ANNUAL REPORT

FY 2003

COLLEGE ILLINOIS

529 PREPAID TUITION PROGRAM

Illinois Student Assistance Commission

COLLEGE ILLINOIS!

ILLINOIS PREPAID
TUITION PROGRAM:
ILLINOIS STUDENT
ASSISTANCE COMMISSION

February 25, 2004

The Honorable Rod Blagojevich, Governor of the State of Illinois
The Honorable Emil Jones, President of the Illinois Senate
The Honorable Michael J. Madigan, Speaker of the Illinois House of Representatives
The Honorable William Holland, Auditor General of the State of Illinois
Members of the Illinois Board of Higher Education
Citizens of Illinois

We are pleased to issue the fiscal year 2003 Annual Report for *College Illinois!*, the state's Section 529 Prepaid Tuition Program. This report references the program's fifth consecutive year of operation, including the program's fifth enrollment period – from October 31, 2002, through March 31, 2003 – during which more than 7,000 new *College Illinois!* contracts were purchased. Once the fifth annual enrollment period was completed, *College Illinois!* prepaid tuition contracts in force on June 30, 2003, totaled 32,524. In fact, *College Illinois!* participants have committed more than $600 million toward the purchase of prepaid tuition contracts through FY2003, representing more than 105,000 years of college either already prepaid or in the process of being prepaid through the program.

The program's most recent Actuarial Valuation Report, prepared by actuaries at Richard M. Kaye and Associates in conjunction with PricewaterhouseCoopers LLP, is included in its entirety within the Annual Report. As of June 30, 2003, the actuarial value of expected liabilities exceeds assets (including the value of future payments by contract purchasers) by $76.2 million, resulting in a funded ratio of approximately 87 percent. The Annual Report also indicates that program assets are expected to cover all benefit payments through the year 2018, even assuming that no additional contracts are sold subsequent to June 30, 2003.

Consequently, the program's level of financial soundness has improved during the past year. Its actuarial deficit has declined, and its funding ratio has improved significantly. The Commission has been consistently realistic each year in setting investment return and tuition inflation assumptions. The Commission also has set contract prices conservatively during each of the past two enrollment periods, at a level that will over time amortize the actuarial deficit. These past actions have had a positive impact upon the program's financial soundness. Hence, contract prices for 2003-2004 once again include a factor to continue the amortization of the program's actuarial deficit.

The consistently strong and affirmative public response to the *College Illinois!* program since its inception is very gratifying. There is substantially greater public awareness among Illinois families of how college costs have risen in recent years. Many more families now understand the importance of establishing and funding a financial plan to pay for college. *College Illinois!* seeks to facilitate that planning by providing a safe and secure way for Illinois citizens to ensure the affordability of a college education for their children or grandchildren.

We encourage you to contact *College Illinois!* should you have any questions regarding the program or this report.

Sincerely,

Larry E. Matejka

Larry E. Matejka, Executive Director
Illinois Student Assistance Commission

Randy P. Erford

Randy P. Erford, Director
College Illinois!

1755 Lake Cook Road
Deerfield, IL 60015-5209
Toll Free: (877) 877-3724
Fax: (847) 948-5033
www.collegeillinois.com
collill@isac.org

The Illinois Student Assistance Commission *

College Illinois! Investment Advisory Panel

John Albin
President, Longview Capital Corporation, of Newman

Linda Bates
Certified Financial Planner, of Glenview

George Clam
President, Oak Brook Bank, of Woodridge

Edward Madden
President, Heritage Bank of Schaumburg, of Chicago

Michael Mann
Associate Director, Illinois Board of Higher Education, of Jacksonville

Michael Neill
Trust Officer, Old National Bank, of Carbondale

Alexis Sturm
Senior Bond Analyst, Bureau of the Budget, of Springfield

PROGRAM OVERVIEW

College Illinois!, the Illinois Prepaid Tuition Program, is administered by the Illinois Student Assistance Commission, the state agency that has been helping Illinois families pay for college for more than 40 years. As a qualified tuition program under Section 529 of the Internal Revenue Code, *College Illinois!* provides individuals with an opportunity to lock in the cost of 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.

College Illinois! 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. 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 program has no age restrictions for future students. Beneficiaries of a plan do not have to choose a school until time of college enrollment. Plans can be purchased with a single lump-sum payment, or in monthly or annual installments for five or ten years. *College Illinois!* covers undergraduate tuition and mandatory fees but does not cover other expenses such as room and board, books and transportation.

Benefits provided by *College Illinois!* are entirely exempt from Illinois state income tax. In addition, the Tax Relief Act of June 2001 made benefits from all Section 529 plans exempt from federal taxes effective January 1, 2002. The legislation included a sunset provision for these benefits of December 31, 2010, although it is generally believed that Congress will revisit the issue in the future and extend this benefit.

During FY2003, *College Illinois!* completed its fifth enrollment period. As of June 30, 2003 there were approximately 32,500 contracts in force with a market value of approximately $600 million. As the only college funding tool backed by the state of Illinois, *College Illinois!* can protect purchasers against tuition and fee increases that historically have averaged over 8 percent per year during the past twenty years at public universities in Illinois. It is an affordable, flexible and tax-advantaged program, designed to be the cornerstone of any family's college funding plan.

FINANCIAL STATEMENTS

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Financial Audit
For the Year Ended June 30, 2003

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

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

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State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Agency Officials

Executive Director	Larry E. Matejka
Deputy Executive Director	Kathleen T. Rooney
Chief Financial Officer	Marcia Thompson
General Counsel	Karen Salas
Acting Internal Auditor	Wendy Funk

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015-5209

Financial Statement Report

Summary

The audit of the financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission (Program) was performed by McGladrey and Pullen, LLP, as special assistant auditors for the Auditor General, State of Illinois.

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

McGladrey & Pullen

Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

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, 2003, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Student Assistance Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, 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, Illinois Student Assistance Commission as of June 30, 2003, and its changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 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, 2003, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The State of Illinois, Illinois Student Assistance Commission has not presented a management's discussion and analysis and budgetary comparison information for the Illinois Prepaid Tuition Program that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with Government Auditing Standards, we have also issued a report dated December 1, 2003 on our consideration of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 1, 2003

McGladrey & Pullen

Certified Public Accountants

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois Prepaid Tuition Program (Program) of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 1, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain instances of noncompliance, which do not meet the criteria for reporting herein and which are reported in the separately issued compliance report dated December 1, 2003 as State compliance findings in the schedule of findings. We also noted certain immaterial instances of noncompliance, which we have reported to management of the Commission in a separate letter dated December 1, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported in the separately issued compliance report dated December 1, 2003 as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Commission in a separate letter dated December 1, 2003.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 1, 2003

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Net Assets
June 30, 2003

Assets	
Current	
Cash and cash equivalents	$ 7,837,235
Receivables	
Accrued interest on investments	26,272
Total current assets	7,863,507
Noncurrent	
Investments	335,729,790
Total assets	343,593,297
Liabilities	
Current	
Accounts payable and accrued expenses	382,372
Tuition payable	9,236,395
Accreted tuition payable	695,212
Due to other State funds	14,943
Compensated absences	7,443
Total current liabilities	10,336,365
Noncurrent	
Tuition payable	338,069,281
Accreted tuition payable	48,914,028
Compensated absences	66,986
Total noncurrent liabilities	387,050,295
Total liabilities	397,386,660
Net Assets, unrestricted (deficit)	$ (53,793,363)

See Notes to Financial Statements

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2003

Operating revenues	
Income from investment securities	$ 10,890,355
Interest revenue - other	163,330
Application and other fees	2,561,933
Total operating revenues	13,615,618
Operating expenses	
Salaries and employee benefits	524,944
Accreted tuition expenses	22,006,674
Management and professional services	2,352,738
Investment management fees	932,200
Total operating expenses	25,816,556
Operating loss	(12,200,938)
Nonoperating expense	
Interest on interfund loan	9,000
Change in net assets	(12,209,938)
Net assets (deficit), July 1, 2002	(41,583,425)
Net assets (deficit), June 30, 2003	$ (53,793,363)

