers for goods and services | (1,656,582) |
| Cash payments to employees for services | <u>(1,725,709)</u> |
| Net cash used by operating activities | (141,738,460) |
| Cash flows from investing activities | |
| Purchase of investment securities | (145,147,817) |
| Proceeds from sales and maturities of investment securities | 274,835,293 |
| Interest and dividends on investments | 2,967,393 |
| Cash paid to investment managers | <u>(400,277)</u> |
| Net cash provided by investing activities | <u>132,254,592</u> |
| Net decrease in cash and cash equivalents | (9,483,868) |
| Cash and cash equivalents, July 1, 2018 | <u>14,530,776</u> |
| Cash and cash equivalents, June 30, 2019 | <u><u>\$ 5,046,908</u></u> |

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

**Reconciliation of operating loss to
net cash used in operating activities**

| | |
|--|--------------------------------|
| Operating loss, change in net position | \$ (14,622,342) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Investment income and other interest income | (32,804,428) |
| Investment management fees | 400,277 |
| Investment advisory fees | 1,810,641 |
| Accreted tuition expense | 41,669,077 |
| Decrease in assets: | |
| Contracts receivable | 9,353,131 |
| Increase (decrease) in liabilities: | |
| Accounts payable and accrued expenses | 954,678 |
| Due to other ISAC funds | (34,074) |
| Due to State of Illinois component units | (508,603) |
| Tuition obligation | <u>(147,956,817)</u> |
| Total adjustments | <u>(127,116,118)</u> |
| Net cash used by operating activities | <u><u>\$ (141,738,460)</u></u> |
| Supplemental disclosure of noncash investing activities: | |
| Net appreciation in fair value of investments | <u><u>\$ 18,439,471</u></u> |

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - DESCRIPTION OF PROGRAM

The Illinois Student Assistance Commission (ISAC or Commission) administers the nonshared proprietary fund, Illinois Prepaid Tuition Program (*College Illinois!*[®] or Program) described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

Legislation authorizing ISAC to administer an Illinois Prepaid Tuition Program was passed in November 1997. 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 Fund (Fund) is a non-appropriated fund.

Program Administration: Oversight of the Program is provided by the Illinois Student Assistance Commission, an agency of the State of Illinois, which was established more than 50 years ago with the mission of helping to make college accessible and affordable for Illinois students. The agency is governed by the Commission, a board of ten persons (barring temporary vacancies) appointed by the Governor. The Commission 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 administrative powers include, but are not limited to: adopting a sound Investment Policy; approving any changes to the investment manager structure; and monitoring and evaluating the investment performance of the Fund.

The Investment Committee (Committee) refers to a committee consisting of at least three members of the Commission with knowledge of investing. Investment Committee members shall be selected by the Chair of the Commission and approved by a vote of the Commission. The Investment Committee is generally responsible for monitoring Fund investments and performance to ensure compliance with the Investment Policy and making related recommendations to the Commission.

The Commission also appoints the members of the Investment Advisory Panel. The Panel consists of seven persons (barring temporary vacancies) with expertise in the areas of accounting, actuarial practice, risk management or investment management. It provides advice to the Commission on issues related to the Program's financial policies and practices and its investment strategy and asset allocation with the objective of obtaining the best possible return on investments, consistent with the actuarial soundness of the Program. The Investment Advisory Panel may also advise on other aspects of the Program.

The Program has been designed to comply with all requirements relating to qualified tuition programs under Section 529 of the Internal Revenue Code of 1986 and Illinois law.

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity: The Program does not have component units, nor is it a component unit of any other entity. The Program is not legally separate from the State of Illinois; it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

The financial statements present only the Program administered by the State of Illinois, Illinois Student Assistance Commission (ISAC) and do not purport to, and do not, present fairly the financial position of the State of Illinois or ISAC as of June 30, 2019, and changes in their financial positions and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The assets of the Fund are to be preserved, invested and expended solely pursuant to and for the purposes of the Fund and may not be loaned or otherwise transferred or used by the State for any other purpose.

Basis of Presentation: In government, the basic accounting and reporting entity is a fund. A fund is a self-balancing set of accounts segregated for specific purposes/activities generally in accordance with laws and regulations or specific restrictions or limitations on resource use. As a proprietary fund, a statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows have been presented for the Program administered by ISAC.

Operating revenues result from exchange transactions associated with the principal activity of the Fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Due to the nature of the Program activities, income from investments is considered an operating activity in the Statement of Revenues, Expenses, and Changes in Net Position. The Fund has no nonoperating activities.

Basis of Accounting: The Program is reported as an enterprise fund, 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. The fund accounts for resources received and used for financing self-supporting activities of the Program that offers services (prepaid tuition contracts) on a user-charge basis to the general public.

Cash and Cash Equivalents: Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents include cash on hand, cash in banks, interest bearing deposits with banks, and investments in the Illinois Fund.

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: The Program presents investments on its Statement of Net Position at fair value or amortized cost which approximates fair value – see Note 3 for information on the determination of fair value. The net appreciation or depreciation in the fair value of investments since the prior fiscal year (or purchase date for Fiscal Year 2019 purchases) is included in investment income in the Statement of Revenues, Expenses, and Changes in Net Position. Dividend and interest income are recorded in the period earned.

Contracts Receivable: Contracts receivable represents the amount the Program expects to receive from contract holders for contracts purchased on an installment basis. The actuarially determined present value of future contributions was \$23,680,486 as of June 30, 2019 using a 6.0% discount rate. The Program expects to receive contributions totaling \$6,647,238 in Fiscal Year 2020. This amount has been classified as current contracts receivable on the Statement of Net Position. The total contract receivable balance is expected to be received over the next fifteen years.

Interfund Transactions: The Program has the following type of interfund transactions with other funds of the State:

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

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

Transfers—flows of assets (such as cash or goods) without equivalent flow of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

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

Net Position (Deficit): Net position at year-end (when positive) is restricted by the provisions of the tuition contracts, for tuition payments for beneficiaries of the contract owners. Net deficits however are categorized as unrestricted and represent the unfunded liability of the Program.

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

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

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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 Program.

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

The investment policy represents the comprehensive investment plan as referred to in the Illinois Prepaid Tuition Act. The investment policy is reviewed by the Commission annually and identifies a set of investment objectives, guidelines, and performance standards for the investment of the assets of the Fund.

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

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

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

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

The Commission may direct that assets of the Program be placed in savings accounts or may use the same to purchase fixed or variable life insurance or annuity contracts, securities, evidence of indebtedness, or other investment products pursuant to the comprehensive investment plan and in such proportions as may be designated or approved under that plan.

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

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

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

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

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Program'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 Program has no policy that would further limit the requirements under State law. As of June 30, 2019, the Program's deposits held outside the State Treasury were not exposed to custodial credit risk.

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

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The comprehensive investment plan specifies the investment policies to be utilized by the Commission in its administration of the Program. The Commission may direct that assets of the Program be invested in a manner that will meet or exceed the return of the Policy Benchmark consistent with the actuarial soundness of the Fund and the risk level expected from the asset allocation. The investments should be in compliance with all applicable federal and state laws and other statutes governing the investment of Program resources.

The asset allocation targets are reviewed annually for reasonableness in relation to significant economic and market changes or to changes in the investment objectives. A formal asset allocation study is conducted as directed, but at least every three years, to verify or provide a basis for revising the targets. The asset allocation establishes target weights for each asset class and is designed to maximize the long-term expected return of the Program within an acceptable risk tolerance while providing liquidity to meet Program liabilities.

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

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

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.

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The Target Index components are as follows.

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

ISAC has established investment guidelines for the investment managers and conducts through due diligence before the appointment of all investment managers. ISAC has retained Alinda Capital Partners, Ativo Capital Management, CM Growth Capital Partners LP, DDJ Capital Management, Dimensional Fund Advisors, Garcia Hamilton and Associates, Lyrical-Antheus Realty Partners, Mesirov Financial, Morgan Stanley AIP, Neuberger Berman, Pinnacle Asset Management, Portfolio Advisors, RhumbLine Advisers, Security Capital Research and Management, State Street Global Advisors, T. Rowe Price Associates and The Rohatyn Group as investment managers to assist with the investment of the Program.

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

As of June 30, 2019, 17.9% of the funds were invested in Domestic Equities, 32.4% in Fixed Income, 17.5% in International Equities, 5.9% in Infrastructure Funds, 7.9% in Absolute Return Funds, 1.3% in Private Equity Funds, 5.8% in Real Estate, 5.4% in Real Estate Investment Trust, 5.2% in High Yield, and 0.7% in cash and equivalents.

Investments owned are reported at fair value or amortized cost as follows:

1. U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities;
2. Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities – (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices;
3. Money Market Instruments – amortized cost which approximates fair values;
4. Real Estate Investments – fair values as determined by its investment managers and reviewed by Program investment staff and the investment consultant;

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

5. Private Equity, Absolute Return, and Infrastructure Funds – fair values as determined by its investment managers and reviewed by Program investment staff and the investment consultant. Valuations generally are based on the investee's last audited financial statements (generally December 31) and differences attributed to cash flows and subsequent events through June 30.

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

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

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

Private equity, real estate and infrastructure investment portfolios consist of passive interests in non-publicly traded companies. The Program had outstanding unfunded commitments of approximately \$0.3 million to private equity partnerships and \$8 million to infrastructure funds as of June 30, 2019.

