COLLEGE ILLINOIS!

529 PREPAID TUITION PROGRAM

Annual Report
FISCAL YEAR 2008

Illinois Student Assistance Commission

Illinois
Student
Assistance
Commission

February 18, 2009

The Honorable Pat Quinn, Governor of the State of Illinois
The Honorable John Cullerton, 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 2008 Actuarial Valuation Report for the *College Illinois!*[SM] Prepaid Tuition Program (College Illinois!), the state's Section 529 Prepaid Tuition Program, as a portion of the 2008 Annual Report for *College Illinois!*, which is required by the Illinois Prepaid Tuition Act 110 ILCS 979/30(d) to be submitted by March 1, 2009. As soon as the final audit is issued by the Auditor General, the remainder of the 2008 Annual Report for *College Illinois!* will be submitted to you.

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 this report. As of June 30, 2008, the actuarial value of expected liabilities exceeds assets (including the value of future payments by contract purchasers) by $273.2 million, resulting in a funded ratio of approximately 81.3 percent. The Annual Report also indicates that program assets are expected to cover all benefit payments through at least the year 2021, even assuming that no additional contracts are sold subsequent to June 30, 2008. These results are indicative of the financial solidity of *College Illinois!*.

For the 2008 fiscal year, the program's actuarial determined assets were less than liabilities because the dollar impact of positive factors (e.g., price premiums and new contracts sold) was lower than the dollar impact of negative factors (such as tuition and fee increases at public universities, performance of portfolio investments, and changes to underlying assumptions). The Commission, however, has been consistent each year in setting realistic investment return and tuition and fee inflation assumptions. In addition, the Commission also continued its practice of setting contract prices for 2008-2009 at a level that will over time amortize the actuarial deficit. A new pricing structure for the prepaid plan was also introduced in 2008 to provide more affordability options to purchasers and residents of Illinois in managing through these economic times. These actions and the new initiatives, combined with our marketing efforts, should have a positive impact upon the program's continued viability and financial soundness.

The 2008 Annual Report for *College Illinois!* will reference the program's tenth consecutive year of operation, including the program's tenth enrollment period – from October 27, 2007 through April 29, 2008 – during which more than 4,500 *College Illinois!* contracts were purchased. Once the tenth annual enrollment period was completed, *College Illinois!* prepaid tuition contracts in force on June 30, 2008 totaled more than 53,127. In fact, *College Illinois!* participants have committed more than $1.4 billion toward the purchase of prepaid tuition contracts, representing more than 190,000 years of college either already prepaid or in the process of being prepaid through the program. We are pleased that *College*

Illinois! continues to be popular with families in Illinois facing the financial burden of funding a future college student's education. The program has increased public awareness of the rising costs of college and the importance of establishing and funding a financial plan. *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,

Andrew A. Davis
Executive Director
Illinois Student Assistance Commission

Frank Bello
Chief Investment Officer
College Illinois!

Illinois
Student
Assistance
Commission

April 15, 2009

The Honorable Pat Quinn, Governor of the State of Illinois
The Honorable John Cullerton, 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 update the fiscal year 2008 Annual Report for the *College Illinois!*[SM] Prepaid Tuition Program (College Illinois!), the state's Section 529 Prepaid Tuition Program submitted to you on February 18, 2009, as the final audit has been issued by the Auditor General.

The 2008 Annual Report for *College Illinois!* includes the Financial Statements for year ended June 30, 2008 and the Actuarial Report as of June 30, 2008.

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

Sincerely,

Andrew A. Davis
Executive Director
Illinois Student Assistance Commission

Frank Bello
Chief Investment Officer
College Illinois!

1755 Lake Cook Road
Deerfield, IL 60015-5209

500 West Monroe
Springfield, IL 62704-1876

100 West Randolph Suite 3-200
Chicago, IL 60601-3219

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collegezone.com

The Illinois Student Assistance Commission *

Donald J. McNeil, Chairman
Partner, Barnes & Thornburg LLP, of Chicago

Sharon Taylor Alpi
Coleman Foundation Professor in Entrepreneurship, Tabor School of Business, Millikin University, of Decatur

Dr. Lynda Andre
Assistant Superintendent of Curriculum, Edwardsville School District, of Edwardsville

Warren "Bo" Daniels, Jr.
Managing Director, Loop Capital Markets LLC, of Chicago

Dr. Mary Ann Louderback
Former Member, Illinois Educational Labor Relations Board, of Cary

David Vaught
Attorney and Financial Advisor, Mitchell, Vaught and Taylor, Inc., of Naperville

Hugh E. Van Voorst
Owner, Van Voorst Lumber Company, of Union Hill

Kelvin Wing
Student Commissioner, of Chicago

*Commission Membership as of June 30, 2008

College Illinois! Investment Advisory Panel *

George Clam
President, Oak Brook Bank, of Woodridge

Susan Keegan
D'Amato, Keegan & Douglas, of Chicago

Edward Madden
President, Heritage Bank of Schaumburg, of Chicago

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

Ingrid Stafford
Associate Vice President for Finance and Controller of Northwestern University, of Evanston

*Panel Membership as of June 30, 2008

PROGRAM OVERVIEW

College Illinois![SM], 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 over 50 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, ten or fifteen 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 both federal and state income tax. In addition, contributions to *College Illinois!* up to a maximum of $10,000 per individual or $20,000 per couple) are deductible from Illinois taxable income.

During FY2008, *College Illinois!* completed its tenth enrollment period. As of June 30, 2008 there were 53,127 contracts in force. The value of all contracts purchased now tops the $1 billion mark.

College Illinois! can protect purchasers against tuition and fee increases that historically have averaged 8.0 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

McGladrey & Pullen
Certified Public Accountants

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Financial Statements
For the Year Ended June 30, 2008

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

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Table of Contents

Agency Officials

Executive Director	Andrew Davis
Chief Financial Officer	John Sinsheimer
General Counsel	Kim Barker Lee

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015-5209

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified matters involving the Program's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings- *Government Auditing Standards* on page 31 of this report, as finding 08-1 (Securities Lending Program Not Accounted for Properly). The auditors also consider finding 08-1 to be a material weakness.

Exit Conference

The findings and recommendations appearing in this report were discussed with Program personnel at an exit conference on February 4, 2009. Attending were:

Illinois Student Assistance Commission	
Frank Berauer	IDAPP Director, Accounting and Finance
Anne Hunter	Financial Reporting Manager
John Sinsheimer	Chief Financial Officer
Shoba Nandhan	ISAC Director, Budget and Finance
McGladrey & Pullen, LLP	
Linda Abernethy	Partner
Rolake Adedara	Manager
Office of the Auditor General	
Jon Fox	Audit Manager

The responses to the recommendations were provided by Shoba Nandhan in a letter dated February 17, 2009.

McGladrey & Pullen

Certified Public Accountants

Independent Auditors' Report

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

Mr. Donald J. McNeil
Honorable Chairman of the Governing Board
Illinois Student Assistance Commission

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, 2008, 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 2, the financial statements present only the Illinois Prepaid Tuition Program, a fund of the State of Illinois, Illinois Student Assistance Commission and do not purport to, and do not present fairly the financial position of the State of Illinois or the Student Assistance Commission as of June 30, 2008, 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, 2008, 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.

