Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd

Financial Statements and Supplementary Information for the Years Ended June 30, 2019 and 2018, and Independent Auditors' Report

KATZ SAPPER & MILLER

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INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC. d/b/a INvestEd

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Independent Auditors' Report

Board of Directors
Indiana Secondary Market for Education Loans, Inc.
d/b/a INvestEd

Report on the Financial Statements

We have audited the accompanying financial statements of Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd, a component unit of the State of Indiana, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Uniform Compliance Guidelines for Audit of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards and guidelines 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 auditors' 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 auditors consider 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.

Katz, Sapper & Miller, LLP
Certified Public Accountants
800 East 96th Street, Suite 500
Indianapolis, IN 46240
Tel 317.580.2000
Web ksmcpa.com
An Affiliate of
KSM Business Services, Inc.

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 net position of Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019 on our consideration of Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd's internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 10, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

This financial discussion, analysis, and overview of Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd (INvestEd) is required supplementary information. Among other things, it provides an analytical overview of INvestEd's condensed financial information and should be read in conjunction with the financial statements and related notes that follow.

Overview of Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd

Indiana Secondary Market for Education Loans, Inc. was established pursuant to Public Law No. 154 of the 1980 Indiana General Assembly and is a public benefit corporation organized exclusively for education purposes. Indiana Secondary Market for Education Loans, Inc. began operating under the d/b/a of INvestEd in November 2016 as part of an effort to make its literacy and lending services easier to access by members of the public. INvestEd serves as the State of Indiana's designated secondary market for education loans and acts as an eligible lender under the Higher Education Act, as amended. INvestEd's enabling statute was amended effective April 30, 2013, with the signing of SB 532. SB 532 permits INvestEd to become a direct lender of non-federal, post-secondary education supplemental loans for the purpose of attending both Indiana and non-Indiana colleges and universities. SB 532 also mandates that INvestEd engage in financial literacy activities.

INvestEd is currently governed by a nine-member Board of Directors each of whom is appointed by the Governor of the State of Indiana and serve three-year terms. Taxable floating rate notes and existing cash balances are the primary sources of funding for INvestEd's programs. The Health Care and Education Reconciliation Act of 2010 (HCEARA) eliminated the origination of new Federal Family Education Loan Program (FFELP) loans after June 30, 2010. This did not impact the terms of existing FFELP loans. INvestEd continues to administer a program for the servicing of loans guaranteed and reinsured by the United States Department of Education (US DOED). In addition, INvestEd has a teaming arrangement for servicing loans originated under the Federal Direct Student Loan Program working with the Higher Education Loan Authority of the State of Missouri (MOHELA).

With the change to its enabling statue, INvestEd has created both tuition and refinancing private loan offerings. These offerings are designed to facilitate access for all Indiana residents to educational funding at the lowest possible cost. In addition, INvestEd continues to expand its support for Indiana residents' pursuit of access to higher education opportunities by providing informational presentations and distributing educational materials related to education funding.

INvestEd's financial statements consist of the following: the statements of net position, the statements of revenues, expenses and changes in net position, the statements of cash flows and the related notes. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The statements of net position present the net position of INvestEd as of June 30, 2019 and 2018 and include all assets, liabilities and net position of INvestEd. The statements of revenues, expenses and changes in net position present INvestEd's changes in net position for the years ended June 30, 2019 and 2018. The statements of cash flows provide information about the sources and uses of INvestEd's cash resources for the years ended June 30, 2019 and 2018.

Condensed Financial Information (in thousands)

Statements of Net Position as of June 30,	**2019**	**2018**	**2017**
Cash and investments	$ 129,692	$ 130,318	$ 130,859
Student loans receivable—net	95,110	99,075	112,909
Other assets	5,439	3,966	3,682
Total assets	$ 230,241	$ 233,359	$ 247,450
Notes payable	$ 72,704	$ 82,141	$ 101,792
Other liabilities	672	749	928
Total liabilities	73,376	82,890	102,720
Total net position	156,865	150,469	144,730
Total liabilities and net position	$ 230,241	$ 233,359	$ 247,450

Condensed Financial Information (in thousands)

Results Years Ended June 30,	**2019**	**2018**	**2017**
Interest on student loans, including subsidy	$ 4,388	$ 4,569	$ 4,750
Special allowance on student loans	(355)	(1,155)	(2,125)
Other income	160	299	264
Total operating revenues	4,193	3,713	2,889
Fees	38	40	42
Loan servicing and administration	4,065	3,397	3,363
Total operating expenses	4,103	3,437	3,405
Net income (loss) from operations	90	276	(516)
Investment return	8,824	7,715	11,132
Interest expense	(2,518)	(2,252)	(1,760)
Net nonoperating revenues	6,306	5,463	9,372
Change in net position	6,396	5,739	8,856
Net Position - Beginning of year	150,469	144,730	135,874
Net Position - End of year	$ 156,865	$ 150,469	$ 144,730

Financial Analysis

Statement of Net Position

During the fiscal year ended June 30, 2019, total assets decreased $3.1 million compared to a decrease in liabilities of $9.5 million. This resulted in an increase to INvestEd's net position of $6.4 million or 4.3%. This change in net position is due to an increase in private loan originations and Back A Boiler (BAB) notes receivable combined with a decrease in notes payable. This compares to an increase of 4.0% in the prior fiscal year, which was the result of a combination of FFELP loan sales, a corresponding decrease in notes payable, and increased private loan originations.

Cash and investments decreased .5% to $129.7 million compared to a balance of $130.3 million at June 30, 2018. This decrease is due to use of funds for INvestEd's literacy efforts, private loan programs and funding of the BAB program.