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

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

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

| <u>Asset Class</u> | <u>Investment Managers</u> <u>Asset Allocation at June 30, 2019</u> | | <u>Fair Value</u> | <u>Asset Allocation</u> |
|--|--|---------------------------------------|-----------------------|-------------------------|
| | | <u>Investment Manager</u> | | |
| Large-cap core equity | | Rhumblin Advisers | \$ 17,401,415 | 2.48% |
| All-cap core equity | | Rhumblin Advisers | <u>108,082,310</u> | <u>15.39%</u> |
| Total U.S. Equity | | | 125,483,725 | 17.87% |
| International equity | | Ativo | 65,498,314 | 9.33% |
| International equity | | Dimensional Fund Advisors | 57,496,432 | 8.19% |
| International equity recoverable taxes | | Northern Trust | <u>35,586</u> | <u>0.01%</u> |
| Total Non-U.S. equity | | | 123,030,332 | 17.52% |
| Fixed income - Passive core | | State Street Global Advisors | 79,483,443 | 11.32% |
| Fixed income - Core Plus | | T. Rowe Price | 80,050,554 | 11.40% |
| Fixed income - U.S. Intermediate | | Garcia Hamilton | <u>67,892,950</u> | <u>9.67%</u> |
| Total fixed income | | | 227,426,947 | 32.39% |
| High yield | | DDJ Strategic Income Plus | <u>36,350,469</u> | <u>5.18%</u> |
| Total high yield | | | 36,350,469 | 5.18% |
| REIT Preferred Growth | | Security Capital Research | <u>38,106,289</u> | <u>5.43%</u> |
| Total REIT | | | 38,106,289 | 5.43% |
| Real estate - Private Equity | | Mesirow | 2,544,212 | 0.36% |
| Real estate - Private Equity | | Lyrical - Antheus | <u>38,100,464</u> | <u>5.43%</u> |
| Total Real Estate | | | 40,644,676 | 5.79% |
| Infrastructure-Diversified Value Add | | Alinda Infrastructure | 22,722,880 | 3.24% |
| Infrastructure-Asia Opportunities | | The Rohatyn Group | <u>18,836,528</u> | <u>2.68%</u> |
| Total infrastructure | | | 41,559,408 | 5.92% |
| Absolute return fund-Conservative | | Neuberger Berman | 26,578,123 | 3.78% |
| Absolute return fund-Commodities | | Pinnacle Natural Resources | <u>28,669,744</u> | <u>4.08%</u> |
| Total Absolute Return Funds | | | 55,247,867 | 7.87% |
| Private equity secondary FoFs | | CM Growth Capital Partners LP | 5,323,723 | 0.76% |
| Private equity secondary FoFs | | Morgan Stanley | 214,378 | 0.03% |
| Private equity secondary FoFs | | Portfolio Advisors | <u>3,781,475</u> | <u>0.54%</u> |
| Total Private Equity | | | <u>9,319,576</u> | <u>1.33%</u> |
| Total investments | | | <u>697,169,289</u> | 99.28% |
| Cash and equivalents | | Northern Trust | 4,178,573 | 0.60% |
| Cash and equivalents | | Illinois Funds, Treasury and lock box | 868,335 | <u>0.13%</u> |
| Total cash and cash equivalents | | | <u>5,046,908</u> | <u>0.72%</u> |
| Total portfolio | | | <u>\$ 702,216,197</u> | <u>100.00%</u> |

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

For investment managers who invest moneys in publicly held securities the Program pays an investment management fee for investment management services. The investment management fee is based upon contractually agreed upon conditions and provisions. Investment management fees expense for investments in publicly held securities amounted to \$400,277 for the year ended June 30, 2019 and is accounted for in the Statement of Revenues, Expenses, and Changes in Net Position.

For investment managers of alternative investments (not publicly held securities) the Program pays an investment advisory fee. The investment advisory fees are calculated based upon the terms and conditions agreed upon with each individual contractual agreement and are recognized as investment advisory fees expense in the Statement of Revenues, Expenses, and Changes in Net Position. Investment advisory expense as reflected in the Statement of Revenues, Expenses, and Changes in Net Position for Fiscal Year 2019 amounts to \$1,810,641.

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

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

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

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Approximately \$1,030,140 in investment advisory fees and \$6,458,837 in performance allocation fees are included in the amount reported for income from investment securities for the Fiscal Year ending June 30, 2019 and is accounted for as a part of the income from investment securities in the Statement of Revenues, Expenses, and Changes in Net Position. Additionally, these amounts are reflected in the carrying value on the Statement of Net Position.

The State Treasurer is the custodian of the State's cash and cash equivalents for the Program maintained in the State Treasury. Amounts on deposits in the custody of the State Treasurer totaled \$636,595 at June 30, 2019. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been addressed as to custodial credit risk because the Program does not own individual securities. Funds held by the State Treasurer are not rated for credit risk and the interest rate risk cannot be determined because the weighted average maturity information for these amounts is not available for individual funds. Details on the nature of these deposits and investments, along with risk disclosures, are available within the State of Illinois' Comprehensive Annual Financial Report.

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 Program's policy for managing interest rate risk is to monitor duration against an appropriate benchmark index.

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

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

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Portfolio Weighted Average Maturity

| Portfolio Weighted Average June 30, 2019 | | | Weighted Average Maturity (in Years) |
|---|-------------------|-------|---|
| <u>Investment Type</u> | <u>Fair Value</u> | | |
| U.S. Treasury notes | \$ 24,433,930 | 7.54 | |
| U.S. Treasury bonds | 5,873,336 | 27.19 | |
| U.S. Agency obligations | 9,106,614 | 0.95 | |
| Bond common collective trust | 79,483,443 | 7.81 | |
| Municipal/provincial bonds | 1,641,534 | 12.47 | |
| Non U.S. government bonds denominated in U.S. dollars | 1,869,372 | 10.86 | |
| Non U.S. government bonds denominated in foreign currency | 2,903,421 | 14.23 | |
| Multi-sector funds | 42,492,432 | 7.45 | |
| Government agency short-term bills and notes | 500,000 | 0.003 | |
| Corporate debt securities | 40,526,074 | 3.56 | |
| Corporate asset-backed securities | 4,984,140 | 13.82 | |
| Mortgage back securities (MBS): | | | |
| Government agencies | 4,786,731 | 15.48 | |
| Non-government backed | 5,121,901 | 33.07 | |
| Commercial | 3,244,680 | 23.33 | |
| Total fair value | \$ 226,967,608 | | |
| Portfolio weighted average maturity | | 8.39 | |

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 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.

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The following tables indicate credit ratings, as of June 30, 2019, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

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

| | Total <u>Fair Value</u> | <u>Moody's**</u> |
|--|----------------------------|------------------|
| Money market mutual funds | \$ 4,461,888 | NR |
| Illinois Funds | 172,661 | NR |
| Bond common collective trust | 79,483,443 | NR |
| Multi-sector funds | 42,492,432 | NR |
| Government agencies short term bills and notes | 500,000 | NR |
| U.S. Agency obligations | 9,106,614 | Aaa |

*NR - Not rated

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June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

| Rating Agency | | Credit Rating | Total Fair Value |
|---------------|-----------------------------------|---------------|-------------------|
| Moody's | Commercial Mortgage-Backed | Aaa | \$ 862,273 |
| | Commercial Mortgage-Backed | Aa | 286,299 |
| | Commercial Mortgage-Backed | A | 280,001 |
| | Commercial Mortgage-Backed | Ba | 155,852 |
| | Commercial Mortgage-Backed | Baa | 295,422 |
| | Commercial Mortgage-Backed | NR | <u>1,364,833</u> |
| | | | <u>3,244,680</u> |
| Moody's | Corporate Asset Backed Securities | Aaa | 1,997,135 |
| | Corporate Asset Backed Securities | Aa | 689,120 |
| | Corporate Asset Backed Securities | A | 201,830 |
| | Corporate Asset Backed Securities | Baa | 262,196 |
| | Corporate Asset Backed Securities | NR | <u>1,833,859</u> |
| | | | <u>4,984,140</u> |
| Moody's | Corporate Bonds | Aa | 2,359,009 |
| | Corporate Bonds | A | 33,528,306 |
| | Corporate Bonds | Baa | 2,386,983 |
| | Corporate Bonds | NR | <u>2,251,776</u> |
| | | | <u>40,526,074</u> |
| Moody's | Municipal/Provincial Bonds | Aaa | 219,781 |
| | Municipal/Provincial Bonds | Aa | 1,112,612 |
| | Municipal/Provincial Bonds | A | 122,222 |
| | Municipal/Provincial Bonds | NR | 68,220 |
| | Municipal/Provincial Bonds | WR | <u>118,699</u> |
| | | | <u>1,641,534</u> |
| Moody's | Non-Government Backed C.M.O.s | Aaa | 175,537 |
| | Non-Government Backed C.M.O.s | Aa | 933,885 |
| | Non-Government Backed C.M.O.s | A | 256,153 |
| | Non-Government Backed C.M.O.s | NR | <u>3,756,326</u> |
| | | | <u>5,121,901</u> |

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June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

| <u>Rating Agency</u> | | <u>Credit Rating</u> | <u>Total Fair Value</u> |
|----------------------|---|----------------------|-------------------------|
| Moody's | Non U.S. government bonds denominated in U.S. dollars | Aa | \$ 225,349 |
| | Non U.S. government bonds denominated in U.S. dollars | A | 370,246 |
| | Non U.S. government bonds denominated in U.S. dollars | Baa | 1,069,860 |
| | Non U.S. government bonds denominated in U.S. dollars | NR | 203,917 |
| | | | <u>1,869,372</u> |
| Moody's | Non-U.S. government bonds in foreign currency | A | 849,290 |
| | Non-U.S. government bonds in foreign currency | Baa | 410,003 |
| | Non-U.S. government bonds in foreign currency | NR | 1,644,128 |
| | | | <u>2,903,421</u> |
| Moody's | Mortgage-backed securities, government agencies | Aaa | 290,603 |
| | Mortgage-backed securities, government agencies | A | 359,483 |
| | Mortgage-backed securities, government agencies | Baa | 163,010 |
| | Mortgage-backed securities, government agencies | Ba | 92,555 |
| | Mortgage-backed securities, government agencies | NR | 3,881,080 |
| | | | <u>4,786,731</u> |

NR - not rated, WR withdrawn

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STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer.

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

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

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

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

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

Certain alternative investments also hold investments located outside of the United States. These investments denominated in U.S. dollars have underlying investments in other currencies including the Indian rupee. Fluctuations in foreign exchange rates between the U.S. dollar and other currencies could have an effect on the amounts realized in U.S. dollars involving these investments. The Program has the following investments denominated in foreign currency.