As discussed more fully in Note 13, due to market conditions, the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission experienced a decline in the fair market value of investments subsequent to June 30, 2008. The information presented in Note 13 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The State of Illinois, Illinois Student Assistance Commission has not presented a management's discussion and analysis 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 March 27, 2009 on our consideration of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Prepaid Tuition Program and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 27, 2009

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Net Assets
June 30, 2008

Assets	
Current	
Cash and cash equivalents	$ 5,997,576
Receivables:	
Accrued interest on investments	31,281
Securities lending collateral	167,529,074
Total current assets	173,557,931
Noncurrent	
Investments	987,590,322
Total assets	1,161,148,253
Liabilities	
Current	
Accounts payable and accrued expenses	860,329
Tuition payable	45,625,000
Accreted tuition payable	4,375,000
Due to other State funds	3,563
Compensated absences	7,943
Securities lending collateral obligation	170,776,490
Total current liabilities	221,648,325
Noncurrent	
Tuition payable	782,474,799
Accreted tuition payable	269,930,635
Compensated absences	71,490
Total noncurrent liabilities	1,052,476,924
Total liabilities	1,274,125,249
Net assets, unrestricted (deficit)	$ (112,976,996)

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, 2008

Operating revenues:		
Loss from investment securities	$	(78,490,552)
Interest revenue - other		354,487
Application and other fees		2,396,058
Net operating revenues		(75,740,007)
Operating expenses:		
Salaries and employee benefits		841,816
Accreted tuition expenses		65,872,407
Management and professional services		3,871,876
Investment management fees		2,972,342
Total operating expenses		73,558,441
Operating loss		(149,298,448)
Net assets, July 1, 2007		36,321,452
Net assets (deficit), June 30, 2008	$	(112,976,996)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows
Year Ended June 30, 2008

Cash flows from operating activities	
Cash receipts from prepaid tuition contracts	$ 125,670,641
Cash received from application and other fees	2,396,057
Cash paid for refund of contracts	(6,915,216)
Cash paid for tuition and accretion	(38,423,123)
Cash payments to suppliers for goods and services	(4,048,743)
Cash payments to employees for services	(854,841)
Net cash provided by operating activities	77,824,775
Cash flows from investing activities	
Purchase of investment securities	(476,451,003)
Sales and maturities of investment securities	374,050,525
Securities lending cash collateral received	170,776,490
Securities lending cash collateral invested	(170,776,490)
Interest and dividends on investments	26,278,059
Cash paid to investment managers	(2,972,342)
Net cash used in investing activities	(79,094,761)
Net decrease in cash and cash equivalents	(1,269,986)
Cash and cash equivalents, July 1, 2007	7,267,562
Cash and cash equivalents, June 30, 2008	$ 5,997,576

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows (Continued)
Year Ended June 30, 2008

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

Operating loss	$ (149,298,448)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Investment loss and other interest income	78,136,065
Investment management fees	2,972,342
Accreted tuition expense	65,872,407
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(122,474)
Due to other State funds	(54,393)
Tuition payable	80,332,302
Compensated absences	(13,026)
Total adjustments	227,123,223
Net cash provided by operating activities	$ 77,824,775

Supplemental disclosure of noncash investing transactions:	
Net depreciation in fair value of investments	$ (104,391,031)

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 significantly 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.

The first contracts were offered for sale in 1998. After nine enrollment periods, as of June 30, 2008, the Illinois Prepaid Tuition Program had 53,127 contracts in force with a purchased value of $1,336 million. As of June 30, 2008, the fund has received cash collections of $944,615,770.

The Illinois Prepaid Tuition Program Fund is a non-appropriated fund.

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, 2008, 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 revenues and 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 in income from investment securities in the Statement of Revenues, Expenses and Changes in 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/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

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

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.

H. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 53,127 contracts held by the fund as of June 30, 2008.

Note 2. Summary of Significant Accounting Policies - Continued

I. Net Assets, Unrestricted (Deficit)

The program does not have any net assets that are restricted by outside parties or by law or through constitutional provisions or enabling legislation. As a result, all net assets are categorized as unrestricted.

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 Illinois Prepaid Tuition Program to be financially infeasible, the Commission may discontinue, prospectively, the operation of the Illinois Prepaid Tuition 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 Illinois Prepaid Tuition Program is discontinued.

Note 3. Deposits and Investments

A. Investment Authority and Legal Compliance

The State Treasury is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. The investment authority for the State Treasury is found in the State Treasurer Act (15 ILCS 505), which authorizes the State of Illinois primary government and its component units to engage in a wide variety of investment activities. For further details please refer to the State of Illinois CAFR, available in the Office of the Treasurer, Fiscal Officer Responsibilities Audit Report. A copy of the report can be obtained from the State Treasurer at 300 West Jefferson, Springfield, Illinois, 62701.

The Illinois Prepaid Tuition Program independently manages cash and cash equivalents maintained outside the State Treasury. The Commission by statute (Illinois Prepaid Tuition Act, 110 ILCS 979) is required to appoint an investment advisory panel to offer advice and counseling regarding the investments of the Illinois Prepaid Tuition Program. The panel is required to annually review and advise the Commission on provisions of the strategic investment plan, which will specify the investment policies to be utilized by the Commission in the administration of the Illinois Prepaid Tuition Program.

Note 3. Deposits and Investments - Continued

A. Investment Authority and Legal Compliance - Continued

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

Investment managers are hired who, by their record and experience have demonstrated their fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment managers retained for the Illinois Prepaid Tuition Program acknowledge in writing, a fiduciary relationship with respect to the Illinois Prepaid Tuition Program and need to be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis. The Commission has established investment guidelines for the investment managers and conducts thorough due diligence before the appointment of all investment managers.

A qualified investment consultant, on an ongoing basis, evaluates the Illinois Prepaid Tuition Program. Written reports are provided to the Commission by the investment consultant no later than 45 days after the end of each calendar quarter. The investment consultant meets with the various investment managers on a regular basis to review the investment guidelines and analyzes the general liability structure of the Illinois Prepaid Tuition Program. They also assist the Commission and the Investment Advisory Panel with the selection of investment managers and custodians. The qualified investment consultant retained by the Commission is required to exercise discretion within the parameters set forth in the investment policy guidelines for the portfolio(s) they manage. Additionally, the program has contracted with Marquette Associates to evaluate the investment performance of the Illinois Prepaid Tuition Program on a quarterly basis.

The Illinois Prepaid Tuition Program investment policy dictates certain guidelines and restrictions that apply to investments in domestic equities by the investment managers. The manager may only hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days. Further, options, financial futures, private placements, restricted stock, issues related to the investment manager, or venture capital may not be purchased. The policy also prohibits the purchase of securities on margin and short selling. Also, investments cannot be made in securities not traded on a U.S. exchange or traded in U.S. dollars.