Student loans receivable decreased 4.0% from $99.1 million at June 30, 2018 to $95.1 million at June 30, 2019, compared to a 12.3% decrease in the prior fiscal year. This decrease is primarily due to cash receipts consisting of borrower and claim payments and FFELP loan consolidations in excess of loan additions. As of June 30, 2019, the student loan portfolio held by INvestEd consists of 86.0% FFELP loans, which is made up of 95% consolidation loans and 5% Stafford and PLUS Loans. The remaining 14.0% is private education loans either originated or purchased by INvestEd.

Other assets increased 37.1% from $4.0 million at June 30, 2018 to $5.4 million at June 30, 2019. This increase is due to an increase in interest receivable on private loans as well as an increase to the BAB notes receivable.

Liabilities decreased 11.5% from $82.9 million at June 30, 2018 to $73.4 million at June 30, 2019 compared to a decrease of 19.3% in the prior fiscal year. This decrease, primarily in notes payable, is attributed to monthly principal payments required based on available funds in INvestEd's trust accounts.

Total net position at June 30, 2019, increased 4.3% to $156.9 million compared to $150.5 million at June 30, 2018. This compares to an increase of 4.0% in the prior fiscal year.

Operating Results

INvestEd's net income from operations was $0.1 million on operating revenues of $4.2 million in the fiscal year ended June 30, 2019, decreasing 67% from the net income from operations of $0.3 million on operating revenues of $3.7 million in the prior fiscal year. Total operating revenues increased 12.9% in the fiscal year ended June 30, 2019, compared to an increase of 28.5% in the prior fiscal year. A decrease in special allowance due to an overall rising interest rate environment resulted in this increase.

Net nononoperating revenues increased $0.8 million during fiscal year ended June 30, 2019, compared to a decrease of $3.9 million in the prior fiscal year. These fluctuations are a result of increases in gains and appreciation of INvestEd's managed investment portfolio, partially offset by increases in interest expense on notes payable.

Loan Servicing and INvestEd's Loan Programs

INvestEd utilizes Pennsylvania Higher Education Assistance Agency to service its FFELP portfolio and the private loan portfolio.

Private loan originations are processed through contractual relationships with First Merchant's Bank, Bank of Lake Mills and Campus Door Holdings, LLC.

Additional contract compliance, loan servicing support and quality control functions are performed in INvestEd's Carmel, Indiana location for the student loan portfolios.

Requests of Information

This financial report is designed to provide a general overview of INvestEd's financial statements for all those with an interest in INvestEd. Questions concerning any of the information should be addressed to Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd, 11595 North Meridian Street, Suite 200, Carmel, Indiana 46032.

FINANCIAL STATEMENTS

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC. d/b/a INvestEd

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019 AND 2018
(In thousands)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and equivalents:		
Unrestricted	$ 12,222	$ 9,844
Restricted	1,976	1,844
Total cash and equivalents	14,198	11,688
Short-term investments:		
Unrestricted	92,398	95,364
Student loans receivable — net	7,073	7,856
Accrued interest receivable — student loans receivable	2,738	2,473
Accrued interest receivable — cash and short-term investments	173	194
Prepaids and other assets	278	200
Total current assets	116,858	117,775
NON-CURRENT ASSETS:		
Investments	23,096	23,266
Notes receivable	2,106	942
Student loans receivable — net	88,037	91,219
Capital assets — net	144	157
Total non-current assets	113,383	115,584
TOTAL	$ 230,241	$ 233,359
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 640	$ 716
Accrued interest payable	32	33
Current portion of notes payable — net	8,787	9,724
Total current liabilities	9,459	10,473
NOTES PAYABLE — net	63,917	72,417
Total non-current liabilities	63,917	72,417
Total liabilities	73,376	82,890
NET POSITION:		
Net investment in capital assets	144	157
Unrestricted	154,745	148,468
Restricted	1,976	1,844
Total net position	156,865	150,469
TOTAL	$ 230,241	$ 233,359

See notes to financial statements.

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC. d/b/a INvestEd

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2019 AND 2018
(In thousands)

	2019	2018
OPERATING REVENUES:		
Interest on student loans	$ 4,104	$ 4,201
U.S. Secretary of Education:		
Special allowance	(355)	(1,155)
Interest subsidy	284	368
Other income	160	299
Total operating revenues	4,193	3,713
OPERATING EXPENSES:		
Fees	38	40
Loan servicing and administration	4,065	3,397
Total operating expenses	4,103	3,437
NET INCOME FROM OPERATIONS	90	276
NONOPERATING REVENUES (EXPENSES):		
Investment return	8,824	7,715
Interest expense	(2,518)	(2,252)
Net nonoperating revenues	6,306	5,463
CHANGE IN NET POSITION	6,396	5,739
NET POSITION — Beginning of year	150,469	144,730
NET POSITION — End of year	$ 156,865	$ 150,469

See notes to financial statements.

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC. d/b/a INvestEd

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018
(In thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan interest received, net of special allowance payments	$ 3,768	$ 3,666
Purchase of student loans	(9,219)	(8,284)
Principal receipts on student loans	13,184	22,118
Issuance of notes receivable	(1,164)	(603)
Cash received for other operating activities	160	298
Cash payments for employees and vendors	(4,148)	(3,390)
Net cash provided by operating activities	2,581	13,805
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturity of certificates of deposit		250
Proceeds from sale of investments	30,757	41,378
Purchases of investments	(22,949)	(40,101)
Dividends and interest received, net of expenses	4,118	3,242
Net cash provided by investing activities	11,926	4,769
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Repayment of notes	(9,491)	(19,718)
Interest paid on bonds	(2,464)	(2,242)
Net cash used by noncapital financing activities	(11,955)	(21,960)
CASH FLOWS FROM CAPITAL ACTIVITIES:		
Purchase of capital assets, net	(42)	(59)
Net cash used by capital activities	(42)	(59)
CHANGE IN CASH AND EQUIVALENTS	2,510	(3,445)
CASH AND EQUIVALENTS — Beginning of year	11,688	15,133
CASH AND EQUIVALENTS — End of year	$ 14,198	$ 11,688

See notes to financial statements.