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

| <u>Foreign Currency Denomination</u> | <u>Cash and Cash Equivalents</u> | <u>Fixed Income</u> | <u>Pending Trades Fixed Income Investments</u> | <u>Totals</u> |
|--|--------------------------------------|-------------------------|--|-------------------|
| Euro | \$ 562 | \$ 806,038 | \$ (742,733) | \$ 63,867 |
| New Israeli shekel | - | 837,818 | (796,962) | 40,856 |
| Peruvian nuevo sol | - | 849,030 | - | 849,030 |
| South African rand | - | 409,820 | (395,048) | 14,772 |
| Total | <u>\$ 562</u> | <u>\$ 2,902,706</u> | <u>\$ (1,934,743)</u> | <u>\$ 968,525</u> |

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Valuation: The Program categorizes its fair value measures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs (see pages 16-17); and leveling is not required for investments held at amortized cost. The Program has the following as of June 30, 2019:

| <u>Investments by fair value level</u> | June 30, <u>2019</u> | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Leveling Not Required |
|--|-------------------------|---|---|--------------------------|
| Debt securities | | | | |
| U.S. Treasury notes | \$ 24,433,930 | \$ - | \$ 24,433,930 | \$ - |
| U.S. Treasury bonds | 5,873,336 | - | 5,873,336 | - |
| U.S. agency obligations | 9,106,614 | - | 9,106,614 | - |
| Municipal/provincial debt | 1,641,534 | - | 1,641,534 | - |
| Corporate debt securities | 40,526,074 | - | 40,526,074 | - |
| Corporate asset-backed securities | 4,984,140 | - | 4,984,140 | - |
| Foreign government bonds denominated in U.S. dollars | 1,869,372 | - | 1,869,372 | - |
| Foreign debt securities (non U.S. government bonds denominated in foreign currency) | 2,903,421 | - | 2,903,421 | - |
| Government agency short-term bills and notes | 500,000 | - | 500,000 | - |
| Commercial mortgage backed | 3,244,680 | - | 3,244,680 | - |
| Government mortgage backed | 4,786,731 | - | 4,786,731 | - |
| Multi-sector funds | 42,492,432 | - | 42,492,432 | - |
| Common collective trust | 79,483,443 | - | 79,483,443 | - |
| Non government backed CMO | 5,121,901 | - | 5,121,901 | - |
| Corporate equity securities | 125,483,725 | 125,483,725 | - | - |
| Foreign equity securities | 57,496,432 | 57,496,432 | - | - |
| Money market mutual funds | 4,461,888 | - | - | 4,461,888 |
| Cash and pending trades | 2,110,204 | - | - | 2,110,204 |
| Cash and pending trades in foreign currency | (1,934,181) | - | - | (1,934,181) |
| Equity in public treasurer's investment pool (Illinois Funds) | 172,661 | - | - | 172,661 |
| | <u>\$ 414,758,338</u> | <u>\$ 182,980,158</u> | <u>\$ 226,967,608</u> | <u>\$ 4,810,572</u> |
| Total investments by fair value level | | | | |

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STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

| | June 30, <u>2019</u> |
|--|---------------------------|
| Investments measured at the net asset value (NAV) | |
| Real estate investment trust | \$ 38,106,289 |
| Real estate | 40,644,676 |
| Private equity | 9,319,576 |
| Infrastructure | 41,559,408 |
| Foreign equity | 65,498,314 |
| Absolute return | 55,247,867 |
| High yield fund | <u>36,350,469</u> |
| Total investment measured at the NAV | <u>\$ 286,726,599</u> |
| Total investments measured at fair value or amortized cost | <u>\$ 701,484,937</u> |

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

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency If Currently Eligible</u> | <u>Redemption Notice Period</u> |
|---------------------------------------|---------------------------|-----------------------------|---|---------------------------------|
| Real estate investment trust | \$ 38,106,289 | \$ - | Quarterly | 30 days notice |
| Real estate | 40,644,676 | - | N/A | N/A |
| Private equity | 9,319,576 | 313,571 | N/A | N/A |
| Infrastructure | 41,559,408 | 8,082,395 | N/A | N/A |
| Foreign equity | 65,498,314 | - | Monthly | 15 days notice |
| Absolute return | 55,247,867 | - | Annual | 65 and 180 days notice |
| High yield fund | <u>36,350,469</u> | <u>-</u> | Quarterly | 60 days notice |
| Total investments measured at NAV | <u>\$ 286,726,599</u> | <u>\$ 8,395,966</u> | | |

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

High yield: This type seeks income and gains through trading and investing in securities. The fair value of the investment in this type has been determined using the NAV per share of the Program's ownership investment in partners' capital. Ninety percent of liquid securities are available within 30 days of quarter end with 60 days' notice prior to quarter end. Up to 25% of the fund may be invested in illiquid securities. Ten percent of any withdrawal may be held until 30 days following the annual audit. As of June 30, 2019, \$163,438 was held in a liquidating account related to prior redemptions.

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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

NOTE 4 - BALANCE DUE TO OTHER ISAC FUND

As of June 30, 2019, the Program owed \$179,020 to the Student Loan Operating Fund for expense reimbursements. In addition, the Program owed \$10,194 to Illinois Universities for payment of tuition and fee benefits.

NOTE 5 - PERSONNEL COST ALLOCATION

Based on a revised cost allocation policy, beginning in Fiscal Year 2013, all payroll-related costs are paid out of the Student Loan Operating Fund. This includes salary, benefits, and any vacation or sick payout should they be incurred. On a monthly basis, College Illinois is charged back for the related hours worked and costs incurred.

NOTE 6 - TUITION OBLIGATION

The tuition obligation is management's estimate of the present value of the estimated tuition payments to be made and is expected to be financed from investments of prepaid tuition contracts. The estimate for the future tuition obligation is based on a closed group projection for existing contracts assuming no new contract sales after June 30, 2019. See actuarial assumptions and additional information in Note 10.

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

| | |
|--|------------------------------------|
| Balance, July 1, 2018 | \$ 1,125,284,937 |
| Add: | |
| Contributions received in FY 2019 | 10,713,895 |
| Change in contracts receivable, at present value* | (9,353,131) |
| Adjust tuition obligation based on actuarial valuation | 41,669,077 |
| Less: | |
| Return of contributions | (25,667,630) |
| Tuition payments | <u>(123,649,951)</u> |
| Balance June 30, 2019** | <u><u>\$ 1,018,997,197</u></u> |
| Reported as: | |
| Current | \$ 145,130,169 |
| Noncurrent | <u>873,867,028</u> |
| | <u><u>\$ 1,018,997,197</u></u> |

* See Note 10. Discount rate used in determining present value was 6.00%.

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 6 - TUITION OBLIGATION (continued)

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

NOTE 7 - PENSION PLAN

A majority of ISAC's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined/benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for Fiscal Year 2019 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2019. 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 retirement contributions for the Program based upon an actuarially determined percentage of its payroll. For Fiscal Years 2019, 2018, and 2017, the employer contribution rate was 51.6, 47.3% and 44.6%, respectively. The required and actual contribution for Fiscal Years 2019, 2018, and 2017 was \$332,168, \$486,445 and \$624,356, respectively. Contributions to SERS and the net pension liability related to the SERS pension plan are recorded by the Commission's Student Loan Operating Fund.

NOTE 8 - 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 an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis.

The total costs incurred and related liabilities 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.

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 - POST-EMPLOYMENT BENEFITS (continued)

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 9 - FUND DEFICITS

As of June 30, 2019, the Program has a deficit in net position of \$294,952,139. The table below details a reconciliation of the fund deficit in the financial statements to the fund deficit in the Actuarial Soundness Report as of June 30, 2019.

| | |
|--|-------------------------|
| Unfunded liability per actuarial soundness report | \$ (317,491,361) |
| Present value of accrued future administrative expense | 24,390,847 |
| Other accrued liabilities | <u>(1,851,625)</u> |
| | |
| Fund deficit per Statement of Net Position | <u>\$ (294,952,139)</u> |

NOTE 10 - PROGRAM RISKS AND ACTUARIAL DATA

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

Gabriel, Roeder, Smith and Company, the independent actuarial firm retained by College Illinois!®, has performed an actuarial soundness valuation of College Illinois!®, the State's section 529 prepaid tuition program, as of June 30, 2019 to evaluate the financial viability of the Program as of June 30, 2019. The complete Actuarial Soundness Report as of June 30, 2019 is included in the Other Information Section.

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

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 10 - PROGRAM RISKS AND ACTUARIAL DATA (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* | <u>\$ 1,018,997,197</u> |
| Funded ratio | 69.60% |
| Actuarial assumptions: | |
| Actuarial valuation date | June 30, 2019 |
| Assumed net investment return | 6.00% in FY 20 then grading down in annual increments of 0.357 to an ultimate investment rate of 3.50 percent for fiscal years on and after 2026 |
| Rates of cancellation | Varies according to years from projected college entrance year |
| Tuition increase all contract types: | |
| All future years | 4.75% |

* For all existing contracts as of June 30, 2019

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

(Continued)

STATE OF ILLINOIS
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS PREPAID TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 11 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation and natural disasters. The State retains the risk of loss (i.e., self-insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two years. The Commission's risk management activities for workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and, accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2019.

OTHER INFORMATION

College Illinois![®] Prepaid Tuition Program

Actuarial Soundness Valuation Report as of
June 30, 2019



November 14, 2019

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

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

Dear Mr. Zarnikow:

In accordance with the request of the Illinois Student Assistance Commission (“ISAC”), Gabriel, Roeder, Smith & Company (“GRS”) has performed an actuarial soundness valuation of the College Illinois!® Prepaid Tuition Program (“CIPTP”) as of June 30, 2019. Although the term “actuarial soundness” is not specifically defined, the primary purpose of this actuarial valuation is to evaluate the financial status of the program as of June 30, 2019.

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

- A comparison of the actuarial present value of the obligations for prepaid tuition contracts purchased through June 30, 2019, with the value of the assets associated with the program as of that same date;
- An analysis of the factors which caused the deficit/surplus to change since the prior actuarial valuation; and
- A summary of the actuarial assumptions and methods utilized in the actuarial calculations.