The investment policy authorizes the Commission to utilize a third party custodian to safe-keep the assets of the fund and to provide reports on a monthly basis to all necessary parties. The custodian is responsible for sweeping all interest and dividend payments and any other un-invested cash into a short-term money market fund for re-deployment. The custodian retained by the Commission is required to exercise discretion within the parameters set forth in the investment policy guidelines for the portfolio(s) they manage on behalf of the fund.

Note 3. Deposits and Investments - Continued

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Illinois Prepaid Tuition Program's deposits may not be returned to it. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. The Illinois Prepaid Tuition Program has no policy that would further limit the requirements under State law. As of June 30, 2008, the Illinois Prepaid Tuition Program's locally held deposits were not exposed to custodial credit risk.

The State Treasurer is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. Deposits in the custody of the State Treasurer totaled $3,986,720 at June 30, 2008. These deposits are pooled and invested with other State funds in accordance with the Deposits of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been addressed as to custodial credit risk because the Illinois Prepaid Tuition Program does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

C. Investments

ISAC is required annually to adopt a comprehensive investment plan to invest the funds received through contract payments. The Commission approved the Illinois Prepaid Tuition Program's most recent revision to the investment plan in January 2007. 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 that 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 Illinois Prepaid Tuition Program resources.

ISAC has retained State Street Global Advisors, LSV Asset Management, Nicholas Applegate, Denver Investment Advisors, Galliard Capital, Income Research Management, Rhumb Line Advisors, Pugh Capital, C.S. McKee Investment, Piedmont Investment, Great Lakes, and Earnest Partners LLC as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. Approximately $82,500,000 of additional contract payments received have been invested as of the end of the fiscal year June 30, 2008. The program has contracted with Marquette Associates to evaluate the investment performance of the Program on a quarterly basis. Use of funds invested on behalf of the Illinois Prepaid Tuition Program by the investment managers is restricted to the payout of tuition and fee benefits for program beneficiaries.

As of June 30, 2008, 54% of the funds were invested in Domestic Equities, 35% in Domestic Fixed Income, 10% in International Equity and 1% as Cash and Equivalents. Investments of the Fund are recorded at fair value based on quoted market prices.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2008 are presented below at fair value by investment type and by investment manager:

Investment Managers
Asset Allocation
June 30, 2008

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Intermediate	Galliard Capital	$ 80,793,114	8.13%
Fixed Income-Core	C.S. Mckee	76,402,793	7.69%
Fixed Income-Core	Piedmont	30,960,141	3.12%
Fixed Income-Core	Pugh Capital	30,938,032	3.11%
Fixed Income-Intermediate	Income Research Management	81,122,381	8.16%
Fixed Income-Core	SSgA Passive Bonds	54,472,113	5.48%
Total Fixed Income Portfolio		**354,688,574**	**35.70%**
Large-Cap Core Equity	SSgA S&P 500 Index	146,887,667	14.78%
Large-Cap Value Equity	LSV Asset Management	36,189,938	3.64%
Large-Cap Growth Equity	Rhumb Line Advisors	126,133,656	12.69%
Large-Cap Value Equity	Earnest Partners	39,331,329	3.96%
Large-Cap Value Equity	Great Lakes	39,391,965	3.96%
Small-Cap Core Equity	Nicholas Applegate	48,658,981	4.90%
Small-Cap Core Equity	Denver Investment Advisors	45,504,548	4.58%
Small-Cap Value Equity	Rhumb Line Advisors	52,696,606	5.30%
Total Domestic Equity		**534,794,690**	**53.82%**
International Equity	LSV Asset Management	97,342,510	9.80%
Total International Equity		**97,342,510**	**9.80%**
Money Market Mutual Funds	U.S. Bank	764,548	0.08%
Total Investments		**987,590,322**	**99.40%**
Cash and Equivalents	N/A	5,997,576	0.60%
Total Cash Equivalents		**5,997,576**	**0.60%**
TOTAL PORTFOLIO		**$ 993,587,898**	**100%**

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Securities Lending Collateral

As of June 30, 2008, the Illinois Prepaid Tuition Program had the following cash collateral investments in its securities lending program:

Mount Vernon Prime money market mutual fund	$	120,382,795
Eligible Discounted Securities Liquidating Trust		17,214,448
Ineligible Securities Liquidating Trust		17,364,684
Deeper Discounted Securities Liquidating Trust		5,400,545
Illiquid Securities Liquidating Trust		7,166,602
	$	**167,529,074**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Illinois Prepaid Tuition Program's policy for managing interest rate risk is to ensure that the investment managers comply with its investment policy guidelines. As per the investment policy, the operational guidelines for the Fixed Income Securities Managers require that the average duration of the manager's portfolio not vary more than +/- 30% of the duration of the Lehman Brothers (LB) Intermediate Government/Credit Index and the LB Aggregate Index, respectively (see schedule of investments on previous page). Subsequent to year end, the Lehman Brothers indexes referred to above were changed to the Barclays Capital Intermediate Government/Credit Index and the Barclays Aggregate Index, respectively.

As of June 30, 2008, all portfolios are within the guidelines permitted by the investment policy. The duration of the portfolios, by Manager, for the fixed income securities, compared to the benchmark index(s) is as follows:

Fixed Income Portfolio Manager	Portfolio Average Duration	LB Aggregate Index	LB Intermediate Government/ Credit Index
Galliard Capital	3.7 years	N/A	3.8 years
Income Research Management	3.7 years	N/A	3.8 years
SSgA	4.7 years	4.7 years	N/A
C.S. McKee	4.4 years	4.7 years	N/A
Piedmont	4.4 years	4.7 years	N/A
Pugh Capital	4.9 years	4.7 years	N/A

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Interest Rate Risk –Continued

Portfolio Weighted Average Maturity

Portfolio Weighted Average

Investment Type		Fair Value	Weighted Average Maturity (in Years)
U.S. treasury notes	$	8,423,428	6.3
U.S. treasury bonds		19,096,809	7.4
Federal agencies bonds and notes		39,796,829	15.9
U.S. agency asset-backed securities		754,754	32.4
Municipal Debt		12,222,516	11.0
Corporate debt securities		97,964,340	6.8
Corporate asset-backed securities		9,353,899	11.8
Other debt securities		1,013,437	13.7
Passive bond index funds		54,472,113	7.4
Corporate mortgage-backed securities		12,086,651	29.7
Mortgage backed securities:			
Pass through (fixed rate, adjustable rate)		67,197,516	17.8
Collateralized mortgage obligations		7,010,871	19.9
Delegated underwriting and servicing bonds and surety bonds		24,060,797	7.6
Money market mutual funds		1,899,924	0.1
Total Fair Value	**$**	**355,353,884**	
Portfolio weighted average maturity			**11.4**

Note 3. Deposits and Investments - Continued

C. Investments – Continued

Securities Lending Collateral

The weighted average maturity of the cash collateral invested in liquidating trusts consisting of debt securities is as follows:

Investment		Fair Value	Weighted Average Maturity (Days)
Eligible Discounted Securities Liquidating Trust	$	17,214,448	100.4
Ineligible Securities Liquidating Trust		17,364,684	616.2
Deeper Discounted Securities Liquidating Trust		5,400,545	415.3

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission is authorized to hire competent registered professional investment managers to manage the assets of the Illinois Prepaid Tuition Program. The operational guidelines as set forth in the Illinois Prepaid Tuition Program investment policy for fixed income investments dictate that no securities with a credit rating below BBB- by Standard & Poor's or Ba3 by Moody's may be purchased. In the case of a split rating, the higher rating shall apply. Securities, which are downgraded below the policy minimum, may only be held at the manager's discretion for up to 6 months.