See Notes to Financial Statements

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows
Year Ended June 30, 2003

Cash flows from operating activities		
Cash received from application and other fees	$	2,561,933
Cash paid for refund of contracts		(2,006,042)
Cash paid for tuition and accretion		(1,970,115)
Cash payments to suppliers for goods and services		(2,216,737)
Cash payments to employees for services		(566,069)
Cash receipts from prepaid tuition contracts		114,504,001
Net cash provided by operating activities		110,306,971
Cash flows from noncapital financing activities		
Principal paid on interfund loan		(350,487)
Interest paid on interfund loan		(9,000)
Net cash used in noncapital financing activities		(359,487)
Cash flows from investing activities		
Purchase of investment securities		(149,606,860)
Sales and maturities of investment securities		33,000,000
Interest and dividends on investments		6,276,558
Cash paid to investment managers		(932,200)
Net cash used in investing activities		(111,262,502)
Net decrease in cash and cash equivalents		(1,315,018)
Cash and cash equivalents, July 1, 2002		9,152,253
Cash and cash equivalents, June 30, 2003	$	7,837,235

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows (Continued)
Year Ended June 30, 2003

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	$	(12,200,938)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Investment and other interest income		(11,053,685)
Accreted tuition expense		22,006,674
Investment management fees		932,200
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities		136,001
Compensated absences		(41,125)
Tuition payable		110,527,844
Total adjustments		122,507,909
Net cash provided by operating activities	$	110,306,971

Supplemental disclosure of noncash transactions:		
Net appreciation in fair value of investments	$	4,783,495

See Notes to Financial Statements

Note 1. Description of Program

The Illinois Student Assistance Commission (ISAC) administers the nonshared proprietary fund, Illinois Prepaid Tuition Program (College Illinois!) 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 Illinois Prepaid Tuition Program is administered by ISAC with advice and counsel from an investment advisory panel consisting of seven members appointed by ISAC. The purpose of this program is to provide Illinois families with an affordable tax-advantaged method to pay for college. Illinois Prepaid Tuition contracts will allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at current program prices which are considerably less than projected future college costs. 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. In June 1998 ISAC was provided with a $1,250,000 General Revenue Fund loan to cover administrative costs associated with start-up of the program. As of June 30, 2003 the loan has been repaid in full.

The first contracts were offered for sale in 1998. After five enrollment periods, as of June 30, 2003, the Illinois Prepaid Tuition Program had 32,528 contracts with a purchased value of $613,072,279. As of June 30, 2003, the fund has received cash collections of $358,533,091.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Illinois Prepaid Tuition 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.

A. Reporting Entity

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

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

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Illinois Prepaid Tuition Program does not have component units, nor is it a component unit of any other entity. However, because the Illinois Prepaid Tuition 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.

Note 2. Summary of Significant Accounting Policies - Continued

A. Reporting Entity - Continued

The financial statements present only the Illinois Prepaid Tuition 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, 2003, and changes in 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.

B. Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows have been presented for the Illinois Prepaid Tuition 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 Illinois Prepaid Tuition Program activities, income from investments is considered an operating activity in the Statement of Revenues, Expenses and Changes in Net Assets. Nonoperating expenses result from nonexchange transactions or ancillary activities.

C. Basis of Accounting

The Illinois Prepaid Tuition Program is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. The fund accounts for resources received and used for financing self-supporting activities of the Illinois Prepaid Tuition Program that offers services on a user-charge basis to the general public.

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

D. 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 securities with maturities at the date of purchase of 90 days or less.

Note 2. Summary of Significant Accounting Policies - Continued

E. Investments

The Illinois Prepaid Tuition Program presents investments on its Statement of Net Assets at fair value. The net appreciation or depreciation in the fair value of investments is included as interest on investments in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The investments are classified as noncurrent, as current cash flows cover current payouts for the program and the program has no plans to withdraw investments in the near future.

F. Interfund Transactions

The Illinois Prepaid Tuition 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 in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

G. Compensated Absences

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

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

Note 2. Summary of Significant Accounting Policies - Continued

H. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 32,528 contracts held by the fund as of June 30, 2003.

I. Net Assets, Unrestricted (Deficit)

Net assets, unrestricted (deficit) consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

J. Use of Estimates

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

K. Funding and Actuarial Assumptions

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 establish, maintain and certify assets sufficient to meet the Fund's obligations. The assets of the fund are to be preserved, invested and expended solely pursuant to and for the purposes of the Fund and may not be loaned or otherwise transferred or used by the State of Illinois for any other purpose.

In the event the Commission, with the concurrence of the State of Illinois, determines the Program to be financially infeasible, the Commission may discontinue, prospectively, the operation of the Program. Any beneficiary who has been accepted by and is enrolled, or will within five years enroll, at an eligible institution shall be entitled to exercise the complete benefits of his/her contract. All other contract holders shall receive an appropriate refund of all contributions and accrued interest up to the time the program is discontinued.

Note 3. Deposits and Investments

A. Deposits

The State Treasury is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. The Illinois Prepaid Tuition Program independently manages cash and cash equivalents maintained outside the State Treasury.

Cash on deposit for the Illinois Prepaid Tuition Program had a carrying amount of $1,058,661 and a bank balance of $1,058,661 at June 30, 2003. Of the total bank balance, $100,000 was insured through the Federal Deposit Insurance Corporation (FDIC). The remaining $958,661 was uncollateralized.

Note 3. Deposits and Investments - Continued

A. Deposits - Continued

Deposits in the custody of the State Treasurer, or in transit, totaled $6,467,884 at June 30, 2003. 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 categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

B. Investments

ISAC is required annually to adopt a comprehensive investment plan to invest the funds received through contract payments. The Commission approved the program's most recent revision to the investment plan on November 8, 2002. The comprehensive investment plan specifies the investment policies to be utilized by the Commission in its administration of the Illinois Prepaid Tuition Program. The Commission may direct that assets of those funds be invested in a manner which will provide the investment return and risk level consistent with the actuarial return requirements and risk levels and cash flow demands of the Fund. The investments should be in compliance with all applicable federal and state laws and other statutes governing the investment of Tuition Program resources.

ISAC has retained State Street Global Advisors, UBS Global Asset Management, Inc., William Blair & Company, Osprey Partners, Wasatch Advisors and added Richmond Capital Management and Jarislowsky Fraser as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. Approximately $110,500,000 of additional contract payments received has been invested as of the end of the fiscal year June 30, 2003. The program has retained Watson Wyatt Investment Consulting to evaluate the investment performance of the Program on a quarterly basis. Use of funds invested on behalf of the College Illinois! Program by the investment managers is restricted to the payout of tuition and fee benefits for program beneficiaries.

As of June 30, 2003, 55% of the funds were invested in Domestic Equities, 37% in Domestic Fixed Income, 5% in International Equity and 3% as Cash and Equivalents. Investments of the Fund are recorded at fair value based on quoted market prices.

The Illinois Prepaid Tuition Program investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Illinois Prepaid Tuition Program or its agent in the Illinois Prepaid Tuition Program's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Illinois Prepaid Tuition Program. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Illinois Prepaid Tuition Program's name.

Note 3. Deposits and Investments – Continued

B. Investments - Continued

	Carrying Amount / Fair Value			
	Category			
	1	2	3	Total
Domestic Equity	$ -	$ -	$ 188,459,611	$ 188,459,611
Domestic Fixed Income	-	-	130,188,544	130,188,544
International Equity	-	-	17,081,635	17,081,635
	$ -	$ -	$ 335,729,790	335,729,790
* The Illinois Funds				310,690
Total Investments				$ 336,040,480

* The Illinois Funds is a state-operated money market fund that is AAA rated by Standards & Poors rating agency and consists of government securities that are invested for 60 days or less. The fair value of the Illinois Funds is the same as the ownership interest in the fund. Illinois Funds is sponsored by the State Treasurer in accordance with State Law.