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

The actuarial soundness valuation results set forth in this report are based upon data and information furnished by ISAC, concerning program benefits, financial transactions and beneficiaries of the CIPTP. We reviewed this information for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the Illinois Student Assistance Commission. Further, the data and information provided is through June 30, 2019, and does not reflect subsequent market volatility.

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

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

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

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

Considering the current asset allocation, current and future liquidity requirements and the fact that program enrollment is on hold, we believe the net investment rate of return assumption of 6.00 percent in fiscal year 2020 grading down to 3.50 percent in 2026, on a select and ultimate basis, is reasonable based on applicable Actuarial Standards of Practice.

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

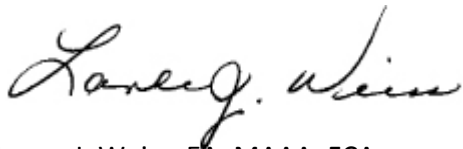
We believe that the actuarial methods and assumptions used in this report are reasonable and appropriate for the purpose for which they have been used. In addition, because it is not possible or practical to consider every possible contingency, we may use summary information, estimates or simplifications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

To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the College Illinois!® Prepaid Tuition Program as of June 30, 2019. All calculations have been made in conformity with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements.

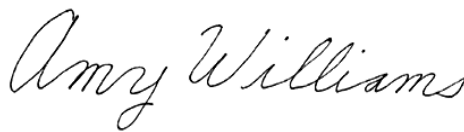
There are currently no Actuarial Standards of Practice which specifically relate to prepaid tuition plans. We have looked to the Actuarial Standards of Practice related to pensions for guidance due to their similar nature.

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

Respectfully submitted,



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



Amy Williams, ASA, MAAA, FCA
Senior Consultant

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SECTION A

EXECUTIVE SUMMARY

Summary of Results

Principal Actuarial Soundness Valuation Results

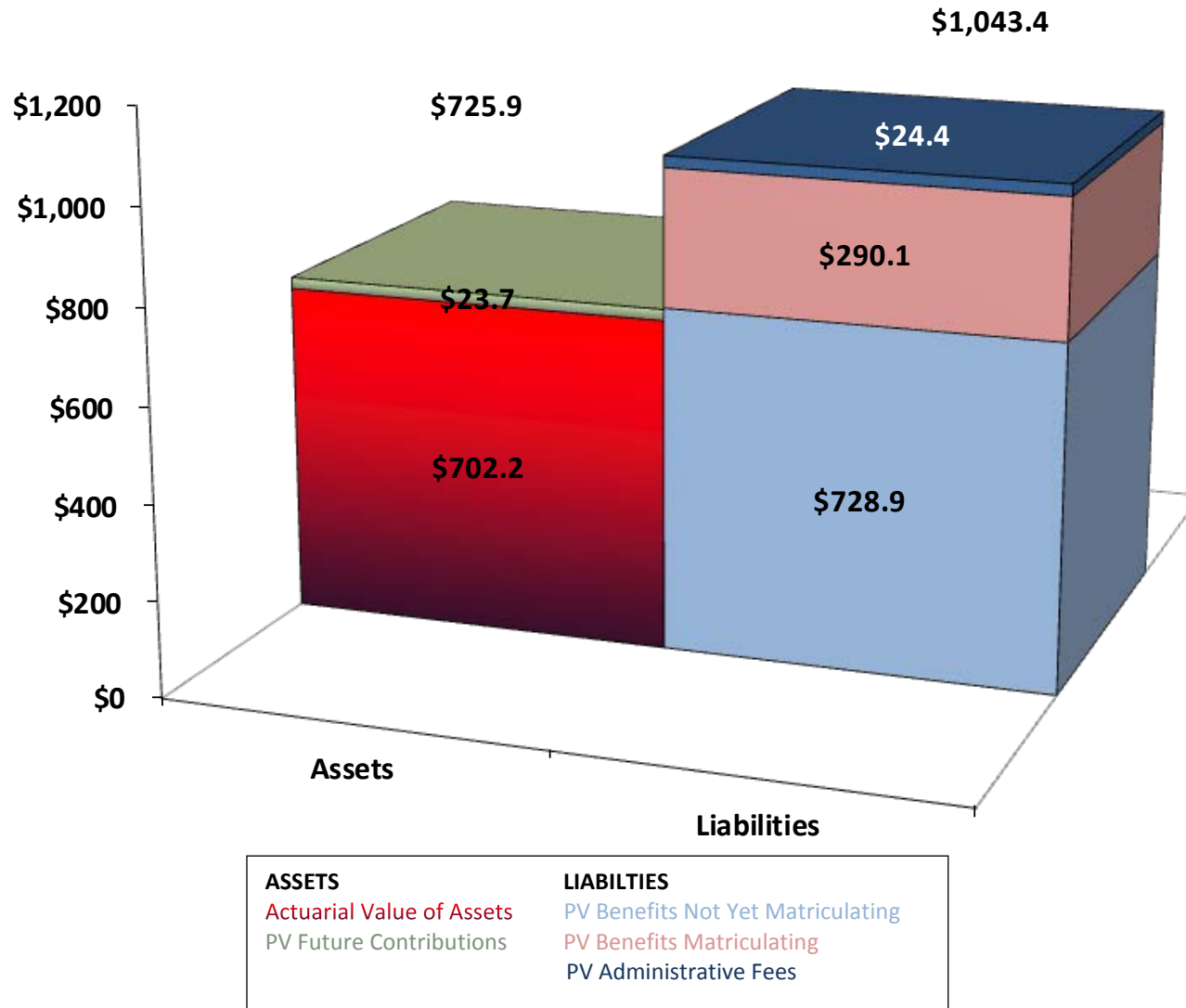
| Valuation Date: | June 30, 2019 | June 30, 2018 |
|--|-----------------|-----------------|
| Membership Summary: | | |
| Counts | | |
| Not Yet Matriculating | 18,566 | 21,701 |
| Matriculating ^a | 13,064 | 13,482 |
| Total | 31,630 | 35,183 |
| Average years until Enrollment if Not Yet Matriculating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

^aCounts include 4,836 contracts in 2019 and 4,897 contracts in 2018 that are classified as "Matriculating" but have not used any credits within the past year.

^bAsset values include present value of expected future contract payments from current contract holders.

Summary of Assets and Liabilities as of June 30, 2019

\$ in Millions



Numbers may not add due to rounding.

Summary of Results

Funded Status as of June 30, 2019

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

Gain/Loss Summary

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

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

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

Discussion

Actuarial Soundness Valuation

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

The primary purposes of the actuarial soundness valuation are to:

- Determine the actuarial present value of the obligations for prepaid tuition contracts purchased through June 30, 2019, and compare such liabilities with the value of the assets associated with the program as of that same date; and
- Analyze the factors which caused the deficit/surplus to change since the prior actuarial valuation.

This report summarizes those results and also illustrates the sensitivity of the deficit/surplus to changes in the rate of tuition and fee increases as well as the rate of investment return on assets.

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

Background

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

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

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

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

Actuarial Assumptions

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

Discussion

Changes in Actuarial Assumptions since Prior Valuation

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

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

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

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

Financial Status of Program as of June 30, 2019

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

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

Gain/Loss Analysis

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

Discussion

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

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

Benefit Provisions

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

We understand there were no changes in the program provisions since the last actuarial soundness valuation as of June 30, 2018.

Assets

CIPTP assets are held in trust. ISAC provided the asset information used in the June 30, 2019 actuarial valuation.

This report contains several exhibits summarizing the plan’s assets, including a summary of the market value of assets broken down by asset category and a reconciliation of the assets from the last actuarial valuation date to the current actuarial valuation date. The approximate return on market value of assets was 4.12 percent for the year ended June 30, 2019.

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

Contract Prices

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

Contracts Sold by Enrollment Year

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

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

Discussion

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

Projection Scenarios

Full projection scenarios are included in a separate report.

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

Future actuarial measurements may differ significantly from the measurements presented in this projection due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.

Disclosure

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

SECTION B

ACTUARIAL SOUNDNESS VALUATION RESULTS

Exhibit I

Principal Actuarial Soundness Valuation Results

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

^aCounts include 4,836 contracts in 2019 and 4,897 contracts in 2018 that are classified as "Matriculating" but have not used any credits within the past year.

Exhibit I (Continued)

Principal Actuarial Soundness Valuation Results

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

^a Present value of amounts in following year.

^b Present value of amounts after first year.

Exhibit II Gain/Loss Summary

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

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

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

Exhibit III Gain/Loss History

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

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

Changes in Actuarial Assumptions

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

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 actuarial assumptions provided to us are reasonable for the purpose of the measurement. However, no one really knows what the future holds with respect to economic conditions and other contingencies. For example, while it is assumed that the assets of the fund will earn 6.00 percent in Fiscal Year 2020 graded down in yearly increments to 3.50 percent on and after Fiscal Year 2026, actual returns are expected to vary from year to year. Therefore, we have projected CIPTP results under the following alternative assumptions for future investment income, tuition increases and fee increases.