The following tables indicate credit ratings, as of June 30, 2008, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

Credit Ratings (Excludes Multiple-Rated Securities)
June 30, 2008

	Total Fair Value	Credit Rating		
		Moody's	Standard & Poor's	Fitch
Federal agencies bonds and notes	$ 39,796,829	Aaa	AAA	AAA
U.S. agency asset-backed securities	754,754	Aaa	AAA	NR
Other debt securities	1,013,437	Aaa	AAA	AAA
Mortgage-backed securities	98,269,184	Aaa	AAA	AAA
Passive bond index funds	54,472,113	NR	NR	NR

NR= Not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk – Continued

The following tables indicate credit ratings, as of June 30, 2008, for debt security investments that received multiple ratings:

Credit Ratings (Multiple-Rated Securities)
June 30, 2008

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 5,284,163
	Corporate debt securities	Aa	28,677,878
	Corporate debt securities	A	37,623,662
	Corporate debt securities	Baa	25,473,776
	Corporate debt securities	Ba	96,403
	Corporate debt securities	NR	808,458
			97,964,340
Standard and Poors:	Corporate debt securities	AAA	5,053,062
	Corporate debt securities	AA	24,488,127
	Corporate debt securities	A	43,759,388
	Corporate debt securities	BBB	23,011,898
	Corporate debt securities	BB	322,484
	Corporate debt securities	NR	1,329,381
			97,964,340
Fitch:	Corporate debt securities	AAA	1,138,252
	Corporate debt securities	AA	22,532,189
	Corporate debt securities	A	43,582,891
	Corporate debt securities	BBB	15,896,211
	Corporate debt securities	NR	14,814,797
			97,964,340

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk – Continued

Credit Ratings (Multiple Rated Securities), continued
June 30, 2008

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate asset-backed securities	Aaa	$ 8,981,504
	Corporate asset-backed securities	NR	372,395
			9,353,899
Standard and Poors:	Corporate asset-backed securities	AAA	8,940,892
	Corporate asset-backed securities	A	260,081
	Corporate asset-backed securities	NR	152,926
			9,353,899
Fitch:	Corporate asset-backed securities	AAA	2,283,207
	Corporate asset-backed securities	A	525,321
	Corporate asset-backed securities	NR	6,545,371
			9,353,899
Moody's:	Corporate mortgage backed securities	Aaa	8,938,759
	Corporate mortgage backed securities	NR	3,147,892
			12,086,651
Standard and Poors:	Corporate mortgage backed securities	AAA	10,709,595
	Corporate mortgage backed securities	NR	1,377,056
			12,086,651
Fitch:	Corporate mortgage backed securities	AAA	3,188,879
	Corporate mortgage backed securities	NR	8,897,772
			12,086,651

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk – Continued

Credit Ratings (Multiple Rated Securities), continued
June 30, 2008

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Municipal Debt	AAA	$ 8,746,025
	Municipal Debt	AA	1,359,218
	Municipal Debt	A	1,271,857
	Municipal Debt	NR	845,416
			12,222,516
Standard and Poors:	Municipal Debt	AAA	6,009,951
	Municipal Debt	AA	1,259,536
	Municipal Debt	A	586,377
	Municipal Debt	NR	4,366,652
			12,222,516
Fitch:	Municipal Debt	AAA	2,217,712
	Municipal Debt	AA	1,105,485
	Municipal Debt	A	319,413
	Municipal Debt	NR	8,579,906
			12,222,516

* NR - not rated

Securities Lending Collateral

The liquidating trusts consisting of debt securities were not rated.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Custodial Credit Risk

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

As of June 30, 2008, investments of cash collateral under the securities lending program ($167.5 million) were held by the counterparty in the Program's name. These investments are subject to custodial credit risk.

Concentration of Credit Risk

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

The operational guidelines as set forth in the Illinois Prepaid Tuition Program's investment policy for fixed income investments dictate that no single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation, except for any U.S. Treasury or U.S. agency security, which may comprise no more than 15% of the portfolio's overall allocation after accounting for price appreciation. In the case of investments in domestic equities the policy states that no single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation. Additionally, in the case of the small-cap investment managers at no point in time should the portfolio hold a security such that the investment management firm's aggregate position in that company exceeds 20% of the fair value of the outstanding stock of the company.

There were no investments in any single issuer (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) that exceeded 5% or more of the total investment portfolio as of June 30, 2008.

Foreign Currency Risk

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

The Illinois Prepaid Tuition Program's investment policy authorizes a maximum of 10% of the portfolio for investments in international equities. As of June 30, 2008, 10% is invested in international equities; however, none of these investments are denominated in foreign currencies.

Securities Lending

State statutes and the Illinois Prepaid Tuition Program's investment policy allow the Illinois Prepaid Tuition Program to use investments to enter into securities lending transactions – loans of securities to broker-dealers for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Effective August 1, 2007, ISAC participates in a securities lending program with U.S. Bank, who acts as the securities lending agent. All securities are eligible for the securities lending program. Securities are loaned to brokers, and collateral received in return consists solely of cash equal to 102% of the value of the loaned securities.

Note 3. Deposits and Investments - Continued

C. Investments – Continued

Securities Lending – Continued

Substantially all securities loans can be terminated on demand either by the Commission or by the borrower, although generally the term of these loans range from 1 day to 75 days. Securities lending cash collateral is invested and managed according to yield and duration needs of participants in the U.S. Bank securities lending program. In lending securities, cash collateral is invested in the lending agent's (US Bank) securities lending investment pools (5 separate pools), which at year-end have varying weighted average maturities. The majority of the Commission's securities lending collateral is invested in a short-term investment pool consisting of securities limited to a weighted average maturity of 90 days. The investment pool is designed to meet liquidity and duration needs of all the participants invested in the pool. The relationship between the maturities of the investment pool and the Commission's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Commission cannot determine.

As of June 30, 2008, the market value of securities on loan was $163,244,782, and the value of cash collateral invested was $167,529,074. Liabilities to the borrowers totaled $170,776,490. The approximate $3.2 million decline in the fair value of the invested cash collateral has been recorded as a loss and is reported as a component of income (loss) from investment securities in the statement of revenues, expenses and changes in net assets. At year-end, the Illinois Prepaid Tuition Program has no credit risk exposure to borrowers because the amounts the Illinois Prepaid Tuition Program owes the borrowers exceeds the amounts the borrowers owe the Illinois Prepaid Tuition Program. In the event of borrower default, U.S. Bank provides ISAC with counterparty default indemnification.