Note 4. Balances Due to Other State Funds

As of June 30, 2003, the Illinois Prepaid Tuition Program owed the Audit Fund $14,943 for the cost of the fiscal year 2002 audit.

Note 5. Compensated Absences Payable

Changes in compensated absences for the year ended June 30, 2003 were as follows:

	Balance July 1, 2002	Addtions	Deletions	Balance June 30, 2003	Amounts Due Within One Year
Compensated absences	$ 115,554	$ -	$ 41,125	$ 74,429	$ 7,443

Note 6. Tuition Payable

Tuition payable activity for the year ended June 30, 2003 is as follows:

Balance July 1, 2002	$ 236,639,856
Add:	
Contribution	114,504,001
Less:	
Return of contribution	(2,006,042)
Tuition payments	(1,832,139)
Balance June 30, 2003	$ 347,305,676
Reported as:	
Current	$ 9,236,395
Noncurrent	338,069,281
	$ 347,305,676

Note 7. Accretion Payable

Accretion payable is management's estimate of the present value of the estimated tuition payment to be made in excess of principal payments received and is expected to be financed from investments of prepaid tuition contracts. The accretion expense for fiscal year 2003 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.25% and is based on the average increase in tuition for Illinois colleges.

Average monthly tuition payable over the year	$ 269,441,967
Estimate of 8.25% increase of tuition payable	$ 22,228,962
Present value	$ 22,006,674
Beginning balance accretion payable as of July 1, 2002	$ 27,740,542
Accretion expense	22,006,674
Accretion payments	(137,976)
Ending balance accretion payable as of June 30, 2003	$ 49,609,240
Reported as:	
Current	$ 695,212
Noncurrent	48,914,028
	$ 49,609,240

Note 7. Accretion Payable - Continued

The accretion expense is calculated on a monthly basis on the balance in the tuition payable account. Accretion expense is reflected as an expense in the Statement of Revenues, Expenses and Changes in Net Assets and as an increase in the liability on the Statement of Net Assets.

Note 8. Pension Plan

Substantially all 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 2003 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2003. 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.

ISAC pays employer retirement contributions for the Illinois Prepaid Tuition Program based upon an actuarially determined percentage of its payroll. For fiscal year 2003, the employer contribution rate was 10.35%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including ISAC) with employees covered by the State Employees' and Teachers' Retirement Systems. Generally, this "pick-up" of employee retirement was part of the fiscal year 2003 budget process. The pick-up is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

Note 9. Post-employment Benefits

The State provides health, dental, and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State-sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to $5,000 per annuitant age 60 and older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2003.

Post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual fund or State agency is not available. Payments are made on a "pay-as-you-go" basis.

Note 10. Fund Deficits

College Illinois!, the State's section 529 prepaid tuition program, has taken action to reduce and ultimately eliminate its $54 million current fund deficit over time. The Illinois Student Assistance Commission (ISAC), administrator of the College Illinois! program, has added a premium to contract prices during each of the past three enrollment periods (2001-02 through 2003-04) to partially amortize the current actuarial deficit, and ISAC could continue these or similar actions in subsequent years until any deficit is fully amortized.

In terms of the program's actuarial deficit, actual investment performance is only one influencing factor. Expected future investment performance is another factor, as is the level of actual tuition and fee increases at Illinois public universities, as well as future expectations for tuition and fees increases at those institutions. A large proportion of the increase in the program's actuarial deficit during the past two years relates to increasing the Illinois public universities' tuition growth expectation to 10% (rather than 7%) for fiscal years 2003 and 2004 and lowering the program's long-range investment return assumption (by 25 basis points) to 7.75% per annum.

The Commission changed these assumptions a year ago when pricing 2002-2003 contracts, recognizing that the State's budget crisis likely will result in higher-than-expected public university tuition for at least two years and recognizing, as well, that several external shocks have adversely affected financial markets during the past several years. Actual investment results are expected to perform in line with these lower actuarial assumptions over the long term.

The number of contracts purchased annually and the level at which they are priced also impacts significantly upon the program's actuarial deficit or reserve. In fact, the approximately 7,500 contracts purchased in 2002-2003 contributed an estimated $7 million toward reducing the program's actuarial deficit.

ISAC is required by State statute to prepare a report describing the financial condition of the program. Included in this report shall be an actuarial evaluation on the financial viability of the program. An Actuary's Report on Soundness was prepared on College Illinois! Prepaid Tuition Program. According to the actuarial evaluation report, there is a deficit of ($76,206,124) in the program.

Note 10. Fund Deficits (Continued)

		Actuarial Evaluation
Net assets, before tuition/accretion payable	$	343,121,553
Actuarial present value of future payments expected to be made by contract purchasers		154,197,653
Subtotal		497,319,206
Actuarial present value of future payments expected to be made by the program		573,525,330
Actuarial deficit as of June 30, 2003	$	(76,206,124)

Actuarial projections indicate that the program's cash flow (contributions received less tuition benefits and expenses) is expected to remain positive through FY2005 even without reflecting the expected proceeds from contracts sold after June 30, 2003. Moreover, on this basis, total program assets are projected to cover benefit payments through FY2018.

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. 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, 2003.

Note 12. New Governmental Accounting Standard

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

Statement No. 40 – "Deposit and Investment Risk Disclosures, an amendment to certain provisions of GASB Statement No. 3," requires certain disclosures of investments that have fair values that are sensitive to changes in interest rates. Statement 40 will become effective for the period beginning July 1, 2004 Management has not yet completed their assessment of this statement, however, it is not expected to have a material effect on the overall financial statement presentation.

ACTUARIAL REPORT

COLLEGE ILLINOIS!

PREPAID TUITION PROGRAM

Actuary's Report on Soundness
June 30, 2003

October 2003

PricewaterhouseCoopers LLP
One North Wacker
Chicago, IL 60606
Telephone (312) 298-2000
Facsimile (813) 375-8836

October 31, 2003

Mr. Randy Erford, Director
College Illinois!
1755 Lake Cook Rd
Deerfield, IL 60015

Dear Mr. Erford:

PricewaterhouseCoopers LLP in conjunction with Richard M. Kaye & Associates has performed an actuarial valuation of the *College Illinois*! Prepaid Tuition Program as of June 30, 2003. The valuation compares the value of the assets of the program to the value of expected future tuition payments to beneficiaries. The following pages summarize the actuarial valuation of the trust fund as of June 30, 2003.

A comparison of the assets and liabilities of the trust fund shows that as of June 30, 2003 there is an actuarial deficit of $76,206,124.

The actuarial valuation was performed based upon generally accepted actuarial principles and tests were performed, as considered necessary, to ensure the accuracy of the results. We certify that the amounts presented in the following pages have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,

PricewaterhouseCoopers LLP

Steven A. Skov, ACAS, MAAA
Principal Consultant, PricewaterhouseCoopers LLP

Richard M. Kaye, FSA, CPA
Richard M. Kaye & Associates
Consultant to PricewaterhouseCoopers LLP

Table of Contents

Introduction

Introduction

Purpose

College Illinois! Prepaid Tuition Program (CIPTP) has engaged PricewaterhouseCoopers LLP (PwC) and Richard M. Kaye & Associates to provide a determination of the soundness of the Illinois Prepaid College Trust Fund (Trust Fund) as of June 30, 2003. This soundness measure results in a point estimate of the actuarial reserve associated with the Trust Fund as of June 30, 2003.