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

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

Exhibit IV

Sensitivity Testing Results

\$ in Millions

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

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

SECTION C

FUND ASSETS

Statement of Plan Net Assets (Assets at Market or Fair Value)

College Illinois!® Prepaid Tuition Program

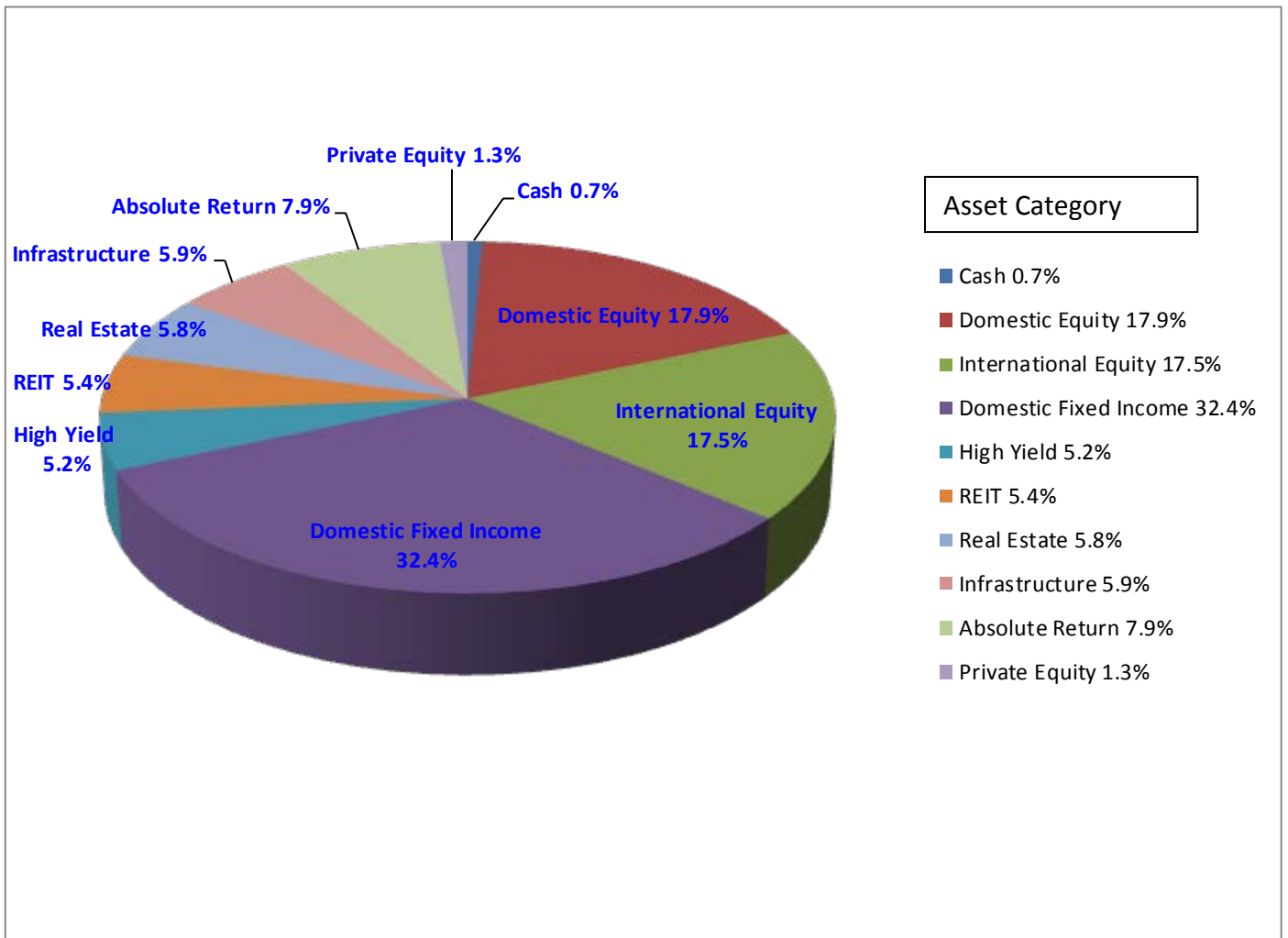
Statement of Plan Net Assets

Year ended June 30, 2019

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

Numbers may not add due to rounding.

Allocation of Assets at June 30, 2019



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, 2019

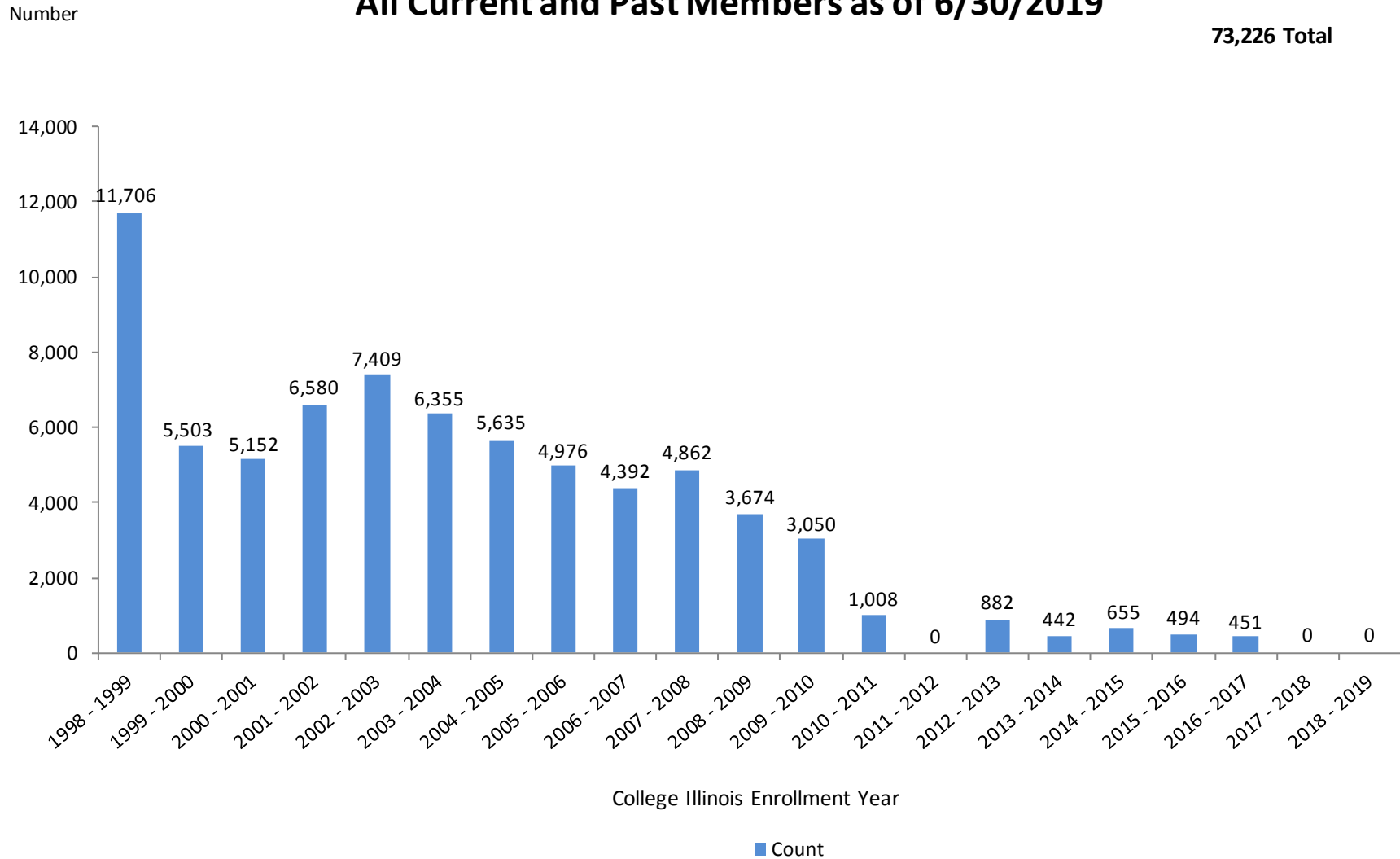
| | | |
|---|----|---------------|
| Beginning of Period | | 7/1/2018 |
| End of Period | | 6/30/2019 |
| Additions: | | |
| Contributions received | \$ | 10,961,412 |
| Gross investment income | | 12,123,300 |
| Realized/Unrealized investment gains/(losses) | | 20,677,270 |
| Total Additions | \$ |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

SECTION D

PARTICIPANT DATA

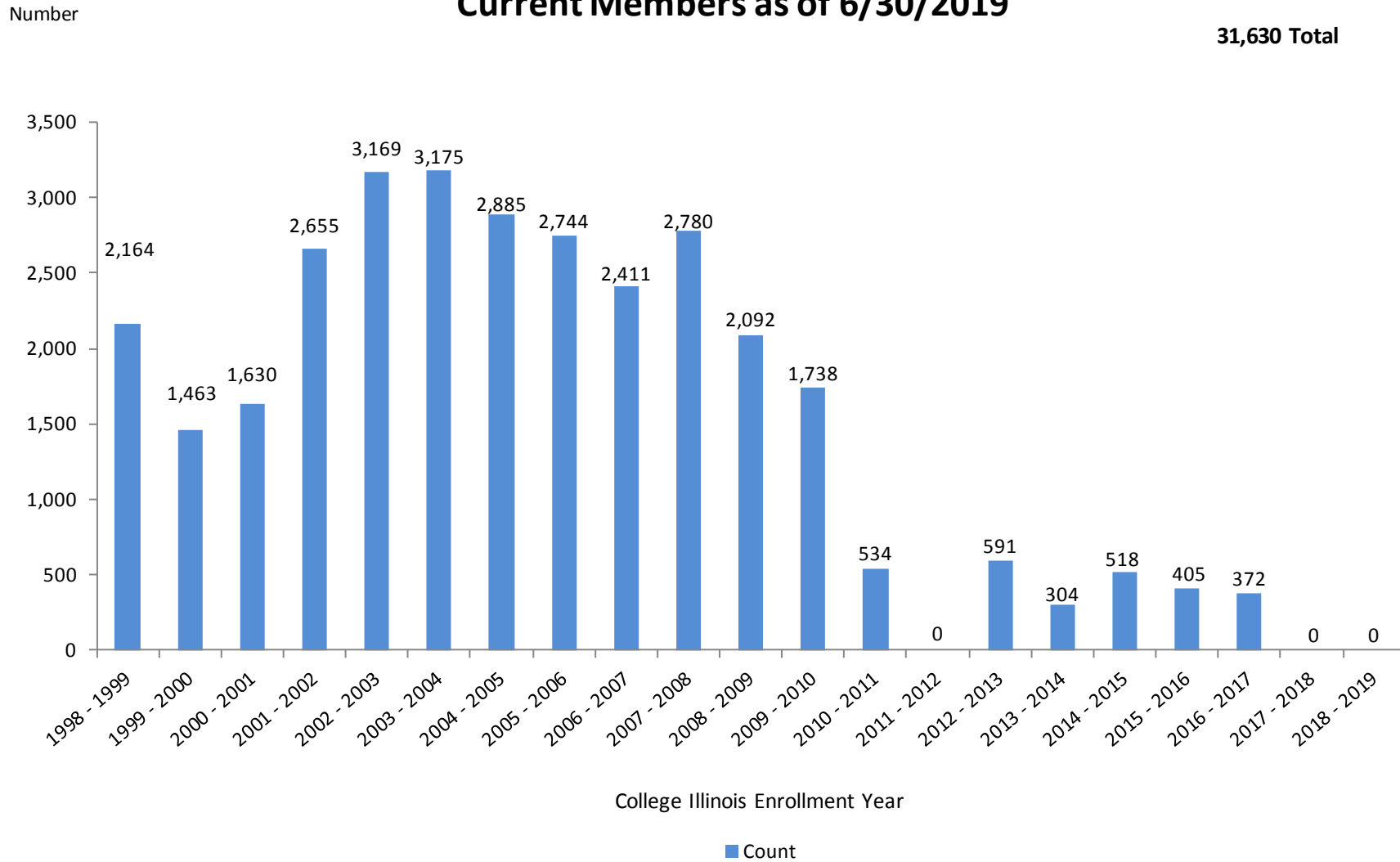
College Illinois!® Prepaid Tuition Program Contract Counts by Enrollment Year All Current and Past Members as of 6/30/2019