Note 4. Balances Due to Other State Funds and Transfers

As of June 30, 2008, the Illinois Prepaid Tuition Program owed $3,563 to the Communications Revolving Fund for telephone service.

Note 5. Compensated Absences Payable

Changes in compensated absences for the year ended June 30, 2008, were as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
Compensated absences	$ 92,459	$ 55,518	$ 68,544	$ 79,433	$ 7,943

Note 6. Tuition Payable

Tuition payable activity for the year ended June 30, 2008 is as follows:

Balance July 1, 2007	$ 745,077,810
Add:	
Contributions	125,670,642
Less:	
Return of contributions	(6,915,216)
Tuition payments	(35,733,437)
Balance June 30, 2008	$ 828,099,799
Reported as:	
Current	$ 45,625,000
Noncurrent	782,474,799
	$ 828,099,799

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 2008 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.75% and is based on the average increase in tuition for Illinois colleges.

Average monthly tuition payable over the year	$ 760,431,830
Estimate of 8.75% increase of tuition payable	$ 66,537,785
Present value	$ 65,872,407
Beginning balance accretion payable as of July 1, 2007	$ 211,122,914
Accretion expense	65,872,407
Accretion payments	(2,689,686)
Ending balance accretion payable as of June 30, 2008	$ 274,305,635
Reported as:	
Current	$ 4,375,000
Noncurrent	269,930,635
	$ 274,305,635

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 to liabilities 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 2008 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

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

The Commission pays employer retirement contributions for the Illinois Prepaid Tuition Program based upon an actuarially determined percentage of its payroll. For fiscal years 2008, 2007 and 2006, the employer contribution rate was 16.6%, 11.5% and 7.8%, respectively. The required and actual contribution for fiscal years 2008, 2007 and 2006 was $98,701, $59,974 and $41,922, respectively.

Note 9. Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees' Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis.

Note 9. Post-employment Benefits - Continued

The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

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

Note 10. Fund Deficits

The current actuarially determined deficit for *College Illinois!,* the State's section 529 prepaid tuition program, as of June 30, 2008 is $273 million.

In terms of the program's actuarially determined 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, new contracts for each <u>future</u> enrollment period, as well as <u>future</u> expectations for tuition and fee increases at those institutions.

Implementation of the Truth-in-Tuition law (in 2004) has impacted and will continue to impact future tuition increases for classes of new students entering the State's public universities. Another significant fact that only became evident after the law was implemented was that while tuition rates charged to students who remain enrolled for continuous academic years must remain level, public universities typically continue to increase fees annually for all students, not just new enrollees.

Tuition and fee increase assumptions were re-evaluated for FY2009, 2010 and beyond. Tuition and fee increase assumptions are 10% for FY2009, 9% for FY2010 and 8% thereafter due to continuing state budget problems and increasing institutional costs.

Each year when setting plan prices, the Commission reviews the assumptions that influence the actuarial deficit. Contract prices for the FY 2008-2009 enrollment period have been recommended at a level that will provide revenue from contract sales sufficient not only to fund future contract obligations and current administrative costs, but also to improve the actuarial soundness of the program. Management believes that this provision of building a stabilization premium into contract prices provides a buffer against uncertainty associated with the annual volatility of college cost increases and performance of program investments.

Investment performance lagged the assumed return for FY2008 due to the extreme market conditions experienced during the year. Additionally, the actuarial deficit has been significantly impacted by the negative investment performance recorded during FY2008. To address these unusual conditions, the Commission approved changes to the program's investment policy in June 2008. Those changes are designed to reduce the volatility in returns and to enhance performance over time.

Note 10. Fund Deficits – Continued

In September 2008, ISAC's Commissioners approved a new pricing plan for *College Illinois!*. The prices proposed for 2008-2009 reflect ISAC's plan to expand the *College Illinois!* program to more people at more price points. In the fall of 2008, *College Illinois!* introduced SmartChoice Pricing. Under SmartChoice Pricing, purchasers have, for the first time, the option of purchasing semesters at Community Colleges (Choice 1), at public universities and colleges within the State of Illinois excluding the University of Illinois at Urbana-Champaign (Choice 2) and, finally, semesters at any public university and college including the University of Illinois at Urbana-Champaign (Choice 3). This differential pricing expands the market for *College Illinois!* contracts to a wider range of household incomes. Management believes that contract sales for the upcoming enrollment will reach 5,000.

Consistent with past Commission action, the ultimate goal is to eliminate the current actuarial deficit over time. The Actuary's Report on Soundness as of June 30, 2008 indicates that the program's cash flow is expected to remain positive through the fiscal year that ends in 2011 even without reflecting expected proceeds from contracts sold after June 30, 2008.

	Actuarial Evaluation (Unaudited)
Net assets, before tuition/accretion payable	$ 992,675,854
Actuarial present value of future payments expected to be made by contract purchasers	193,922,837
Subtotal	1,186,598,691
Actuarial present value of future payments expected to be made by the program	1,459,764,205
Actuarial deficit as of June 30, 2008	$ (273,165,514)

Note 11. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two years. The Commission's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and, accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2008.

Note 12. New Governmental Accounting Standards

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

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* establishes accounting and financial reporting requirements for intangible assets. All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to these intangible assets, as applicable. The Commission is required to implement this Statement for the year ending June 30, 2010.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The Commission is required to implement this Statement for the year ending June 30, 2010.

Management has completed their assessment of these Statements. They do not have a material effect on the overall financial statement presentation.

Note 13. Subsequent Event (Unaudited)

Subsequent to the end of the fiscal year, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. As a result, certain investments have incurred a significant decline in fair value since June 30, 2008. As of March 27, 2009, unaudited interim financial statements of the Program report unrealized net losses of approximately $200 million, and realized net losses of approximately $27 million.

McGladrey & Pullen

Certified Public Accountants

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*

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

Mr. Donald J. McNeil
Honorable Chairman of the Governing Board
Illinois Student Assistance Commission

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2008, and have issued our report thereon dated March 27, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting of the Illinois Prepaid Tuition Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of Current Findings – *Government Auditing Standards* to be significant deficiencies in internal control over financial reporting (Finding 08-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However we consider the significant deficiency described above, finding 08-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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*.

We also noted certain matters which we have reported to management of the Commission in a separate letter dated March 27, 2009.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of Current Findings – *Government Auditing Standards*. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 27, 2009

Current Finding – *Government Auditing Standards*

Finding 08-1 Securities Lending Program Not Accounted for Properly

(Note: This finding is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

The Illinois Prepaid Tuition Program (Program) of the Illinois Student Assistance Commission (Commission) did not have adequate internal controls over financial reporting for its securities lending transactions.

The Commission implemented a securities lending program in fiscal year 2008. The Commission did not record its $168 million in securities lending collateral investments or $171 million in liabilities related to securities lending as of June 30, 2008, or the associated $3 million unrealized loss incurred for the fiscal year. In addition, the draft financial statements provided to the auditors did not have the required securities lending disclosures.