INDIANA SECONDARY MARKET FOR EDUCATION LOANS, INC. d/b/a INvestEd

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018
(In thousands)

	2019	2018
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	$ 90	$ 276
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization expense	50	133
Provision for allowance for loan losses, net of write-offs and recoveries	(195)	(16)
Interest on student loans recapitalized	(1,628)	(1,915)
Change in assets and liabilities:		
Decrease in student loans receivable	5,832	15,750
(Increase) decrease in accrued interest receivable	(265)	251
Increase in notes receivable	(1,164)	(603)
(Increase) in prepaids and other assets	(63)	118
Decrease in other liabilities	(76)	(189)
Net cash provided by operating activities	$ 2,581	$ 13,805

See notes to financial statements.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - Indiana Secondary Market for Education Loans, Inc., d/b/a INvestEd (INvestEd) is an Indiana public benefit corporation formed to purchase and originate student loans under the Federal Family Education Loan Program (FFELP) provided for by the Higher Education Act (the Act), as well as private tuition and refinance student loans. Effective March 30, 2010, the Health Care and Education Reconciliation Act of 2010 prohibited origination of any new loans after June 2010 under FFELP. Outstanding debts payable, as specified in the resolutions authorizing the related sale of the debts, are not payable by funds received from taxation and are not debts of the State of Indiana or any of its political subdivisions. INvestEd is a discretely presented proprietary component unit of the State of Indiana. Indiana Secondary Market for Education Loans, Inc. began doing business as (d/b/a) INvestEd in November 2016.

Basis of Presentation and Accounting - INvestEd's financial statements have been prepared on the basis of the governmental enterprise fund concept which pertains to financial activities that operate similarly to a private business enterprise. The assets of certain funds are restricted pursuant to bond or note issuances. For financial statement presentation purposes, the funds have been aggregated into one proprietary fund type. INvestEd's funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates which are particularly susceptible to change in the near-term relate to the determination of the allowance for loan losses, fair value measurements, and future maturities of notes payable.

Student Loans Receivable - Student loans consist of federally insured FFELP student loans and private student loans. Private student loans consist of both tuition and refinancing loan programs. Student loans receivable are stated at the principal amounts outstanding adjusted for an estimated allowance for loan losses and unamortized discounts related to FFELP loans. The related interest income generated from student loans includes discount amortization. INvestEd amortizes discounts over the estimated average life of the loan on a straight-line basis over 10 years, which approximates the effective interest method.

Interest on student loans is accrued based upon the actual principal amount outstanding. The U.S. Secretary of Education makes quarterly interest subsidy payments for FFELP loans until the student is required, under the provisions of the Act, to begin repayment. Repayment must begin generally within six months after the student completes their course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution. Depending on the options selected, repayment may begin prior to completing school.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The United States Department of Education (US DOED) provides a special allowance to lenders participating in the FFELP program. For FFELP loans first disbursed prior to January 1, 2000, the special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of 91-day United States Treasury bills, to the average daily unpaid principal balance and capitalized interest of student loans held by INvestEd. For FFELP loans first disbursed from January 1, 2000 through June 30, 2006, the special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the three-month financial Commercial Paper rate, to the average daily unpaid principal balance and capitalized interest of FFELP loans held by INvestEd. If a special allowance amount is a negative number on a FFELP loan first disbursed prior to April 1, 2006, special allowance will not be paid for that FFELP loan type for that quarter. If a special allowance amount is a negative number on a FFELP loan first disbursed after April 1, 2006, the lender must remit the excess interest (“negative SAP”) to the US DOED. The special allowance amount for a FFELP loan first disbursed on or after October 1, 2007, has additional provisions for lenders qualified as an eligible not-for-profit holder. Those eligible as not-for-profit lenders earn a 15-basis point higher yield. The special allowance is accrued as earned. Effective April 1, 2012, the index used to calculate special allowance for FFELP loans disbursed after January 1, 2000, is based on one-month LIBOR.

Cash and Equivalents - Cash and equivalents may consist of money market funds and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - Investments consist of corporate bonds, common stocks, exchange traded funds, government obligations, mutual fund shares and money market shares, and hedge funds. Investments are carried at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, based on available market prices of the investments or similar investments. INvestEd has an investment policy, approved by the Indiana Finance Authority, for all funds held outside the existing trust. INvestEd is restricted to investments that meet the rating requirements per the indenture of trust for all funds held within the trust.

Interest income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific-identification method. Changes in the fair value of investments are included in the statements of revenues, expenses and changes in net position.

Allowance for Student Loan Losses - Guarantees on federally insured student loans originated after October 1, 1993, but before July 1, 2006, provide for a reduced recovery of 98% of loan principal and accrued interest on FFELP loans which default. Guarantees on FFELP loans originated after July 1, 2006, provide for a reduced recovery of 97% of loan principal and accrued interest on loans which default. Accordingly, INvestEd provides for an allowance for the estimated loss associated with the portion not recoverable.

INvestEd evaluates the adequacy of the allowance for loan losses on its private loan portfolio separately from federally insured FFELP loans. Several factors are considered including the following: origination volume, delinquency status, type of credit and any trends from industry data. As the portfolio ages, historical trends and experience will be evaluated as well. INvestEd considers a private loan to be in default when it reaches 120 days delinquent or greater.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The allowance is increased by a provision charged to operations and reduced for losses actually incurred and is included in the financial statements as a reduction of student loans receivable. INvestEd utilizes a national collection agency or an Indiana law firm specializing in collections to attempt collection on charged off accounts. The amount attributable to recoveries remains in the allowance.

In completing the analysis of the adequacy of the allowance for loan losses, past collection experience, delinquency trends, size of the portfolio, economic conditions, document deficiencies, and other factors are considered. Significant changes in these factors could impact the allowance and provision for loan losses. Accordingly, the evaluation of the allowance for loan losses is inherently subjective as it requires material estimates that may be subject to change.