Reliance Upon CIPTP Data

The data used in this analysis were prepared by and are the responsibility of the management of CIPTP. At the time of this review, the data were unaudited.

Limitations

The projected benefits, refunds, expenses, investment income, contract payments, and resulting actuarial reserve shown in this report are point estimates. As estimates, these values are subject to variability. The possibility of this variability arises from the fact that not all factors affecting the projections have taken place and cannot be evaluated with absolute certainty. We have, however, used methods of estimation that we believe produce reasonable results given current information. No guarantee should be inferred that cash flows will develop as shown in this report.

Executive Summary

Executive Summary

Valuation Results
As of June 30, 2003, the trust has an actuarial deficit of about $76.2 million. (the expected liabilities of the trust exceed the value of assets, including the value of future payments by contract purchasers, by that amount). The deficit decreased from last year's amount of about $81.6 million primarily due to a) tuition/fee increases being less than assumed; b) prices of contracts sold in the latest enrollment included a premium to help amortize the deficit; and c) a change in assumptions related mainly to cancellations and marketing expenses. By assuming there will be cancellations (which was not assumed last year), the gain relating to a smaller payment than expected is recognized. With respect to expenses, we have assumed marketing expenses are related only to future contracts. The effect of these factors was $4.6 million, $7.3 million and $7.4 million respectively. These gains were offset somewhat by a loss of $10.7 million in expected investment income. To determine the loss from investments, the investment return was calculated using the dollar weighted method, which method we believe is most appropriate in preparing an actuarial analysis. The deficit is based upon a number of assumptions and is therefore subject to uncertainty. Page 19 of the report shows the financial status of the trust based upon alternative scenarios. To be conservative, the Commission has increased prices for the latest three enrollment years to partially amortize the deficit. Past actions to amortize the actuarial deficit have had a positive impact on the soundness. The program's current funded ratio of approximately 87.0% is a significant improvement over the 81.2% funded ratio as of June 30, 2002. Also, the cash flow projection shown on page 9 and Appendix C indicate that the program's cash flow (monthly payments less tuition benefits and expenses, excluding investment income) is expected to remain positive through fiscal year 2005, even without reflecting the expected contracts sold after June 30, 2003. Moreover, on this basis, total program assets are projected to cover expected benefit payments through fiscal year 2018.

Contracts in Force
As of June 30, 2003, the total contracts in force (net of cancellations) for CIPTP was 32,524. The contracts sold for four years at a university accounted for approximately 44% of all contract sales. Contracts for university enrollment represents approximately 86% of sales. Contracts for community college enrollment and combined community college and university enrollment account for approximately 14% of sales. Enrollment data is summarized in Appendix D.

Weighted Average Tuition
The Weighted Average Tuition (WAT) is the average of tuition and fees for public in-state schools weighted in proportion to the number of full-time equivalent undergraduate students attending such schools. The 2003-2004 Illinois public university WAT is $5,785, an increase of 9.2% over the 2002-2003 WAT. The 2003-2004 Illinois community college WAT is $1,935, an increase of 5.75% over the 2002-2003 WAT.

Actuarial Assumptions
The major actuarial assumptions are chosen by the Commission. Specifically, for public universities, tuition and fees are assumed to increase at 10.0% from 2003-2004 to 2004-2005 and then 7.0% thereafter. The assumption for community colleges is 6.5%. Investments are expected to earn 7.75% per annum, and new contracts are assumed to be 6,000 in each subsequent enrollment. The actuarial assumptions and methods are fully described in the following section of this report.

Funded Status

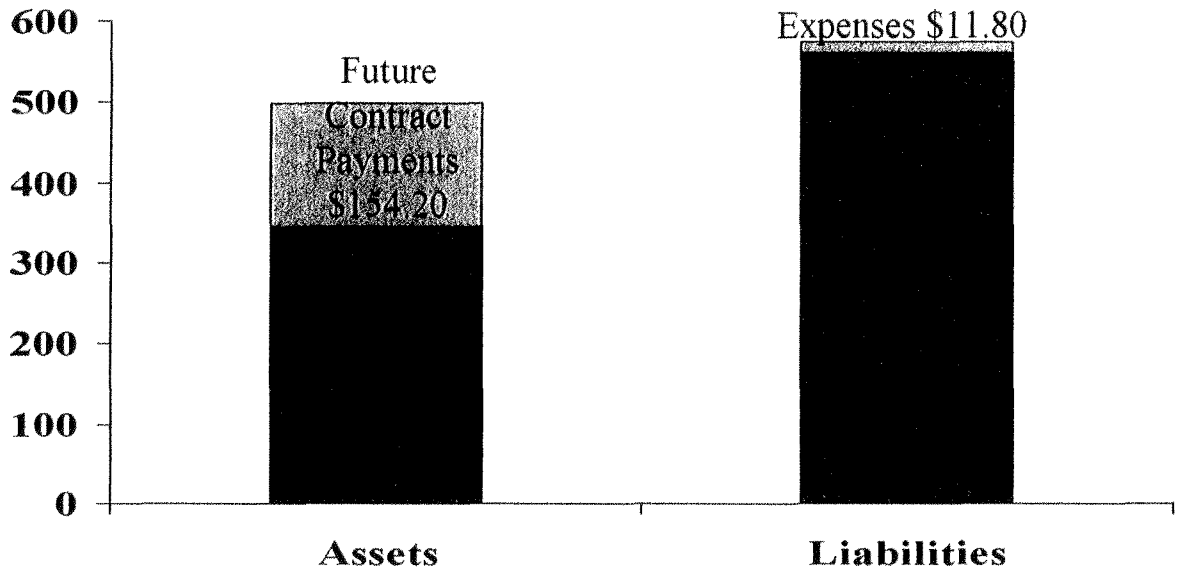
The value of expected liabilities exceeds the assets as of June 30, 2003 (including the value of future payments by contract purchasers) of the trust fund by $76,206,124. The funded ratio, assets divided by liabilities, is approximately 87.0%. The assumptions used to perform the actuarial valuation of the fund are described on pages 15 and 16 of this report. The primary assumptions are:

Tuition Increases: 10.0% for 2004-2005 and 7.0% per annum thereafter for public universities and 6.5% per annum for community colleges