Generally accepted accounting principles (GAAP) require that the Commission record the collateral assets, liabilities and gains or losses associated with securities lending transactions and disclose certain information related to securities lending transactions in its financial statements. The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

According to Commission management, the Commission receives information on a monthly basis from the custodial bank. The final information regarding impairment of the value of the securities lending collateral was received by the Commission only after year-end in August 2008.

Failure to record and disclose material assets, liabilities and investment losses results in materially misstated financial statements not prepared in accordance with GAAP. (Finding No. 08-1)

Recommendation

We recommend the Commission improve its controls so that it timely obtains all relevant investment information necessary to properly record and disclose of all material investment transactions in the Program's annual financial statements.

Commission Response

Agree.

The Commission has implemented additional controls to ensure that all material transactions and disclosures are properly recorded on the financial statements on a timely basis.

Prior Findings Not Repeated

A. Financial Reporting

(Note: This prior finding not repeated is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

During our review of the fiscal year 2007 draft financial statements of the Illinois Prepaid Tuition Program (the Program), we noted the Illinois Student Assistance Commission (Commission) did not have sufficient controls over the Program's reporting process. The disclosures related to the multiple ratings of securities as required by the Governmental Accounting Standards Board (GASB) Statement No. 40, ***Deposit and Investment Risk Disclosures*** were not properly calculated by the Commission. (Finding Code No. 07-1)

In our fiscal year 2008 audit we noted the Program's GASB Statement No. 40 disclosures of the multiple ratings of securities in its financial reports were presented in accordance with GASB standards.

B. Internal Auditing

(Note: This prior finding not repeated is also reported in the Department-wide audit of the Illinois Student Assistance Commission and in the Illinois Designated Account Purchase Program financial audit of the Illinois Student Assistance Commission.)

During our fiscal year 2007 audit and examination we noted the Commission failed to perform internal audits of 4 of its 12 (33%) major systems of internal accounting and administrative controls within the last two years. (Finding Code Nos. 07-2, 06-3)

We noted during the fiscal year 2008 audit that internal audits were performed that addressed the required major internal accounting and administrative control systems.

ACTUARIAL REPORT

COLLEGE ILLINOIS!
PREPAID TUITION PROGRAM

Actuary's Report on Soundness
As of June 30, 2008

October 2008

PricewaterhouseCoopers LLP
One North Wacker
Chicago, IL 60606
Telephone (312) 298-2000
Facsimile (312) 298-6833

October 24, 2008

Mr. Andrew Davis, Executive Director
College Illinois!
1755 Lake Cook Rd
Deerfield, IL 60015

Dear Mr. Davis:

PricewaterhouseCoopers LLP (PwC) in conjunction with Richard M. Kaye & Associates has performed an actuarial valuation of the *College Illinois*! Prepaid Tuition Program as of June 30, 2008. The valuation compares the value of the assets of the program to the value of the expected future benefits and expenses of the program. The following pages summarize the actuarial valuation of the trust fund as of June 30, 2008.

A comparison of the assets and liabilities of the trust fund shows that as of June 30, 2008 there is an actuarial deficit of $273,165,515.

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,

Michael E. Mielzynski

Michael E. Mielzynski, FCAS, MAAA
Actuarial Manager
PricewaterhouseCoopers LLP

Richard M. Kaye

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

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Section

Appendices

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, 2008. This soundness measure results in a point estimate of the actuarial reserve associated with the Trust Fund as of June 30, 2008.

Distribution and Use

This report was prepared for internal use by the Illinois Student Assistance Commission that oversees the *College Illinois*! Prepaid Tuition Program. Any external use or distribution of this report is not authorized without prior written approval of PwC.

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 deficiency 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, 2008, the Trust Fund is in an actuarial deficit position. The expected value of the liabilities of the Trust Fund exceed the value of assets, including the value of future payments by contract purchasers, by $273.2 million. The current deficit is $189.0 million higher than the $84.2 million deficit estimated as of June 30, 2007. There were several major factors that accounted for the majority of the change in the deficit. On the positive side, the premium charged during the latest enrollment period designed to improve the soundness of the program generated approximately $9.8 million, and tuition and fee increases over the last year fell below expectations, leading to a decrease in the deficit of approximately $9.4 million. On the negative side, the interest accumulated on last year's deficit was approximately $6.7 million, asset appreciation lagged expectations by approximately $159.5 million, and changes to the underlying assumptions increased the deficit by approximately $56.4 million.

The majority of the changes in assumptions adversely affected the soundness. These changes included increasing the expected tuition inflation from 7.75% per annum to 10.00% in 2009, 9.00% in 2010, and 8.00% per annum thereafter. The fee inflation assumption was also increased; from 7.50% per annum to 10.00% in 2009, 9.00% in 2010, and 8.00% per annum thereafter. Changes in assumptions that favorably affected soundness were the investment expense assumption being reduced from 34 to 30 basis points and the future contract sales being increased from 4,500 per year to 5,000 in 2008/2009 and a growth of 500 contracts per year, capping at 15,000.

The current estimate of the deficit is based upon a number of assumptions, including expectations regarding future investment returns and future tuition and fee increases, and is subject to considerable uncertainty. On Page 23 of the report, we display the financial status of the Trust Fund based upon alternative assumptions regarding investment results, tuition increases, and fee increases.

The program's current funded ratio of 81.3% is lower than the 93.3% funded ratio as of June 30, 2007. The cash flow projection shown in Appendix C indicates that the program's cash flow is expected to remain positive through the fiscal year that ends in 2011. The total program assets are projected to cover expected benefit payments through the fiscal year that ends in 2021.

Executive Summary (continued)

Truth in Tuition

The Trust Fund deficit recognizes the impact of the state's Truth in Tuition law, which provides that, beginning with the 2004-2005 matriculation year, Illinois public universities cannot increase the amount of tuition charged to students who remain enrolled for four continuous academic years as their degree program requires. The Truth in Tuition law does not apply to fees.

Due to the Truth in Tuition law, the actuarial calculations to estimate the outstanding liability needed to be revised starting at June 30, 2004. It is now necessary to have two separate projections - one for students who matriculated prior to the law change and one for students affected by the Truth in Tuition law. The reason for this separation was that both the current average tuition and its ability to increase in future years are different for the two groups.

Contracts in Force

As of June 30, 2008, the total number of contracts in force (net of cancellations and depleted contracts) for CIPTP was 53,127. Contracts for university enrollment represent approximately 87% of sales, and contracts for community college enrollment and combined community college and university enrollment represent approximately 13% of sales. The most common contract sold is for four years at a university, accounting for approximately 42% of all contract sales. Enrollment data is summarized in Appendix D.

Weighted Average Tuition

The Weighted Average Tuition (WAT) is the average of tuition and mandatory fees for public in-state schools weighted in proportion to the number of full-time equivalent students attending such schools. The 2008-2009 Illinois public university WAT is $9,452, a 10.5% increase over the 2007-2008 WAT. The 2008-2009 Illinois community college WAT is $2,762, an increase of 6.1% over the 2007-2008 WAT.