73,226 Total



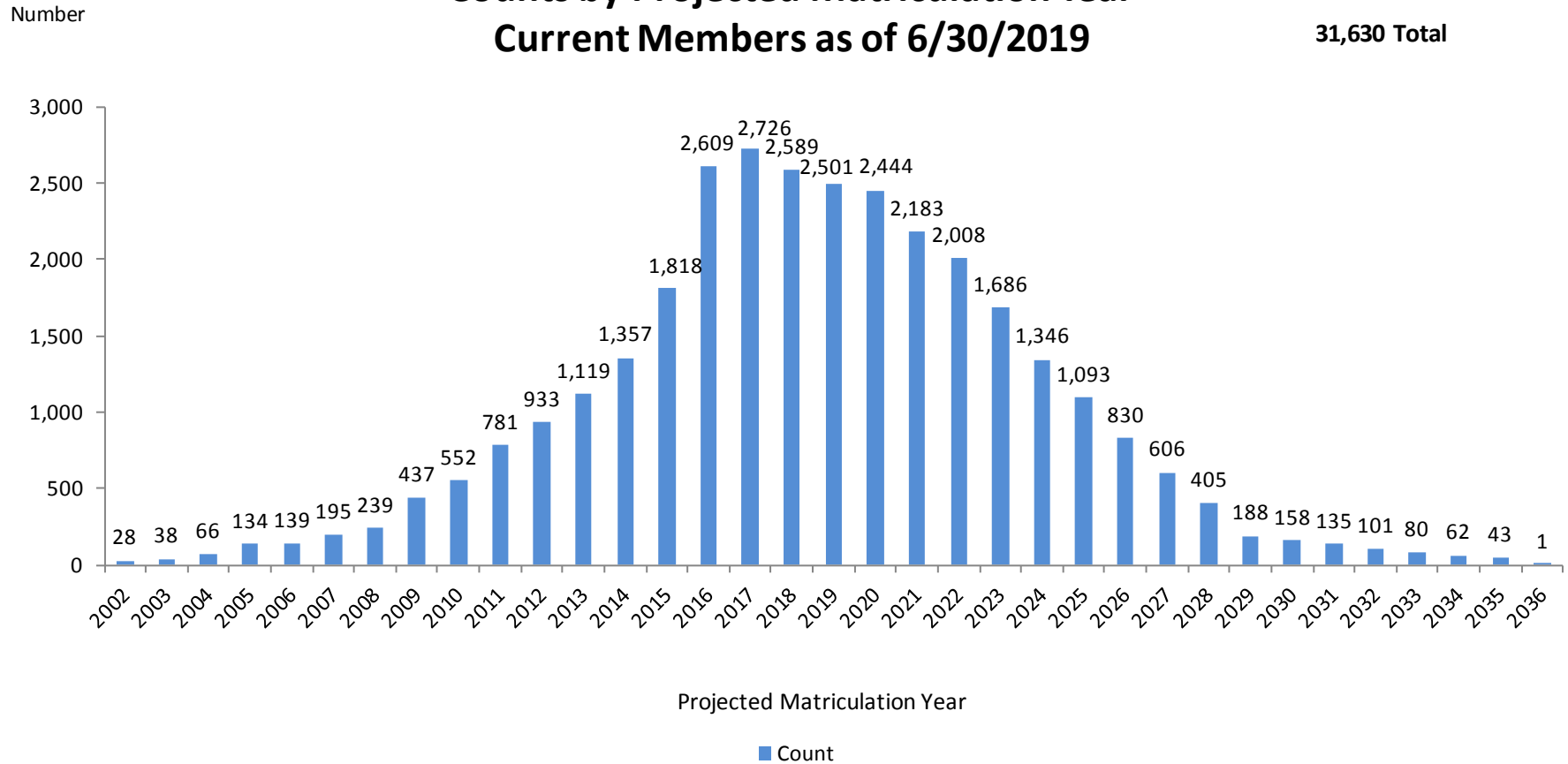
College Illinois!® Prepaid Tuition Program Contract Counts by Enrollment Year Current Members as of 6/30/2019

31,630 Total



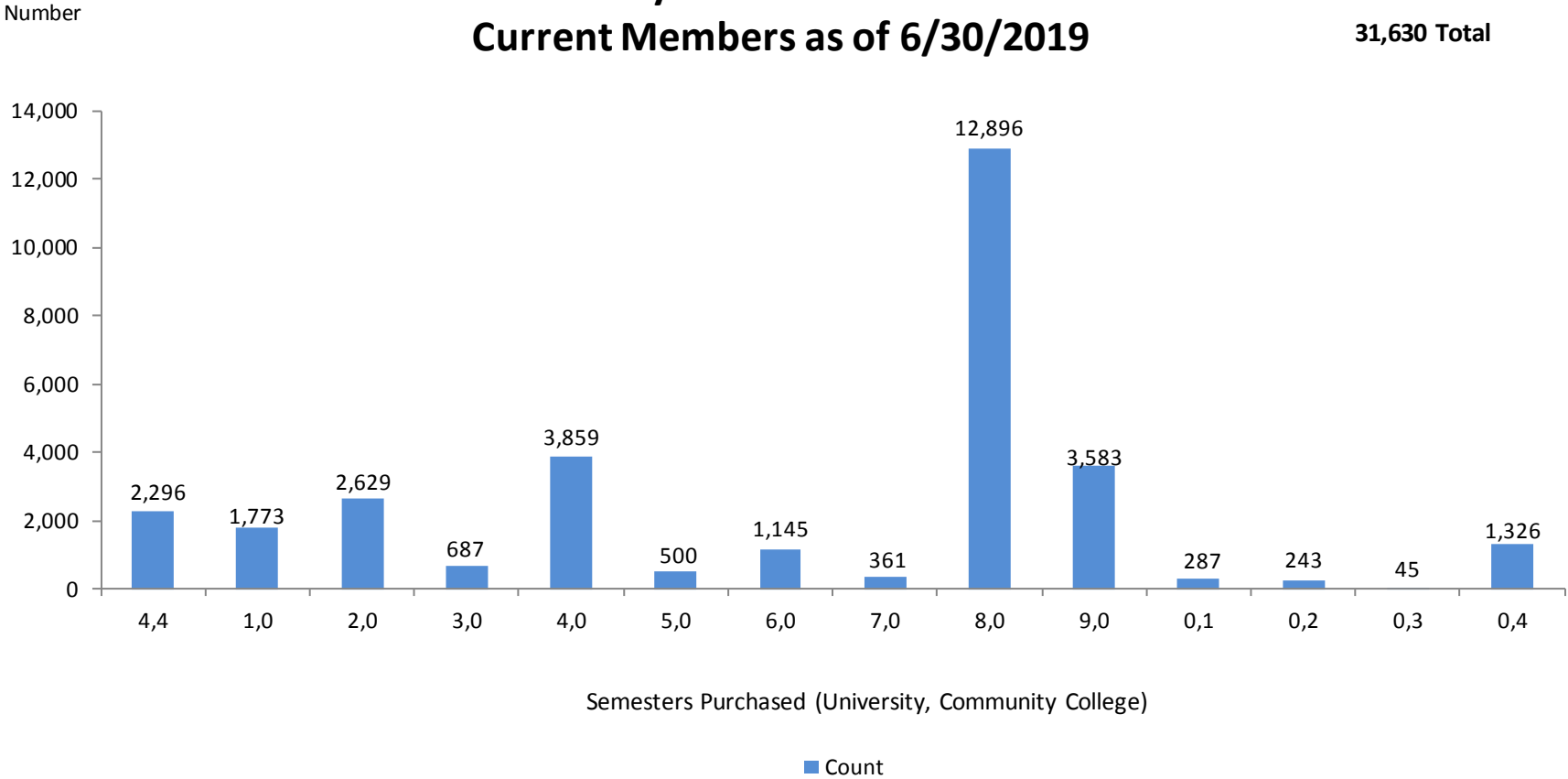
College Illinois!® Prepaid Tuition Program Counts by Projected Matriculation Year Current Members as of 6/30/2019

31,630 Total

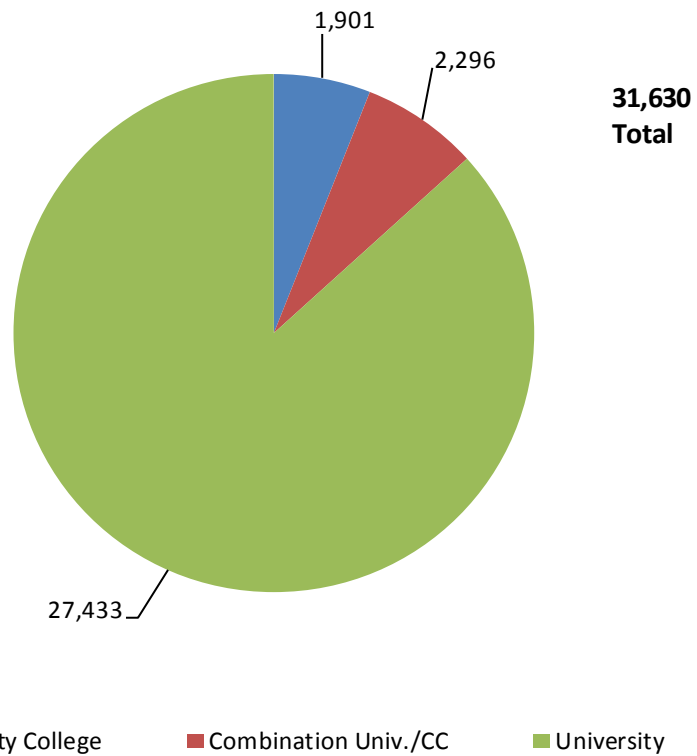


College Illinois!® Prepaid Tuition Program Counts by Semesters Purchased Current Members as of 6/30/2019