Notes Receivable - Notes receivable consist of two promissory notes related to the Back A Boiler (BAB) income share program. Interest income on BAB promissory notes has not yet been accrued as the loans have been placed on non-accrual status due to the uncertainty of the timing of the future payments which are dependent upon the cash flows from the BAB program's underlying student contracts. The BAB promissory notes will be restored to an accrual status once cash flow payments can be reasonably estimated.

Notes receivable are stated at unpaid balances, less an allowance for credit losses (doubtful loans). Notes receivable are considered past due when payments are not made in accordance with contractual terms. INvestEd provides for losses on notes receivable using the allowance method. The allowance for credit losses is maintained at an amount management considers adequate to cover inherent losses at the statement of net position date. INvestEd adheres to an internal review system and loss allowance methodology to provide for the detection of problem receivables and an adequate allowance to cover credit losses.

INvestEd reviews notes receivable on an annual basis to provide for an adequate allowance. The allowance is based on collection experience and other circumstances which may affect the ability of BAB to meet its obligations. Notes receivable are considered impaired if full principal payments are not received in accordance with contractual terms. It is INvestEd's policy to charge off uncollectible notes receivable when management determines the amount will not be collected.

INvestEd evaluates credit exposure using a credit quality indicator based on payment activity. INvestEd's BAB notes receivable are rated as "Performing" as no payments are yet due in accordance with the terms of the agreement. If payments have not been made in accordance with contractual terms, the notes would be rated as "Nonperforming". The credit quality indicator is updated on an annual basis.

Capital Assets - Capital assets consist of office furniture, equipment and leasehold improvements recorded at cost. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the related assets or the term of the lease, which is 3 to 7 years depending on the asset class.

Discounts on Notes Payable and Debt Issuance Costs - Discounts on notes payable are amortized using the interest method over the notes issued. Debt issuance costs are recorded as expense when incurred.

Net Position - $154,745,000 and $148,468,000 of INvestEd's net position and all related revenues were unrestricted at June 30, 2019 and 2018, respectively. INvestEd does, however, maintain other arrangements which limit the use of assets. At June 30, 2019 and 2018, INvestEd's restricted net position of $1,976,000 and $1,844,000, respectively, reflect debt reserve requirements (see Note 7) and $144,000 and $157,000, respectively, reflect amounts invested in capital assets (see Note 6).

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Student Loan Income and Related Expenses - Interest and special allowance on loans are recognized as income in the period earned, and servicing costs are charged to expense as incurred. Loans were purchased at a discount in June 2009, and this discount is being amortized over the estimated life of the loans (10 years). At June 30, 2019 and 2018, the unamortized discount totaled $18,000 and $62,000, respectively.

Servicing Fees - As of June 30, 2019, Pennsylvania Higher Education Assistance Agency services INvestEd's FFELP student loan portfolio and private tuition and refinance loan portfolios. Servicing fee expense amounts are included in operating expenses in the statements of revenues, expenses and changes in net position.

Risk Management - INvestEd is exposed to various risks of loss related to property loss, torts, errors and omissions, cyber risk and employee injuries. Coverage for these various risks of loss is obtained through commercial insurance. There has been no significant reduction in insurance coverage from the prior year for all categories of risk. Commercial insurance is purchased in an amount that is sufficient to cover INvestEd's risk of loss. INvestEd will record an estimated loss from a claim as an expense and a liability if it meets the following requirements: (1) information available indicates that it is probable that an asset has been impaired, or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

Operating Revenues and Expenses - The loan issuances are the principal source of the operating funds. INvestEd derives operating revenue from interest earned on student loans, servicing fee income, the U.S. Secretary of Education, and gains (losses) from the sale of student loans. INvestEd's expenses primarily consist of interest on debt arrangements, loan servicing and administration, and payroll expense.

Income Taxes - INvestEd is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, INvestEd has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Additionally, INvestEd meets the criteria required for classification as an affiliate of a government unit, and therefore, is not required to file federal or state information returns.

Subsequent Events - Management has evaluated the financial statements for subsequent events occurring through October 10, 2019, the date the financial statements were available to be issued.

2. DEPOSITS AND INVESTMENTS

Cash Deposits with Financial Institutions

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the three demand deposit accounts are carried at cost and are insured up to $250,000 per financial institution.

The carrying amount of demand deposits was $6,081,000 and bank balances were $6,097,000. INvestEd's maximum risk was $5,847,000 at June 30, 2019.

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The investment policy allows for investing in a portfolio balanced between equity and fixed income securities. The permissible investments are detailed in the investment policy. Trust accounts are invested in accordance with trust indentures executed by INvestEd. Excerpts from the investment policy are as follows:

(a) Investment Policy:

- ***Scope of this Investment Policy***
  The statement of investment policy reflects the investment policy, objectives, and constraints for INvestEd assets that are not encumbered by trust or otherwise.

- ***Long Range Goals***
  In order to meet its needs, the investment strategy of the invested assets is to emphasize a balanced return of current income and modest growth of principal consistent with the preservation of the purchasing power of the Fund. By investing in a portfolio balanced between equity and fixed income securities the Board is willing to accept fluctuations to the principal value of the portfolio in order to provide an opportunity for higher long-term returns. The Board understands that short to intermediate-term results may be negative.

- ***Investments***
  In order to provide the Investment Fund Manager(s) the freedom to invest within the guidelines of this policy statement, the following security classifications are permissible and suitable investment.

  1. *Equity Securities:* Publicly traded common and preferred stocks, American Depository Receipts (ADRs), convertible preferred stocks and convertible debentures. Equity securities may be chosen from the NYSE, regional Exchanges and the National Over-the-Counter Market. All assets must have readily ascertainable market values and be fully liquid and marketable. The equity portfolio is limited to a maximum of 5% at cost and 10% at market (of total account value) of the securities of any one issuer with the exception of exchange traded funds or mutual funds. Broad industry diversification must be maintained.