New contracts: 6,000 in future enrollments

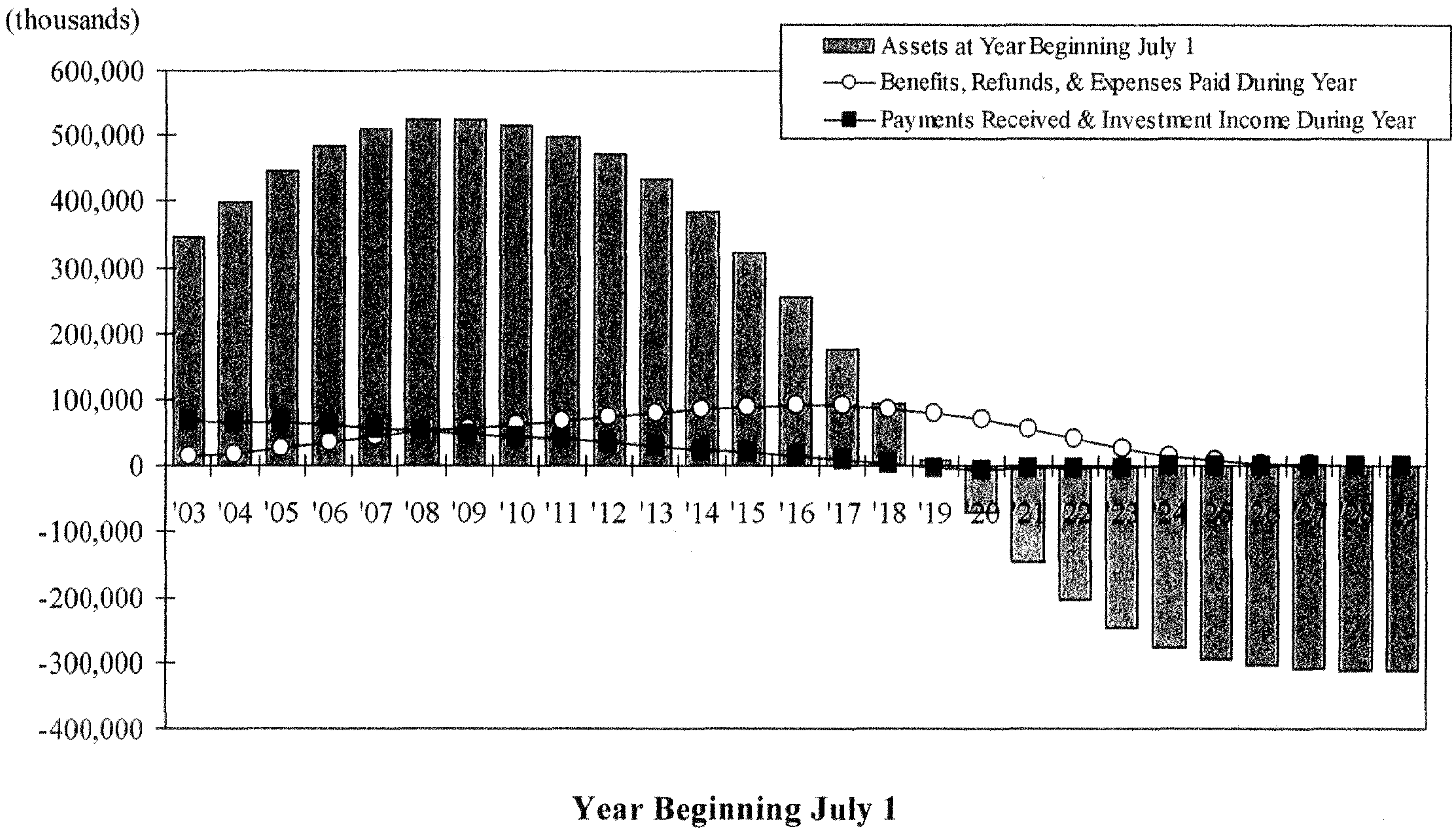
Investment Return: 7.75% per annum

Total: $497.32 million **Total: $573.53 million**



Cash Flow Projection

The expected income and disbursements of the Trust Fund, based on the assumptions used in the actuarial valuation and the current group of contract beneficiaries, are shown below. These amounts are cash amounts, not present value amounts.



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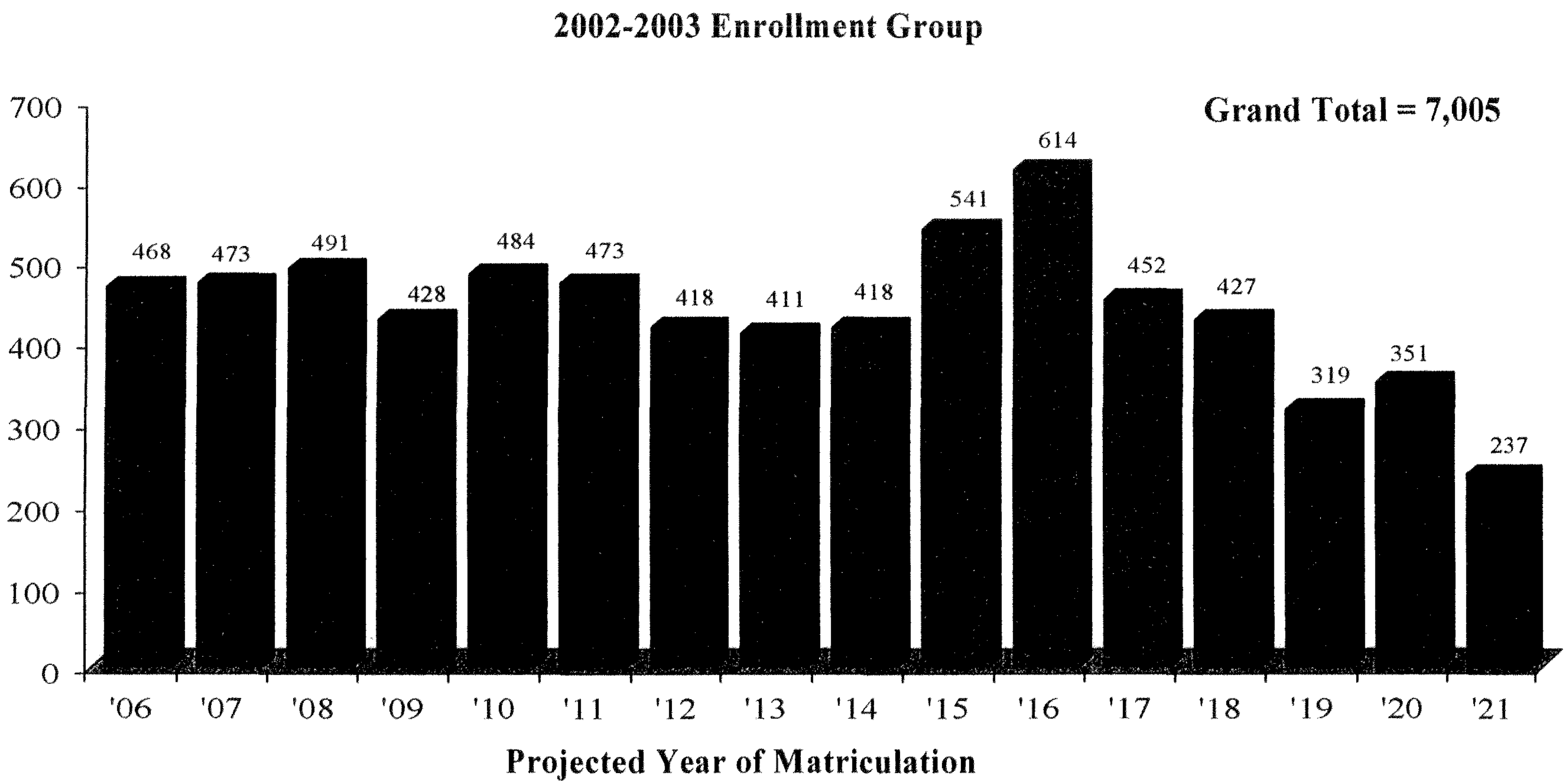
Contracts in Force for the 2002-2003 Enrollment Group