To account for the Truth in Tuition law, for projection purposes the Illinois public university overall WAT was broken down into a 2008 enrollment WAT, a 2007 enrollment WAT, a 2006 enrollment WAT, and a 2005 enrollment WAT. Given that a "continuing rate" is no longer available for public university beneficiaries whose matriculation began prior to the enactment of the Truth in Tuition law, the overall WAT was applied to these beneficiaries. Furthermore, since fees are allowed to increase annually, even for students under the Truth in Tuition law, our projections estimate fees separately from tuition. The breakout of these figures is shown later in this report.

Executive Summary (continued)

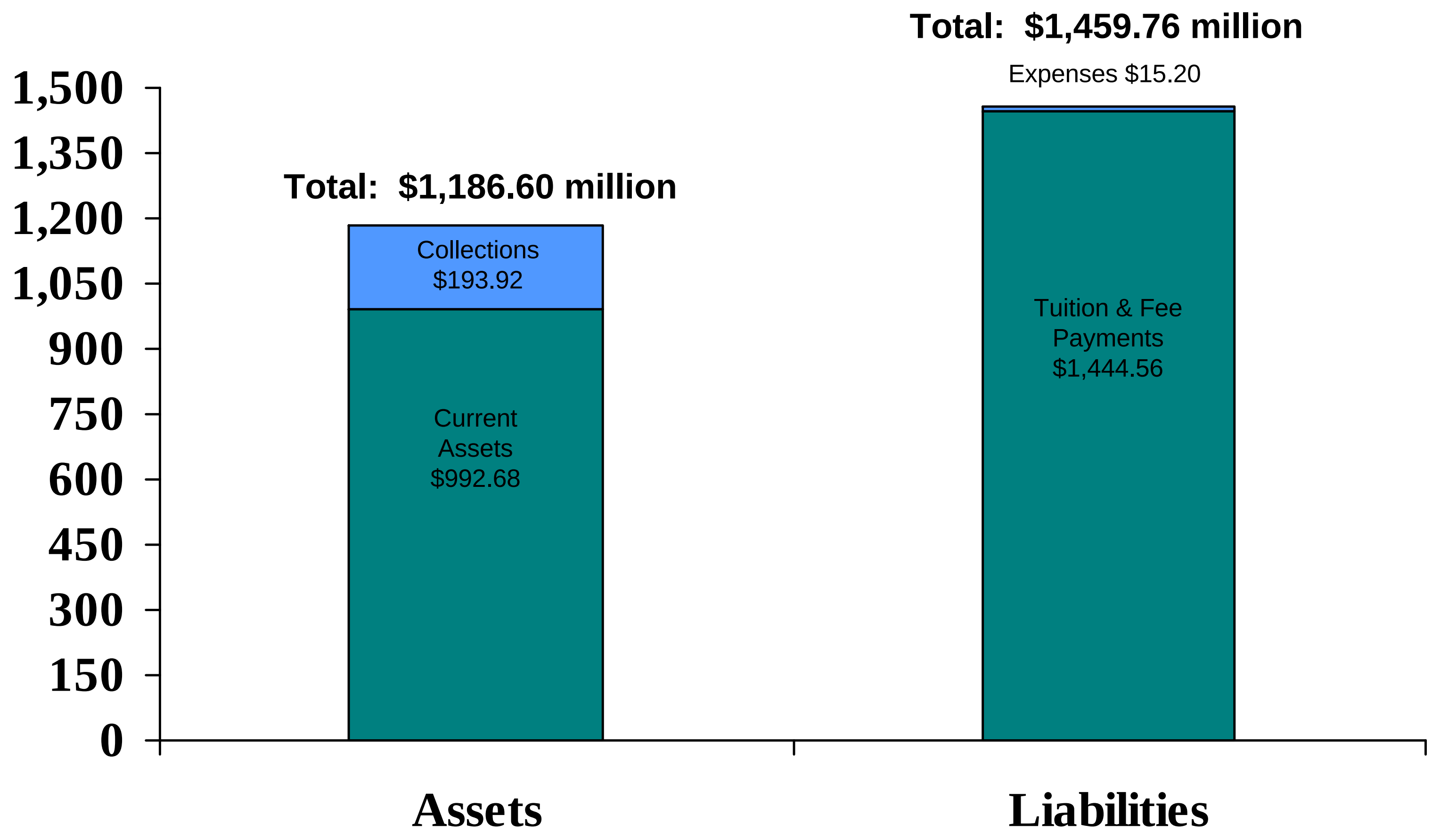
Actuarial Assumptions

The major actuarial assumptions are chosen by the Commission. Specifically, freshman tuition is assumed to increase 10.00% in 2009, 9.00% in 2010, and then 8.00% per annum thereafter for public university students and 6.50% per annum for the community colleges. Fees are assumed to increase 10.00% in 2009, 9.00% in 2010, and then 8.00% per annum thereafter for public university students subject to Truth in Tuition. For continuing students at public universities and students attending community colleges, fees are combined with tuition in our projections and follow their respective tuition inflation assumptions. Investments are expected to earn on a gross basis 8.50% in 2009, 8.75% in 2010, and 9.00% per annum afterwards. The investment performance figures are the result of investment policy changes adopted in 2007 by the Commission. These changes provide for the addition of new asset classes as well as a more diverse asset allocation among program investments. Investment expense is estimated to be 30 basis points. It is assumed that 5,000 new contracts will be sold in 2009 and this will increase by 500 each year, capping at 15,000. The actuarial assumptions and methods are fully described in a later section of this report.