     The portfolio may also invest in equity mutual funds or exchange traded funds, without limitation on the percentage weight in the portfolio.

  2. *Fixed Income:* The individually managed portfolio shall be comprised of high-quality issues. All individually held Corporate Bonds must be rated no lower than Moody's or Standard & Poor's rating Baa/BBB - to be purchased or retained. The portfolio is restricted to a maximum of 5% at cost and 10% at market (of total account value) of the securities of any one issuer, with the exception of U.S. Government and Agency securities which have no limit.

     The portfolio may also invest in fixed income mutual funds or exchange traded funds, without limitation on the percentage weight in the portfolio.

     Investment in mutual funds shall be the chosen vehicle for exposure to high yield (below investment grade) fixed income securities should they be included in the portfolio.

     The portfolio's average maturity should range from 1-7 years.

2. DEPOSITS AND INVESTMENTS (CONTINUED)

3. *Cash and Equivalents:* Cash reserves may consist of individual fixed income securities such as Commercial Paper, U.S. Treasury Bills, and other similar instruments, with less than one year to maturity and/or money market funds. Cash reserves should be free from risk and have instant liquidity. Short-term instruments of maturities less than one year in U.S. Government or U.S. Agencies are not restricted in the size of the position.

4. *Non-Traditional Assets:* Non-Traditional Assets includes SEC registered mutual funds and exchange traded funds that invest in asset classes and/or strategies outside of traditional long only equity and fixed income securities portfolios. These investment classes include, but are not limited to: convertible securities, convertible arbitrage, long/short equity, commodities, precious metals, real estate investment trusts, foreign bonds and senior bank loans. Permitted holdings include open and/or closed-end mutual funds and exchange traded funds.

The Investment Advisor assists the Investment Committee in balancing the total Fund within the following established strategic allocation parameters:

Investment Class	Target	Allowable Range
Equities	50%	30% - 70%
Fixed income	30%	20% - 70%
Cash and equivalents	0%	0% - 20%
Non-traditional assets	20%	0% - 30%

- ***Performance Review and Evaluation***
  Performance reports generated by the Investment Advisor shall be compiled at least quarterly and communicated to the Investment Committee for review. The purpose of these reports shall be to review and evaluate both the Investment Advisor and the Investment Fund Managers. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this policy. The Investment Committee intends to evaluate the portfolio(s) over at least a five to seven-year period, but reserve the right to terminate a fund manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.

2. Failure to adhere to any aspect of the investment policy, including communication and reporting requirements.

3. Significant qualitative changes to the investment fund management organization.

Investment Fund Managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results. The Investment Advisor's performance shall also be reviewed regularly. Due diligence reports from the Investment Advisor are expected annually or when deemed appropriate by Investment Advisor, Directors or Investment Committee.

2. DEPOSITS AND INVESTMENTS (CONTINUED)

The objective of monitoring is not to set in opposition one Investment Fund Manager or program against another, but rather to ensure prudent management of the Fund and compliance with this policy. It is of primary importance that the guidelines are adhered to and the objectives be met. The Investment Committee shall review the investment management consultant's performance on a full market cycle (five year).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments.

As of June 30, 2019, and 2018, INvestEd had the following investments and cash equivalents and maturities:

2019 Investment Type	Fair Value (In thousands)	Maturities (In Years) < 1	1–5	6–10	> 10
Money market fund shares	$ 8,117	$ 8,117			
Fixed income investments:					
U.S. Treasury notes	6,976	1,658	$ 4,265	$ 1,053	
Corporate bonds	15,587	700	10,340	4,547	
Government agency bonds	811		248		$ 563
Municipal bonds	1,806		1,341	465	
Mutual fund bond funds	12,002	12,002			
Exchange traded funds	22,205	22,205			
Equity mutual funds	32,922	32,922			
Convertibles	2,143	2,143			
Common stocks	16,933	16,933			
Hedge funds	4,109	3,835			274
	$ 123,611	$ 100,515	$ 16,194	$ 6,065	$ 837

2018 Investment Type	Fair Value (In thousands)	Maturities (In Years) < 1	1–5	6–10	> 10
Money market fund shares	$ 7,184	$ 7,184			
Fixed income investments:					
U.S. Treasury notes	5,428	798	$ 2,528	$ 2,102	
Corporate bonds	18,108	1,820	9,918	6,370	
Government agency bonds	896		240		$ 656
Municipal bonds	1,823	570	717	536	
Mutual fund bond funds	15,495	15,495			
Exchange traded funds	18,426	18,426			
Equity mutual funds	34,941	34,941			
Common stocks	16,408	16,408			
Hedge funds	7,105	6,906			199
	$ 125,814	$ 102,548	$ 13,403	$ 9,008	$ 855

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk INvestEd will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of INvestEd, and are held by either the counterparty or the counterparty's trust department or agent but not in INvestEd's name. INvestEd has no custodial credit risk on investments.

Credit Risk

The following table provides information on the credit ratings associated with INvestEd's investments and cash equivalents as of June 30, 2019:

Investment Type	Fair Value (in thousands)	Moody's	S&P
Money market fund shares	$5,245	NR	NR
Money market fund shares	2,872	Aaa-mf	AAAm
U.S. Treasury notes	6,976	Aaa	NR
Corporate bonds	252	Aaa	AA+
Corporate bonds	463	Aa2	AA
Corporate bonds	891	Aa2	AA-
Corporate bonds	252	Aa2	A+
Corporate bonds	505	Aa3	AA-
Corporate bonds	259	Aa3	A
Corporate bonds	359	Aa3	A+
Corporate bonds	250	A1	AA-
Corporate bonds	101	A1	A
Corporate bonds	251	A1	A-
Corporate bonds	202	A1	A+
Corporate bonds	1,627	A2	A-
Corporate bonds	761	A2	A
Corporate bonds	908	A3	BBB+
Corporate bonds	742	A3	A
Corporate bonds	787	A3	A-
Corporate bonds	260	A3	A+
Corporate bonds	1,653	Baa1	BBB+
Corporate bonds	392	Baa1	BBB
Corporate bonds	460	Baa1	A
Corporate bonds	316	Baa1	A-
Corporate bonds	2,246	Baa2	BBB
Corporate bonds	304	Baa2	BBB-
Corporate bonds	60	Baa2	BBB+
Corporate bonds	441	Baa3	BBB
Corporate bonds	600	Baa3	BBB-
Corporate bonds	245	Baa3	BBB+
Government agency bonds	563	NR	NR
Government agency bonds	248	Aaa	AA+
Municipal bonds	475	NR	AA
Municipal bonds	154	Aaa	AAA
Municipal bonds	131	Aa2	AA-
Municipal bonds	324	Aa2	NR
Municipal bonds	104	Aa2	AA
Municipal bonds	151	Aa3	AA
Municipal bonds	111	Aa3	AA-
Municipal bonds	101	A3	A
Municipal bonds	255	Baa1	AA
Grand total	$33,297		

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer.

The following shows investments in issuers that represents 5% or more of the total investments at June 30, 2019:

iShares S&P 500 Growth ETF	5.3%
Brown Advisory Growth Equity Fund Institutional Shares	8.3%
U.S. Treasuries	6.0%
iShares Russell 1000 Value ETF	6.3%

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. At June 30, 2019, there was no foreign currency risk exposure.

3. FAIR VALUE MEASUREMENTS

INvestEd has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that INvestEd has the ability to access.

Level 2 - Inputs to the valuation methodology may include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and/or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, INvestEd makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

3. FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used by INvestEd for assets that are measured at fair value on a recurring basis. There have been no changes in the methodologies used at June 30, 2019 and 2018.

Mutual Fund Shares and Money Market Fund Shares: Valued at the daily closing price as reported by each fund. These funds are required to publish net asset value (NAV) and to transact at that price. These funds are deemed to be actively traded.

Common Stocks, Exchange Traded Funds, and Government Obligations: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Hedge Funds: Valued at net asset value (NAV), as provided by the fund manager. NAV is used as a practical expedient to estimate fair value and is based on the fair value of the underlying investments less liabilities. The practical expedient would not be used if it is determined to be probable that the fund would sell the investment for an amount different than the reported NAV. When NAV is used to estimate fair value, these funds are not classified in the fair value hierarchy.

For those assets measured at fair value, management determines the fair value measurement policies and procedures in consultation with INvestEd's Audit Committee. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although INvestEd's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement at the reporting date.

3. FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of INvestEd's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2019 and 2018 (in thousands):

2019	Level 1	Level 2	Total	Measured at NAV
ASSETS:				
Cash and equivalents:				
Money market fund shares	$ 8,117		$ 8,117	
Investments:				
Fixed Income Investments:				
US Treasury notes	6,976		6,976	
Corporate bonds		$ 15,587	15,587	
Government agency	811		811	
Municipal bonds	1,806		1,806	
Mutual fund bond funds	12,002		12,002	
Exchange Traded Funds	22,205		22,205	
Equity Mutual Funds:				
International	5,710		5,710	
Large cap funds	9,546		9,546	
Market neutral funds	5,575		5,575	
Other	12,091		12,091	
Convertibles	2,143		2,143	
Common Stocks:				
Basic materials	488		488	
Consumer cyclical	1,341		1,341	
Consumer defensive	1,072		1,072	
Energy	1,260		1,260	
Financials	3,024		3,024	
Healthcare	3,018		3,018	
Industrials	2,855		2,855	
Information technology	2,936		2,936	
Real estate	332		332	
Telecom	607		607	
Hedge Funds				$ 4,109
Total Assets at Fair Value	$ 103,915	$ 15,587	$ 119,502	$ 4,109

3. FAIR VALUE MEASUREMENTS (CONTINUED)

2018	Level 1	Level 2	Total	Measured at NAV
ASSETS:				
Cash and equivalents:				
Money market fund shares	$ 7,184		$ 7,184	
Investments:				
Fixed Income Investments:				
US Treasury notes	5,428		5,428	
Corporate bonds		$ 18,108	18,108	
Government agency	896		896	
Municipal bonds	1,823		1,823	
Mutual fund bond funds	15,495		15,495	
Exchange Traded Funds	18,426		18,426	
Equity Mutual Funds:				
International	7,905		7,905	
Large cap funds	8,257		8,257	
Market neutral funds	6,205		6,205	
Other	12,574		12,574	
Common Stocks:				
Consumer discretionary	1,431		1,431	
Consumer staples	927		927	
Energy	1,295		1,295	
Financials	3,226		3,226	
Healthcare	2,534		2,534	
Industrials	2,795		2,795	
Information technology	2,964		2,964	
Telecommunications	333		333	
Basic materials	429		429	
Real estate	388		388	
Utilities	86		86	
Hedge Funds				$ 7,105
Total Assets at Fair Value	$ 100,601	$ 18,108	$ 118,709	$ 7,105

3. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value of Investments in Entities that Use NAV
The following table summarizes investments measured at fair value based on the NAV per share as of June 30, 2019 and 2018:

Instrument	Fair Value (In thousands) 2019	Fair Value (In thousands) 2018	Unfunded Commitments (In thousands)	Redemption Frequency (if currently eligible)	Redemption Notice Period
Hedge fund (a)	$3,835	$6,906	N/A	Daily	One day
Hedge fund (b)	274	199	$655	Not allowed during 10 yr. investment term	N/A
Total Hedge Funds	$4,109	$7,105			

(a) The fund generally will invest in: (i) constituent securities of the Benchmark Index, or at the Manager's discretion, securities that are reasonably expected to be constituents, or have previously been constituents of the Benchmark Index, as well as proxy, cross listed or substituted versions of such securities (including preferred shares, American Depositary Receipts ("*ADRs*") and exchange traded funds (*"ETFs"*)); (ii) cash, cash equivalents and currencies, which may be held in the form of treasury bills, money market funds and cash deposits; (iii) derivatives, including exchange-traded futures and forward currency contracts; and (iv) non-Benchmark Index securities acquired as Benchmark Index securities, or when they are received as a result of a corporate action. Notwithstanding the foregoing, the fund is permitted by the LLC Agreement to invest in securities of any kind; *provided, however*, that the Manager may not cause the fund to engage in short selling (other than hedging of currency positions) or use leverage.