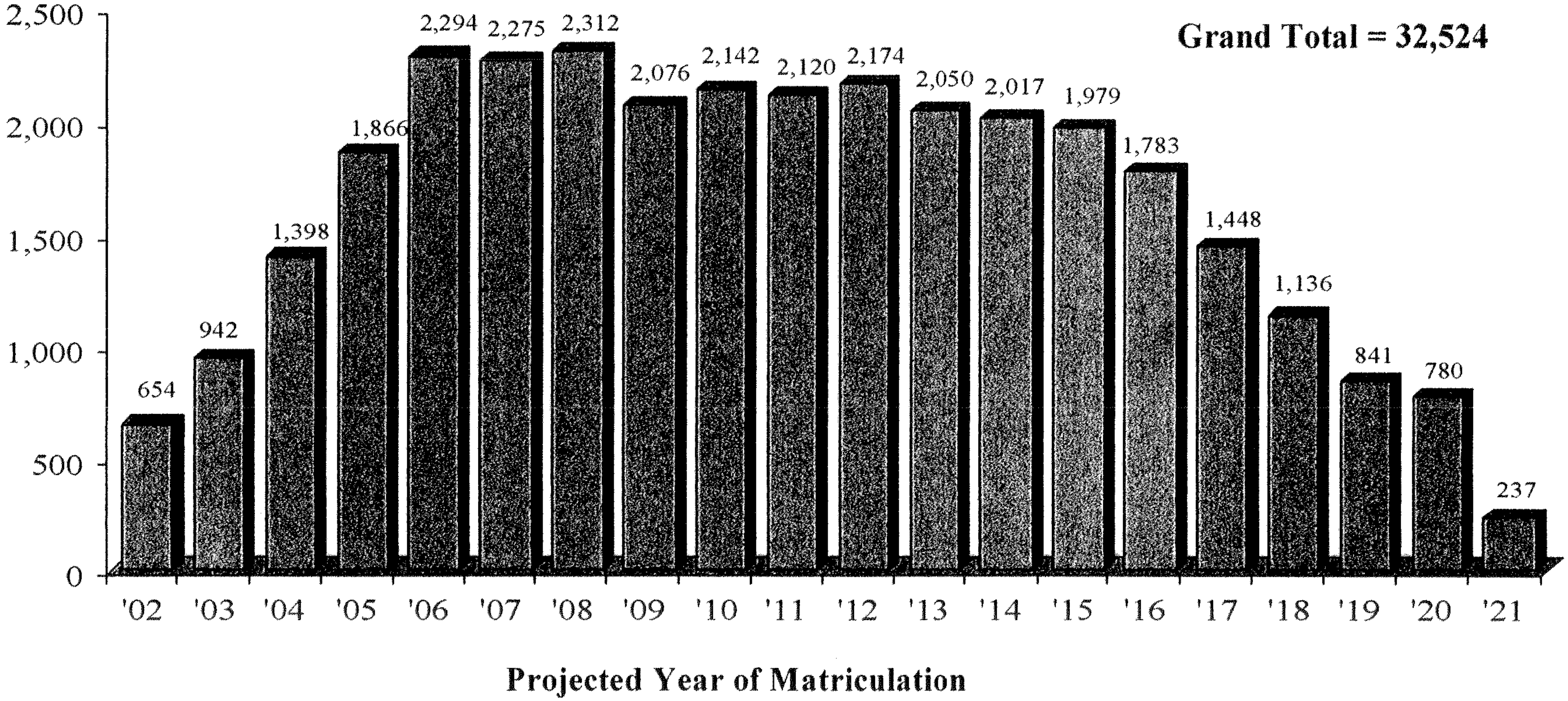
The chart below illustrates the total number of active contracts by expected year of community college or university matriculation for the 2002-2003 enrollment group.



Contracts in Force for All Enrollment Groups

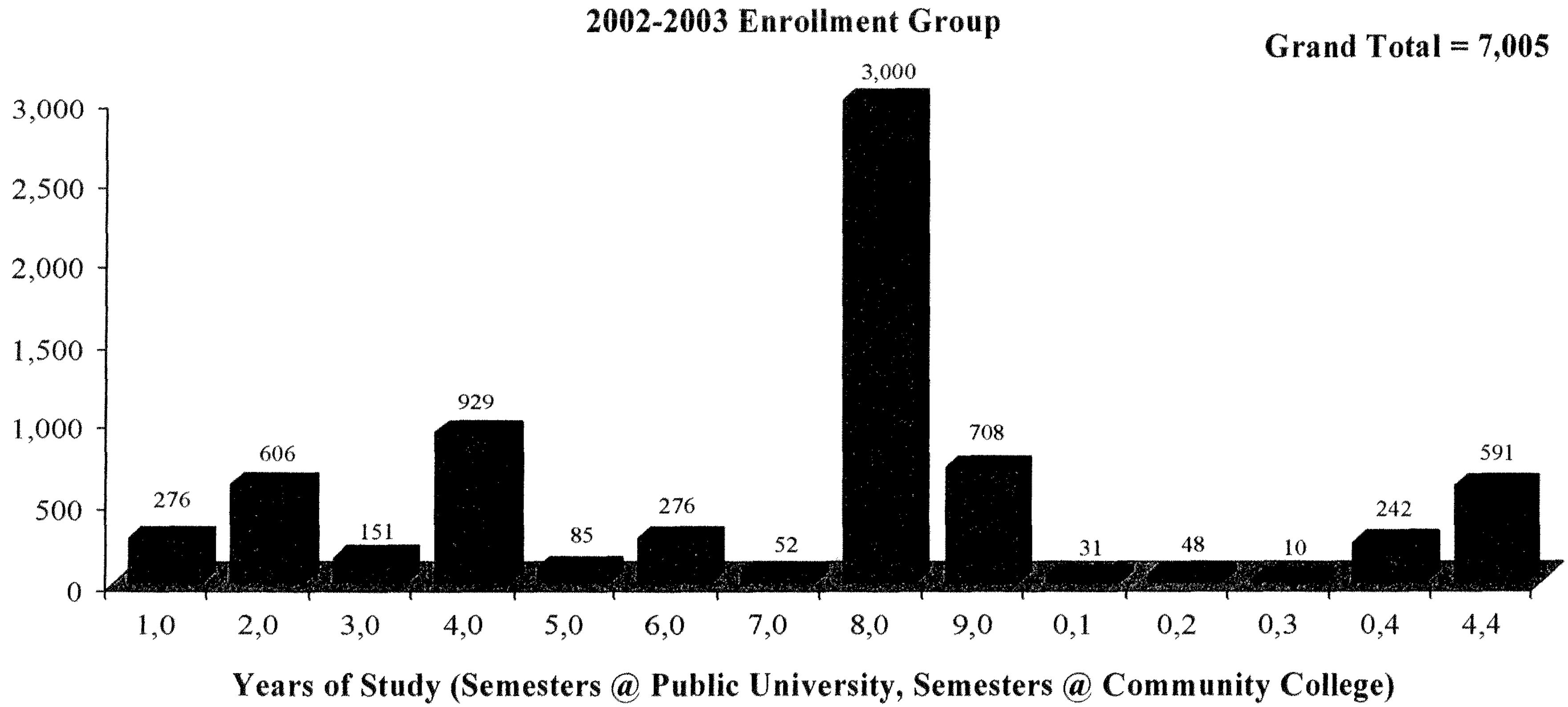
The chart below illustrates the total number of active contracts by expected year of community college or university matriculation for all enrollment groups combined.