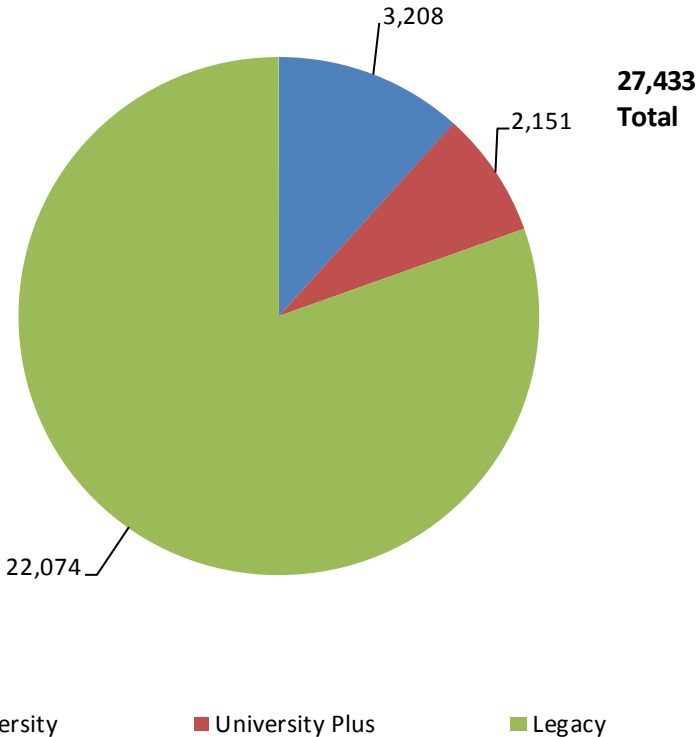
31,630 Total



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



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



SECTION E

ACTUARIAL VALUATION METHODS AND ASSUMPTIONS

Actuarial Valuation Methods and Assumptions

Actuarial Valuation Methods

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

Actuarial Valuation Assumptions

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

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

Measurement Date June 30, 2019

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

Net Investment Return Rate

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

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

Actuarial Valuation Methods and Assumptions

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

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

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

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

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

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

Bias Load

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

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

Actuarial Valuation Methods and Assumptions

Tuition and Fee Increase Assumption

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

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

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

Truth in Tuition

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

For contract beneficiaries with a Choice 2, Choice 3 or Legacy contract, it was assumed that their tuition will not increase in their second, third and fourth year of school. If they attend school beyond four years, it was assumed that their tuition would increase to the amount charged the year after the year they first enrolled. For contract beneficiaries with a Choice 1 contract, it was assumed that tuition will increase for each year enrolled. The fee portion of the WATF is assumed to increase each year for all contract types.

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

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

Rates of Cancellation

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

Actuarial Valuation Methods and Assumptions

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

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

Rates of Enrollment

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

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

Actuarial Valuation Methods and Assumptions

Utilization of Benefits

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

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

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

Administrative Expenses

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

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

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

Actuarial Valuation Methods and Assumptions

Mortality and Disability

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

Data Adjustments

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

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

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

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

SECTION F

PLAN PROVISIONS

Plan Provisions

(This is a summary only; the full terms and conditions of the College Illinois!® Prepaid Tuition Program are included in the Illinois Prepaid Tuition Act, 110 ILCS 979 (the “Act”) and ISAC Administrative Rules (23 Ill. Adm. Code 2775, et. seq.) (“ISAC Rules”).

A. Type of Contract

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

B. Benefit

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

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

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

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

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

C. Contract Payments

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

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

D. Private or Out-of-State Institutions

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

Plan Provisions

E. Scholarship

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

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

Illinois Private Institution or an eligible Out-of-State Institution – the installments will be in an amount equal to the current average mean-weighted credit hour value of registration fees at Illinois public universities or Illinois community colleges, depending on the type of the purchased contract, less any benefits used to pay registration fees not covered by the scholarship and any applicable fees.

F. Not Attending an Institution of Higher Education (Transfer)

Benefits can be transferred to a member of the “family” as defined in Section 529 of the Internal Revenue Code.

Purchasers can also choose to postpone the beneficiary’s use of contract benefits to a later time or receive a refund.

G. Cancellation/Refunds

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

H. Death/Disability of Qualified Beneficiary

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

I. Other Ancillary Benefits

There are no ancillary benefits.

J. Truth in Tuition

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

K. Changes from Previous Valuation

None.

College Illinois!® Prepaid Tuition Program

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





December 16, 2019

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

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

Dear Mr. Zarnikow:

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

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

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

Future actuarial measurements may differ significantly from the current measurements presented in the attached projections due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.

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

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

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

For purposes of this projection, we used the actuarial soundness valuation results from the June 30, 2019 Actuarial Soundness Valuation, and unless noted differently, the same actuarial assumptions and methods as used for the June 30, 2019 Actuarial Soundness Valuation. The projection results are based upon data and information furnished by ISAC, concerning program benefits, financial transactions and beneficiaries of the CIPTP. We reviewed this information for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the Illinois Student Assistance Commission. Further, the data and information provided is through June 30, 2019, and does not reflect subsequent market volatility.

The projection results involve actuarial calculations that require assumptions about future events. The major actuarial assumptions used in this analysis were provided by and are the responsibility of ISAC. We are unable to judge the reasonableness of some of these assumptions without performing a substantial amount of additional work beyond the scope of the assignment.

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

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

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

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



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

In the event Contract sales and/or investment returns are lower than expected or if tuition/fees increase beyond the Commission's expectations, the Program may not have sufficient funds to fulfill its obligations. The Program is a moral obligation of the State of Illinois requiring the Governor to request an appropriation from the State General Assembly in the event the Commission and the Governor determine that the Program does not have adequate assets to meet its Contractual obligations in an upcoming fiscal year. While the General Assembly has fulfilled other moral obligations of the State of Illinois in the past, it is not obligated to appropriate, and no assurances can be made that the General Assembly will appropriate sufficient moneys to meet the Program's Contractual obligations.

The Program is not supported by the full faith and credit of the State of Illinois, nor is it guaranteed by the State's general fund.

If it is determined by the Commission, with the concurrence of the Governor, that the Program is financially infeasible, the Commission may prospectively discontinue the Program. Pursuant to the State's prepaid tuition statute, if the Program is discontinued, Beneficiaries who are or will enroll at an eligible institution within five years shall be entitled to exercise the complete Benefits specified in the Contract; all other Contract holders shall receive an appropriate refund of all contributions and accrued interest, if any, up to the time the Program is discontinued. Illinois Compiled Statutes, Chapter 110, Section 979/35. In the event of Program termination, the Commission will endeavor to provide refunds to Purchasers to the greatest extent possible; however, the Commission is unable to guarantee Purchasers will receive a full refund.

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

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



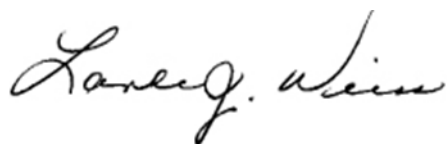
Mr. Eric Zarnikow
Illinois Student Assistance Commission
Page 4

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

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

Respectfully submitted,

Gabriel, Roeder, Smith & Company



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



Amy Williams, ASA, MAAA, FCA
Senior Consultant

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SECTION A

BACKGROUND

Background

Purpose of Projection

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

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

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

Closed Group Run-Off Scenario

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

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

Projection Assumptions

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

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

SECTION B

PROJECTION RESULTS

Discussion of Scenario Results

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

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

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

SECTION C

PROJECTION TABLE

Closed Group Projections

Scenario 1 — Run-Off Scenario

Projection Based on Data as of June 30, 2019

Assumed Net Investment Return and Discount Rates Graded Down from 6.00% to 3.50% in 0.417% Yearly Increments

Other Assumptions Based on Those Used in the Actuarial Valuation as of June 30, 2019