(b) Investment fund employs a research-driven, bottom-up investment process that involves extensive qualitative and quantitative analysis that incorporates international relationships and expertise across capital structures, industries and geographies. The fund's underlying strategies include the use of mezzanine and equity financing in lower middle market companies.

Financial Instruments: The carrying values of INvestEd's other financial instruments, which include cash and equivalents, student loans and accrued interest receivable, accounts payable and accrued expenses, accrued interest payable, and notes payable approximate fair value due to the maturity dates and current market conditions.

4. STUDENT LOANS RECEIVABLE - NET

Student loans receivable consist of FFELP loans made under the Act and are carried at their unpaid principal balance net of an allowance for loan losses plus unamortized purchase discounts. FFELP loans earn interest at various rates ranging from 4.06% to 8.50%, depending upon the type of FFELP loan and the date the FFELP loan was made. Substantially all of the principal and accrued interest on FFELP loans is insured by certain guarantee agencies which are reinsured by the federal government. At June 30, 2019 and 2018, the majority of INvestEd's FFELP loans were guaranteed by the Pennsylvania Higher Education Assistance Agency (62% as of June 30, 2019), California Student Aid Commission/EDFund (19% as of June 30, 2019), and Educational Credit Management Corporation (14% as of June 30, 2019).

4. STUDENT LOANS RECEIVABLE - NET (CONTINUED)

Student loans receivable also consist of private loans either originated or purchased under one of INvestEd's tuition and refinance loan programs. Private loans are carried at their unpaid principal balance net of an allowance for loan losses. Private tuition loans earn interest at various rates ranging from 3.46% to 11.15%, depending on the type of private tuition loan and date the loan was made. Private refinance loans earn interest at various rates ranging from 3.08% to 9.66% depending upon the term of the loan and the date the loan was made. Private loans are not subject to any federal guarantees.

A portfolio of FFELP loans was sold in June 2013 and this sale agreement includes certain recourse provisions where INvestEd is required to repurchase FFELP loans that have inaccuracies that materially and adversely affect the value of the FFELP loan. The recourse provision is in effect through the life of the FFELP loans. INvestEd has 60 days to cure any identified issue prior to being required to repurchase the FFELP loan. INvestEd has recorded an estimated recourse liability which is included as a component of the allowance for loan losses.

Student loans receivable - net as of June 30, 2019 and 2018, consisted of the following:

	2019	2018
	(In thousands)	
Federal family education loan program	$ 82,725	$ 93,912
Private loan programs	13,665	6,292
Purchase premiums and discounts - net	(18)	(62)
Less - allowance for loan losses	(1,262)	(1,067)
End of year	$ 95,110	$ 99,075
Current portion	$ 7,073	$ 7,856
Long-term portion	$ 88,037	$ 91,219

The activity for the allowance for loan losses for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
	(In thousands)	
Beginning of year	$ 1,067	$ 1,051
Provision for loan losses	611	230
Recoveries	3	5
Write-offs of loans	(419)	(219)
End of year	$ 1,262	$ 1,067

5. NOTES RECEIVABLE

Effective September 30, 2018, INvestEd entered into a senior note purchase agreement with Back A Boiler - ISA Fund, LLC (Fund I) for a commitment of $1,000,000. As a noteholder in the agreement, INvestEd has funded $965,000 and $942,000 as of June 30, 2019 and 2018, respectively. The remaining unfunded commitment was waived during fiscal year 2019.

Effective October 26, 2018, INvestEd entered into a senior note purchase agreement with Back A Boiler - ISA Fund II, LLC (Fund II) for a commitment of $3,000,000. As a noteholder in the agreement INvestEd has funded $1,141,000 as of June 30, 2019 and has an unfunded commitment of $1,859,000.

These note agreements call for quarterly payments based on available cash flows of the funds as defined in the agreement with an anticipated starting date for those payments of 36 months from issuance. Fund I calls for an expected and maximum interest rate of 4% and a final maturity date of the date all accrued interest and principal have been paid or September 30, 2031. Fund II calls for an expected and maximum interest rate of 4.5% and a final maturity date of the date all accrued interest and principal have been paid or the 12^{th} anniversary of the last capital call under the agreement.

6. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2019 and 2018, (in thousands) were as follows:

	2018	Additions	Retirements	2019
Depreciable capital assets:				
Furniture and equipment	$ 289	$ 42	$ 15	$ 316
Leasehold improvements	112			112
Total depreciable capital assets	401	42	15	428
Less accumulated depreciation	244	55	15	284
Net depreciable capital assets	$ 157	$ (13)	$	$ 144

	2017	Additions	Retirements	2018
Depreciable capital assets:				
Furniture and equipment	$ 230	$ 59	$	$ 289
Leasehold improvements	112			112
Total depreciable capital assets	342	59		401
Less accumulated depreciation	193	51		244
Net depreciable capital assets	$ 149	$ 8	$	$ 157

7. NOTES PAYABLE

Notes payable as of June 30, 2019 and 2018 consisted of Floating Rate Notes (FRNs). The following table displays the aggregate changes in and notes payable for the years ended June 30, 2019 and 2018 (in thousands):

	2018	Additions	Reductions	2019
Notes payable, net	$ 82,141	$	$ (9,437)	$ 72,704

	2017	Additions	Reductions	2018
Notes payable, net	$ 101,792	$	$ (19,651)	$ 82,141

Notes payable at June 30, 2019 includes $72,912,000 of taxable LIBOR FRNs less an unamortized bond discount of $208,000. The FRNs mature on February 25, 2044. Interest on the FRNs ranged from 2.76% to 3.31% and 2.02% to 2.76% during the years ended June 30, 2019 and 2018, respectively. The interest rate is based on one-month LIBOR on a set determination date which is the second business day immediately preceding each Distribution Date plus a spread of .80% per annum. Interest is paid on the Distribution Date which is the 25th of each calendar month or the next succeeding business day. These notes payable are limited obligations of INvestEd and are payable from and collateralized by the student loans, revenues, and recoveries of principal and all amounts held in any account established under the note documents. Principal payments are required to be made monthly based on available funds less required fees and transfers as stipulated in the note documents.