1998-1999, 1999-2000, 2000-2001, 2001-2002, 2002-2003
Enrollment Groups Combined



Type of Contract Sold to the 2002-2003 Enrollment Group

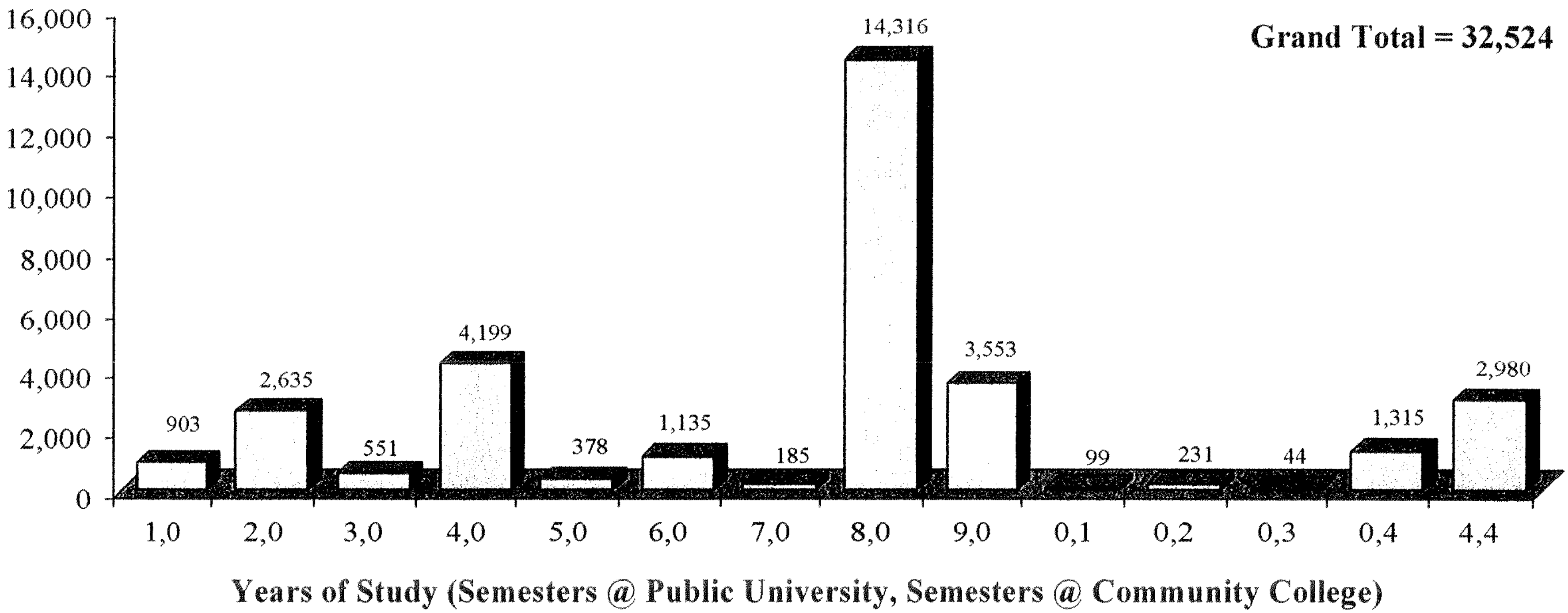
Contracts can be purchased for a variety of plans. The chart below illustrates the total number of active contracts from the 2002-2003 enrollment period by type of plan.



Type of Contract Sold to All Enrollment Groups

Contracts can be purchased for a variety of plans. The chart below illustrates the total number of active contracts from all enrollment periods combined by type of plan.

1998-1999, 1999-2000, 2000-2001, 2001-2002, 2002-2003
Enrollment Groups Combined



Valuation Assumptions and Methods

Actuarial Assumptions

The assumptions used in the actuarial valuation of the Trust Fund are described below. Certain assumptions, as identified, were based on program management recommendations.

Tuition and Fee Increases. The Weighted Average Tuition (WAT) for universities is projected to increase 10.0% for the first year and 7.0% thereafter and the WAT for community colleges is projected to increase by 6.5% each year. This assumption is based on historical data as selected by the CIPTP management.

Investment Return. The actuarial valuation of the Trust Fund was determined using an assumed 7.75% gross rate of return on investments as recommended by the Commission and their investment advisors. We further assume the Trust Fund is exempt from federal income tax. It is important to highlight the sensitivity of this analysis to this assumption. As pointed out subsequently, a quarter point shortfall in such a goal would place the fund in a more extreme deficit position. Additionally, the nature of this type of program involves payment of benefits at fixed future points in time, subjecting the fund to greater than average investment risk due to short-term fluctuations and in matching investment maturities with expected outlays.

Administrative Expenses. Administrative expenses of the program are assumed to be paid through a combination of investment earnings and fees assessed on purchasers. It was assumed that annual administrative expenses will increase each year at the rate of 3.5% per annum and that all expenses would be spread over current and future contract sales.

Enrollment of CIPTP Beneficiaries. It is assumed that beneficiaries will attend college full time commencing with their expected matriculation date (the Fall following high school graduation). Contract beneficiaries are assumed on average to attend more expensive schools than indicated by the headcount information that was used to determine 2003-2004 WAT. Accordingly, we utilize a bias load to recognize this bias toward enrollment at more expensive schools.

Bias Load. The liabilities have been loaded 4.7% to reflect the possibility that beneficiaries of a *College Illinois*! contract who attend Illinois public institutions will attend relatively more expensive schools than students who attend Illinois public institutions without the benefit of a *College Illinois*! contract.

Future Contract Sales. It is assumed that 6,000 contracts will be sold during the 2003-2004 enrollment period and all subsequent enrollment periods. These assumptions are based on CIPTP management recommendations. This is another area that has a notable impact on the actuarial reserve as described subsequently in the Sensitivity Testing section.

Actuarial Assumptions (continued)

Cancellations, Terminations and Refunds. It is assumed that 8% of contracts sold will not be utilized at an Illinois public post-secondary institution. These contracts are referred to as "non-public use" contracts. This rate is based on similar prepaid tuition programs.

Deaths and Disabilities. Mortality rates for beneficiaries are assumed to follow the 1990 U.S. Life Tables.

Utilization of Benefits. We assume beneficiaries use the benefits as described by the CIPTP Master Agreement according to the following schedule:

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

Actuarial Methods

The actuarial valuation of the Trust Fund is based on projections of the tuition and mandatory fee amounts expected to be paid from the Trust Fund to community colleges and universities, and the expected amounts to be paid into the Trust Fund by contract purchasers. The actuarial valuation is based on the data summarized below furnished by the CIPTP office.

CIPTP Beneficiaries (Appendix D). The future payments expected to be made to and from the Trust Fund have been derived based on the number of contracts shown in Appendix D.

Weighted Average Tuition: Four Year Universities. The Weighted Average Tuition (WAT) for four year public universities in Illinois is the average of tuition and mandatory fees of the four year universities weighted by the full-time undergraduate enrollment headcount at each university. The WAT for public universities is $5,785 for 2003-2004.

Weighted Average Tuition: Community Colleges. The Weighted Average Tuition (WAT) for community colleges in Illinois is the average of tuition and mandatory fees of the community colleges weighted by the full-time enrollment headcount at each community college. The WAT for community colleges is $1,935 for 2003-2004.

Sensitivity Testing

Sensitivity Testing

The Trust Fund operates with risk and uncertainty. For example, while it is assumed that the assets of the fund will earn 7.75% each year through the life of the contracts, we also expect actual returns to vary from year to year. To accept the reasonableness of the basis for the measurement of the soundness, it is useful to know how the status of the fund may be affected by the vagaries of the markets and other factors. Accordingly, we have rerun the valuation under alternative scenarios for future investment income, tuition increases and new entrants and present results under the following alternative scenarios:

1. Tuition increases are 100 basis points lower in each future year than assumed in the measurement of soundness.
2. Tuition increases are 50 basis points lower in each future year than assumed in the measurement of soundness.
3. The investment return is 100 basis points higher in each future year than assumed in the measurement of soundness.
4. The investment return is 100 basis points lower in each future year than assumed in the measurement of soundness.
5. Tuition increases are 50 basis points lower and the investment return is 50 basis points higher in each future year than assumed in the measurement of soundness.
6. Tuition increases are 50 basis points lower and the investment return is 50 basis points lower in each future year than assumed in the measurement of soundness.
7. The number of contracts sold in the future is 5,500 a year in each future year.
8. The number of contracts sold in the future is 7,500 a year in each future year.
9. The number of contracts sold in the future is 5,500 a year and tuition increases are 100 basis points lower in each future year than assumed in the measurement of soundness.
10. The number of contracts sold in the future is 6,000 a year for the next three years and 4,500 a year thereafter.

The actuarial reserve that would exist as of June 30, 2003 under each of these scenarios is presented in the following table:

Scenario	Indicated Actuarial Reserve as of 6/30/2003	Scenario	Indicated Actuarial Reserve as of 6/30/2003
1	**($28,972,415)**	6	**($75,408,571)**
2	**($51,972,045)**	7	**($76,699,850)**
3	**($31,016,556)**	8	**($74,974,787)**
4	**($127,712,444)**	9	**($29,462,094)**
5	**($30,012,308)**	10	**($76,391,183)**

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Plan Provisions

Plan Provisions

The plan covers the tuition and mandatory fees at an Illinois public college or university or community college depending upon the type of contract purchased based on the in-state (or in-district) undergraduate rate for a full-time student. Mandatory fees are those fees required as a condition of enrollment for all students attending the particular institution. The plan contract will not pay for optional fees nor will it pay for room, board, travel, special fees for specific courses, books, supplies, equipment, or other merchandise, even if these charges are required of all students. The purchaser is guaranteed that benefits received will be no less than the price paid.