Zero New Contracts Per Year

| Year Ending 6/30 | Assumed Net Rate of Return | Annual New Contracts | Assets | | | | | | | Liabilities | | | | | Unfunded Liability | Funded Ratio |
|------------------|----------------------------|----------------------|---------------|---|------------------------------------|-------------------------|-----------------------|------------------------------|---|--------------------------------|--|--|---|----------------|--------------------|--------------|
| | | | Contributions | Additional Required Solvency Contributions ^a | 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 | | | |
| 2019 | | | \$ 10,961,412 | \$ - | \$ 148,862,077 | \$ 3,836,125 | \$ 30,587,982 | \$ 702,216,197 | \$ 23,680,486 | \$ 725,896,683 | \$ 1,018,997,197 | \$ 24,390,847 | \$ 1,043,388,044 | \$ 317,491,361 | 69.6% | |
| 2020 | 6.000% | 0 | 6,843,750 | - | 145,488,627 | 3,932,028 | 37,917,969 | 597,557,262 | 18,055,243 | 615,612,505 | 930,347,320 | 21,806,028 | 952,153,347 | 336,540,842 | 64.7% | |
| 2021 | 5.583% | 0 | 5,527,859 | - | 141,033,161 | 4,030,329 | 29,519,385 | 487,541,016 | 13,383,194 | 500,924,210 | 837,371,976 | 18,882,151 | 856,254,127 | 355,329,917 | 58.5% | |
| 2022 | 5.166% | 0 | 4,620,214 | - | 138,921,920 | 3,718,242 | 21,666,204 | 371,187,272 | 9,336,518 | 380,523,790 | 738,165,523 | 16,044,528 | 754,210,051 | 373,686,261 | 50.5% | |
| 2023 | 4.749% | 0 | 3,210,101 | - | 136,794,499 | 3,359,672 | 14,413,662 | 248,656,865 | 6,494,468 | 255,151,333 | 633,215,995 | 13,367,961 | 646,583,955 | 391,432,622 | 39.5% | |
| 2024 | 4.332% | 0 | 2,230,264 | - | 124,777,365 | 2,954,057 | 8,082,279 | 131,237,986 | 4,497,749 | 135,735,735 | 533,195,521 | 10,929,698 | 544,125,219 | 408,389,484 | 24.9% | |
| 2025 | 3.915% | 0 | 1,498,304 | - | 109,845,204 | 2,549,631 | 2,988,008 | 23,329,463 | 3,146,484 | 26,475,947 | 442,095,345 | 8,758,534 | 450,853,879 | 424,377,932 | 5.9% | |
| 2026 | 3.500% | 0 | 1,000,867 | 77,370,348 | 99,938,574 | 2,166,859 | 404,754 | - | 2,238,380 | 2,238,380 | 355,896,224 | 6,860,630 | 362,756,854 | 360,518,474 | 0.6% | |
| 2027 | 3.500% | 0 | 801,327 | 87,995,858 | 87,009,208 | 1,787,977 | - | - | 1,501,493 | 1,501,493 | 279,833,818 | 5,281,755 | 285,115,573 | 283,614,080 | 0.5% | |
| 2028 | 3.500% | 0 | 602,845 | 74,603,199 | 73,765,048 | 1,440,995 | - | - | 940,741 | 940,741 | 214,583,167 | 4,000,620 | 218,583,788 | 217,643,047 | 0.4% | |
| 2029 | 3.500% | 0 | 421,544 | 59,175,538 | 58,464,468 | 1,132,614 | - | - | 544,810 | 544,810 | 162,614,781 | 2,988,378 | 165,603,159 | 165,058,349 | 0.3% | |
| 2030 | 3.500% | 0 | 324,056 | 48,770,096 | 48,214,380 | 879,772 | - | - | 234,200 | 234,200 | 119,255,424 | 2,197,935 | 121,453,359 | 121,219,159 | 0.2% | |
| 2031 | 3.500% | 0 | 165,094 | 35,981,801 | 35,485,574 | 661,321 | - | - | 74,439 | 74,439 | 87,328,133 | 1,602,069 | 88,930,201 | 88,855,762 | 0.1% | |
| 2032 | 3.500% | 0 | 70,205 | 26,869,083 | 26,442,911 | 496,377 | - | - | 5,621 | 5,621 | 63,482,935 | 1,153,152 | 64,636,087 | 64,630,466 | 0.0% | |
| 2033 | 3.500% | 0 | 2,930 | 20,111,055 | 19,744,124 | 369,861 | - | - | 2,837 | 2,837 | 45,618,164 | 817,234 | 46,435,398 | 46,432,561 | 0.0% | |
| 2034 | 3.500% | 0 | 2,886 | 14,836,517 | 14,566,980 | 272,423 | - | - | - | - | 32,395,089 | 568,688 | 32,963,777 | 32,963,777 | 0.0% | |
| 2035 | 3.500% | 0 | - | 11,055,541 | 10,857,248 | 198,294 | - | - | - | - | 22,483,302 | 386,858 | 22,870,160 | 22,870,160 | 0.0% | |
| 2036 | 3.500% | 0 | - | 8,116,422 | 7,975,359 | 141,063 | - | - | - | - | 15,156,490 | 256,888 | 15,413,378 | 15,413,378 | 0.0% | |
| 2037 | 3.500% | 0 | - | 5,670,902 | 5,573,431 | 97,471 | - | - | - | - | 10,016,840 | 166,717 | 10,183,557 | 10,183,557 | 0.0% | |
| 2038 | 3.500% | 0 | - | 3,946,089 | 3,880,060 | 66,029 | - | - | - | - | 6,420,052 | 105,378 | 6,525,430 | 6,525,430 | 0.0% | |
| 2039 | 3.500% | 0 | - | 2,691,935 | 2,648,558 | 43,377 | - | - | - | - | 3,950,245 | 64,936 | 4,015,181 | 4,015,181 | 0.0% | |
| 2040 | 3.500% | 0 | - | 1,670,552 | 1,643,195 | 27,357 | - | - | - | - | 2,416,800 | 39,377 | 2,456,177 | 2,456,177 | 0.0% | |
| 2041 | 3.500% | 0 | - | 1,023,542 | 1,006,386 | 17,156 | - | - | - | - | 1,477,542 | 23,301 | 1,500,844 | 1,500,844 | 0.0% | |
| 2042 | 3.500% | 0 | - | 671,631 | 660,880 | 10,751 | - | - | - | - | 856,911 | 13,180 | 870,090 | 870,090 | 0.0% | |
| 2043 | 3.500% | 0 | - | 402,477 | 396,086 | 6,391 | - | - | - | - | 483,945 | 7,139 | 491,084 | 491,084 | 0.0% | |
| 2044 | 3.500% | 0 | - | 245,009 | 241,310 | 3,699 | - | - | - | - | 255,386 | 3,626 | 259,012 | 259,012 | 0.0% | |
| 2045 | 3.500% | 0 | - | 133,455 | 131,454 | 2,001 | - | - | - | - | 130,590 | 1,717 | 132,307 | 132,307 | 0.0% | |
| 2046 | 3.500% | 0 | - | 88,513 | 87,464 | 1,049 | - | - | - | - | 46,179 | 710 | 46,889 | 46,889 | 0.0% | |
| 2047 | 3.500% | 0 | - | 24,480 | 24,100 | 380 | - | - | - | - | 23,277 | 348 | 23,625 | 23,625 | 0.0% | |
| 2048 | 3.500% | 0 | - | 12,971 | 12,775 | 196 | - | - | - | - | 11,095 | 160 | 11,256 | 11,256 | 0.0% | |
| 2049 | 3.500% | 0 | - | 6,553 | 6,457 | 96 | - | - | - | - | 4,915 | 68 | 4,983 | 4,983 | 0.0% | |
| 2050 | 3.500% | 0 | - | 3,046 | 3,002 | 44 | - | - | - | - | 2,033 | 26 | 2,059 | 2,059 | 0.0% | |
| 2051 | 3.500% | 0 | - | 1,375 | 1,357 | 18 | - | - | - | - | 723 | 8 | 732 | 732 | 0.0% | |
| 2052 | 3.500% | 0 | - | 567 | 560 | 7 | - | - | - | - | 179 | 2 | 181 | 181 | 0.0% | |
| 2053 | 3.500% | 0 | - | 184 | 182 | 2 | - | - | - | - | - | - | - | - | 0.0% | |
| 2054 | 3.500% | 0 | - | - | - | - | - | - | - | - | - | - | - | - | 0.0% | |
| 2055 | 3.500% | 0 | - | - | - | - | - | - | - | - | - | - | - | - | 0.0% | |
| 2056 | 3.500% | 0 | - | - | - | - | - | - | - | - | - | - | - | - | 0.0% | |

^a Additional contributions in the amount of \$481,478,739 are needed over the years 2026 through 2053 to pay all benefits due.

SECTION D

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Valuation Methods

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

Actuarial Valuation Assumptions

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

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

Measurement Date June 30, 2019

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

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

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

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

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

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

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

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

Bias Load

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

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

Tuition and Fee Increase Assumption

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

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

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

Truth in Tuition

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

For contract beneficiaries with a Choice 2, Choice 3 or Legacy contract, it was assumed that their tuition will not increase in their second, third and fourth year of school. If they attend school beyond four years, it was assumed that their tuition would increase to the amount charged the year after the year they first enrolled. For contract beneficiaries with a Choice 1 contract, it was assumed that tuition will increase for each year enrolled. The fee portion of the WATF is assumed to increase each year for all contract types.

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

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

Rates of Cancellation

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

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

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

Rates of Enrollment

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

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

Utilization of Benefits

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

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

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

Administrative Expenses

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

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

Mortality and Disability

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

Data Adjustments

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

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

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

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

SECTION E

PLAN PROVISIONS

Plan Provisions

(This is a summary only; the full terms and conditions of the College Illinois!® Prepaid Tuition Program are included in the Illinois Prepaid Tuition Act, 110 ILCS 979 (the “Act”) and ISAC Administrative Rules (23 Ill. Adm. Code 2775, et. seq.) (“ISAC Rules”).

A. Type of Contract

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

B. Benefit

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

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

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

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

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

C. Member Contributions

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

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

D. Private or Out-of-State Institutions

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

E. Scholarship

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

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

Illinois Private Institution or an eligible Out-of-State Institution – the installments will be in an amount equal to the current average mean-weighted credit hour value of registration fees at Illinois public universities or Illinois community colleges, depending on the type of the purchased contract, less any benefits used to pay registration fees not covered by the scholarship and any applicable fees.

F. Not Attending an Institution of Higher Education (Transfer)

Benefits can be transferred to a member of the “family” as defined in Section 529 of the Internal Revenue Code.

Purchasers can also choose to postpone the beneficiary’s use of contract benefits to a later time or receive a refund.

G. Cancellation/Refunds

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

H. Death/Disability of Qualified Beneficiary

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

I. Other Ancillary Benefits

There are no ancillary benefits.

J. Truth in Tuition

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

K. Changes from Previous Valuation

None.

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

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

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission's basic financial statements and have issued our report thereon dated February 10, 2020. That report contains an emphasis of matter paragraph which states "as discussed in Notes 9 and 10, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2019 of \$295 million. The amount of the fund deficit is highly dependent on the actuarial assumptions used to calculate the present value of the future tuition benefits obligation." Our opinion is not modified with respect to this matter.

Compliance and Other Matters

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

Internal Control Over Financial Reporting

Management of the State of Illinois, Illinois Student Assistance Commission is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting (internal control) of the Illinois Prepaid Tuition Program 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 above paragraphs of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control of the Illinois Prepaid Tuition Program that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Student Assistance Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Crowe LLP

Oak Brook, Illinois
February 10, 2020