The FRNs allow for remedies in the case there is an event of default. An event of default can be (i) default in the due and punctual payment of the principal of any of the FRNs when due and payable on the related stated maturity date; (ii) default in the due and punctual payment of interest distribution amount on any of the notes when due and such default shall continue for a period of five business days; (iii) default in the performance or observance of any other of the covenants, agreements or conditions on the part of INvestEd to be kept, observed and performed contained in the indenture or in the FRNs, and, if such default is capable of being cured, the continuation of such default for a period of 90 days after written notice thereof by the trustee to the authorized representative of INvestEd; or (iv) the occurrence of an event of bankruptcy. In no event shall the failure to pay principal of the FRNs (except failure to pay principal of the FRNs on the stated maturity date) be an event of default. Although the interest shortfall amount may be used for administrative purposes to track any unpaid and overdue interest on the FRNs, any failure to pay interest on the FRNs when due under the indenture as described in (ii) above shall be an event of default under the indenture.

Upon an acceleration of the FRNs in accordance with the provisions of the indenture due to the occurrence of an event of default, the trustee may take possession of the trust estate. Furthermore, the trustee shall take possession of the trust estate at the written direction of the registered owners representing not less than a majority in aggregate principal of the FRNs outstanding at the time, upon an acceleration of the FRNs in accordance with the provisions of the indenture due to an event of default.

7. NOTES PAYABLE (CONTINUED)

The following table displays estimated future debt maturities and interest payments for notes payable at June 30, 2019 (in thousands), based on INvestEd's best estimate of expected available future cash flows as stipulated in the note documents:

Year Ending, June 30,	Principal	Interest	Total
2020	$ 8,827	$ 2,837	$ 11,664
2021	8,019	2,824	10,843
2022	7,699	2,494	10,193
2023	7,621	2,128	9,749
2024	7,527	1,767	9,294
2025-2029	33,220	3,605	36,825
Total	72,913	15,655	88,568
Discount	(209)		(209)
Notes payable, net	$ 72,704	$ 15,655	$ 88,359

Significant changes in the estimated available future cash flows could impact the reported future debt maturities and interest payments. Accordingly, the estimated future debt maturities and interest payments are inherently subjective as it requires material estimates that may be subject to change.

Notes payable are secured by (a) the proceeds derived from the sale of the notes, (b) eligible loans, and (c) certain accounts established by the respective note resolutions, including monies and securities therein.

The respective note resolutions establish the following special trust accounts for each series, unless otherwise indicated:

Collection Fund - This fund is used to account for all revenues received by INvestEd with respect to the FFELP Loans. The funds are used for the following distributions: (a) department reserve funds for payments to the US DOED, (b) estimated program expenses, (c) principal and interest payments, and (d) transfers to reinstate balance of Debt Service Reserve Fund.

Reserve Funds - These funds may either be used to maintain a minimum reserve requirement or to be paid to the US DOED for required funds due based on the FFELP Loans.

8. RETIREMENT PLANS

INvestEd established the Indiana Secondary Market 401(k) Retirement Plan (Plan) in July 2002. Effective March 16, 2012, this Plan was merged into the EmPower Retirement Savings Plan as part of the contract with Human Capital Concepts, LLC. The Plan is a "Safe Harbor 401(k) Plan" as described in the Code. All employees 18 or older are eligible to participate on the first day of the month following their hire date. INvestEd makes a safe-harbor matching contribution equal to 100% of the first 4% that each participant contributes to the Plan. INvestEd also may make a discretionary profit-sharing contribution to the Plan for participants who are employed at the end of the Plan year. Participants are 100% vested in INvestEd's contributions after one year of service. INvestEd's contributions to the Plan during fiscal years 2019 and 2018 were approximately $48,000 and $35,000, respectively.

9. COMMITMENTS

INvestEd leases office space under the terms of a long-term non-cancellable operating lease. Future minimum required payments under this operating lease at June 30, 2019, were as follows:

Years Ending June 30,	Rental Payments (in Thousands)
2020	$ 112
2021	105
	$ 217

Rent expense under operating leases was approximately $94,000 and $87,000 for the years ended June 30, 2019 and 2018, respectively.

10. CONTINGENCIES

INvestEd is subject to various legal proceedings and claims which arise primarily in the ordinary course of conducting its business. In management's opinion, the ultimate resolution of such matters will not have a material adverse effect on INvestEd's net position or its changes in net position.

OTHER REPORT

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

Board of Directors
Indiana Secondary Market for Education Loans, Inc.
d/b/a INvestEd

We have audited, in accordance with the 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 Indiana Secondary Market for Education Loans, Inc. d/b/a INvestEd (INvestEd), a component unit of the State of Indiana, which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered INvestEd's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of INvestEd's internal control. Accordingly, we do not express an opinion on the effectiveness of INvestEd's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Katz, Sapper & Miller, LLP
Certified Public Accountants
800 East 96th Street, Suite 500
Indianapolis, IN 46240
Tel 317.580.2000
Web ksmcpa.com
An Affiliate of
KSM Business Services, Inc.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
October 10, 2019