Payment Options: Available options include a one-time lump sum payment, 60-month, and 120-month installment options, and 5-year and 10-year annual payment options. There are also installment plans with down payment options.

Private or Out-of-State Institutions: If the contract is utilized to attend a private or out- of- state institution, then *College Illinois*! will pay an amount based upon the weighted average tuition and mandatory fees at Illinois public universities or community colleges depending on the type of contract purchased. Alternatively, benefits can be transferred to a member of the family or a purchaser can choose to receive a refund payment equal to all contributions, plus two percent interest, less applicable cancellation fees.

Scholarship: When a qualified beneficiary is awarded a grant or scholarship that duplicates the benefits covered by a prepaid tuition contract, the moneys paid for the purchase of the contract will be returned to the the purchaser upon request in semester installments. If the qualified beneficiary is enrolled at an 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. If the qualified beneficiary is enrolled at an 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 plan purchased under the contract, less any benefits used to pay registration fees not covered by the scholarship and any applicable fees.

Not Attending an Institution of Higher Education: Benefits can be transferred to a member of the "family". Purchasers can also choose to postpone the beneficiary's use of contract benefits to a later time or receive a refund payment equal to all contributions, plus two percent interest, less applicable cancellation fees.

Death or Disability: In the event of death or total disability of the qualified beneficiary, moneys paid for the purchase of the contract will be returned to the purchaser with all accrued earnings.

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

Appendices

Funded Status

Appendix A

a. Market Value of Assets	$343,121,553
b. Actuarial present value of future payments expected to be made to the fund by contract purchasers	$154,197,653
c. Subtotal (a + b)	$497,319,206
d. Actuarial present value of future payments expected to be made from the trust fund to universities for tuition and mandatory fees, and for administrative expenses attributable to the current enrollment group	$573,525,330
e. Reserve as of June 30, 2003 (c - d)	$(76,206,124)

Trust Assets

Appendix B

Summary of Assets	Market Value
a) Cash deposited with banks	$7,837,235
b) Wasatch Advisors	$34,948,640
c) SSgA S&P 500 Index Fund	$52,864,376
d) Osprey Partners	$56,013,516
e) William Blair	$44,633,082
f) Jarislowsky Fraser	$17,081,634
g) UBS Global Asset Management- Core	$79,536,141
h) Richmond Capital Management- Core	$50,652,401
i) Accounts Payable and Accrued Liabilities	$445,472
Total Assets as of June 30, 2003 (a)+(b)+(c)+(d)+(e)+(f)+(g)+(h)-(i)	**$ 343,121,553**

The above information was based on unaudited financial statements provided by CIPTP management.

Cash Flow Projection

Appendix C

Year Beginning 7/1/XXXX	Assets at Beginning of Year	Payments Out of Trust Fund	Payments Into Trust Fund	Investment Income at End of Year
2003	343,121,553	14,598,437	41,501,953	27,377,489
2004	397,402,558	17,936,573	33,958,866	31,116,181
2005	444,541,032	25,750,386	29,522,830	34,176,471
2006	482,489,947	35,316,889	25,027,920	36,427,169
2007	508,628,147	43,717,874	18,907,515	37,764,005
2008	521,581,793	51,813,470	13,877,371	38,137,079
2009	521,782,773	57,222,269	10,752,795	37,740,166
2010	513,053,465	62,862,984	8,373,532	36,666,904
2011	495,230,917	67,832,725	6,048,262	34,927,400
2012	468,373,854	73,896,347	2,812,790	32,393,718
2013	429,684,015	79,405,115	0	28,989,192
2014	379,268,092	84,416,040	0	24,809,890
2015	319,661,942	89,408,002	0	19,919,373
2016	250,173,313	92,046,813	0	14,390,729
2017	172,517,229	90,749,274	0	8,442,833
2018	90,210,788	86,263,450	0	2,307,642
2019	6,254,980	78,181,848	0	(3,760,140)
2020	(75,687,008)	70,855,262	0	(3,847,102)
2021	(150,389,372)	56,656,159	0	(3,076,159)
2022	(210,121,690)	40,835,260	0	(2,217,160)
2023	(253,174,109)	27,596,723	0	(1,498,370)
2024	(282,269,203)	16,131,987	0	(875,890)
2025	(299,277,080)	8,528,690	0	(463,067)
2026	(308,268,837)	4,659,044	0	(252,964)
2027	(313,180,845)	2,356,640	0	(127,954)
2028	(315,665,440)	1,046,391	0	(56,814)
2029	(316,768,644)	236,197	0	0

CIPTP Beneficiaries (All Enrollment Groups)

Appendix D

Projected Enrollment Year	Plan Type (Semesters @ Public University, @ Community College)														Total Enrollment by Year	Percent of Total
	(1,0)	(2,0)	(3,0)	(4,0)	(5,0)	(6,0)	(7,0)	(8,0)	(9,0)	(0,1)	(0,2)	(0,3)	(0,4)	(4,4)		
2002	17	85	18	164	22	76	20	147	37	0	9	3	20	36	654	**2.0%**
2003	26	90	20	167	25	75	7	319	86	1	17	2	39	68	942	**2.9%**
2004	34	136	23	266	23	87	13	514	113	2	13	6	46	122	1,398	**4.3%**
2005	34	211	35	332	34	129	23	693	137	6	19	3	76	134	1,866	**5.7%**
2006	79	249	47	376	41	131	15	836	211	10	23	4	90	182	2,294	**7.1%**
2007	53	239	40	352	27	105	11	913	218	3	10	3	106	195	2,275	**7.0%**
2008	63	204	43	331	27	77	15	1,017	188	5	20	1	99	222	2,312	**7.1%**
2009	61	162	33	291	24	87	6	879	219	3	13	0	107	191	2,076	**6.4%**
2010	57	159	45	260	22	66	11	936	240	7	13	4	98	224	2,142	**6.6%**
2011	60	139	36	248	17	48	6	988	238	4	9	2	83	242	2,120	**6.5%**
2012	57	137	46	227	22	46	8	1,062	256	5	10	2	90	206	2,174	**6.7%**
2013	60	138	40	223	17	47	11	939	248	6	12	5	91	213	2,050	**6.3%**
2014	56	140	32	210	16	31	6	987	235	7	10	2	84	201	2,017	**6.2%**
2015	55	138	22	197	14	34	7	982	244	7	13	3	83	180	1,979	**6.1%**
2016	47	134	29	182	15	30	7	864	229	14	10	1	65	156	1,783	**5.5%**
2017	56	101	10	116	8	22	9	732	191	4	7	0	56	136	1,448	**4.5%**
2018	37	73	11	104	6	22	5	578	155	8	2	1	33	101	1,136	**3.5%**
2019	18	50	9	75	5	9	2	410	137	3	12	1	20	90	841	**2.6%**
2020	28	37	9	60	10	10	3	395	132	3	6	1	24	62	780	**2.4%**
2021	5	13	3	18	3	3	0	125	39	1	3	0	5	19	237	**0.7%**
Total	**903**	**2,635**	**551**	**4,199**	**378**	**1,135**	**185**	**14,316**	**3,553**	**99**	**231**	**44**	**1,315**	**2,980**	**32,524**	
Percent	**2.8%**	**8.1%**	**1.7%**	**12.9%**	**1.2%**	**3.5%**	**0.6%**	**44.0%**	**10.9%**	**0.3%**	**0.7%**	**0.1%**	**4.0%**	**9.2%**		

PRICEWATERHOUSECOOPERS