Valuation Exhibits

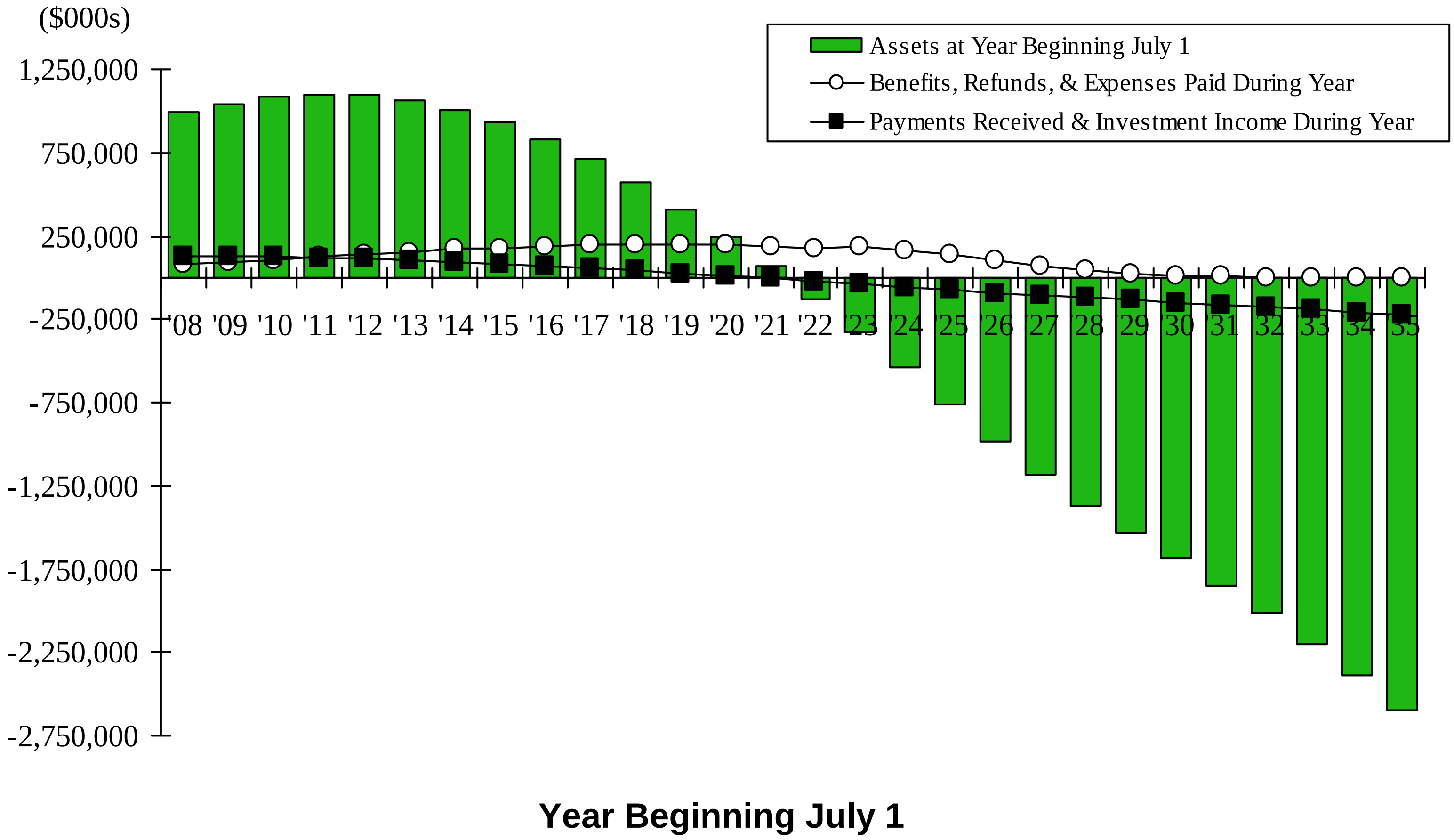
Funded Status

The value of expected liabilities exceeds the assets of the trust fund (including the value of future payments by contract purchasers) by $273,165,515 as of June 30, 2008. The funded ratio, assets divided by liabilities, is 81.3%. The assumptions used to perform the actuarial valuation of the fund are described on pages 18 through 21 of this report.



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.

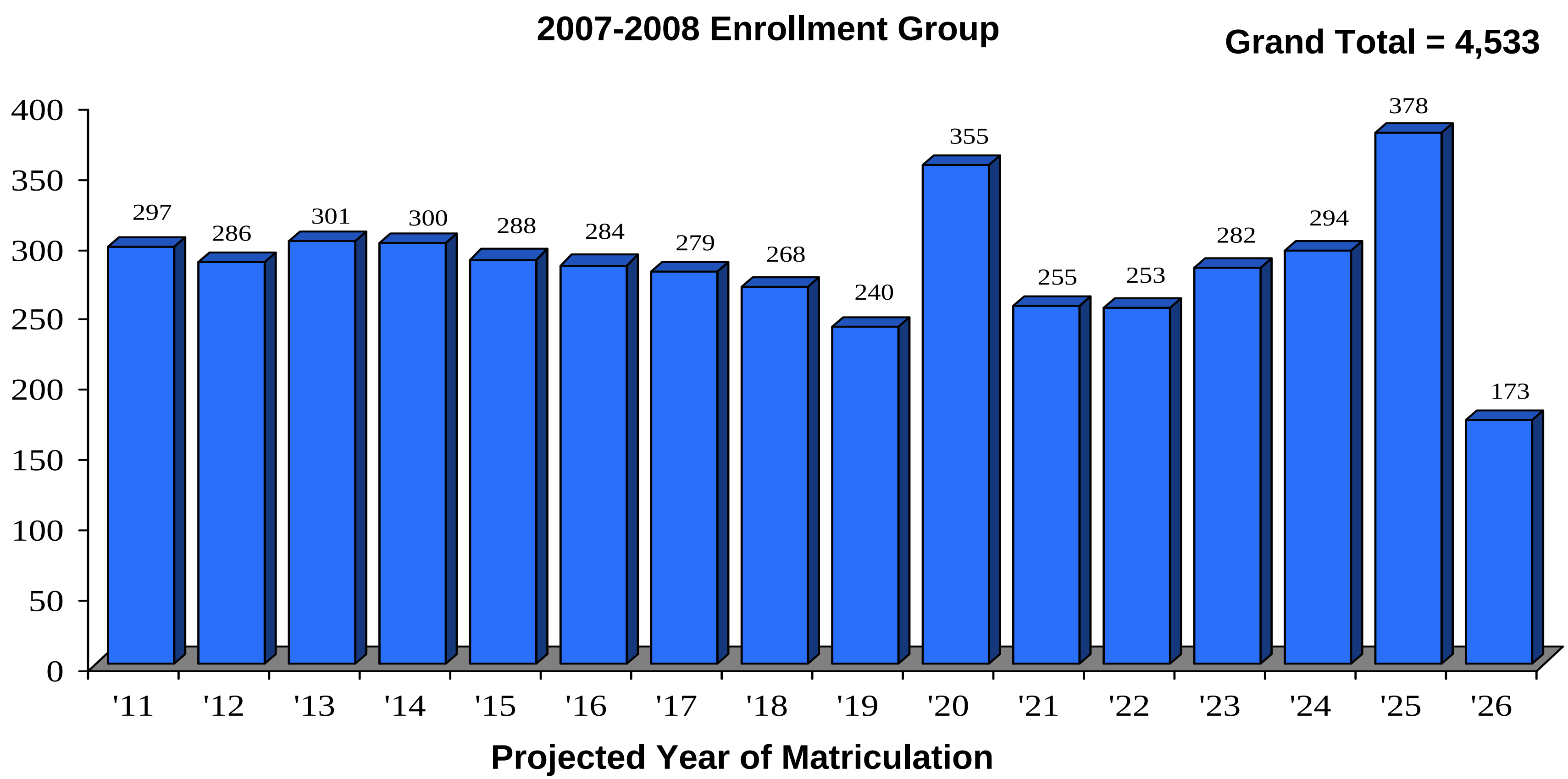


PRICEWATERHOUSECOOPERS

10/23/2008

Contracts in Force for the 2007-2008 Enrollment Group

The chart below illustrates the total number of active contracts by expected year of community college or university matriculation for the 2007-2008 enrollment group.

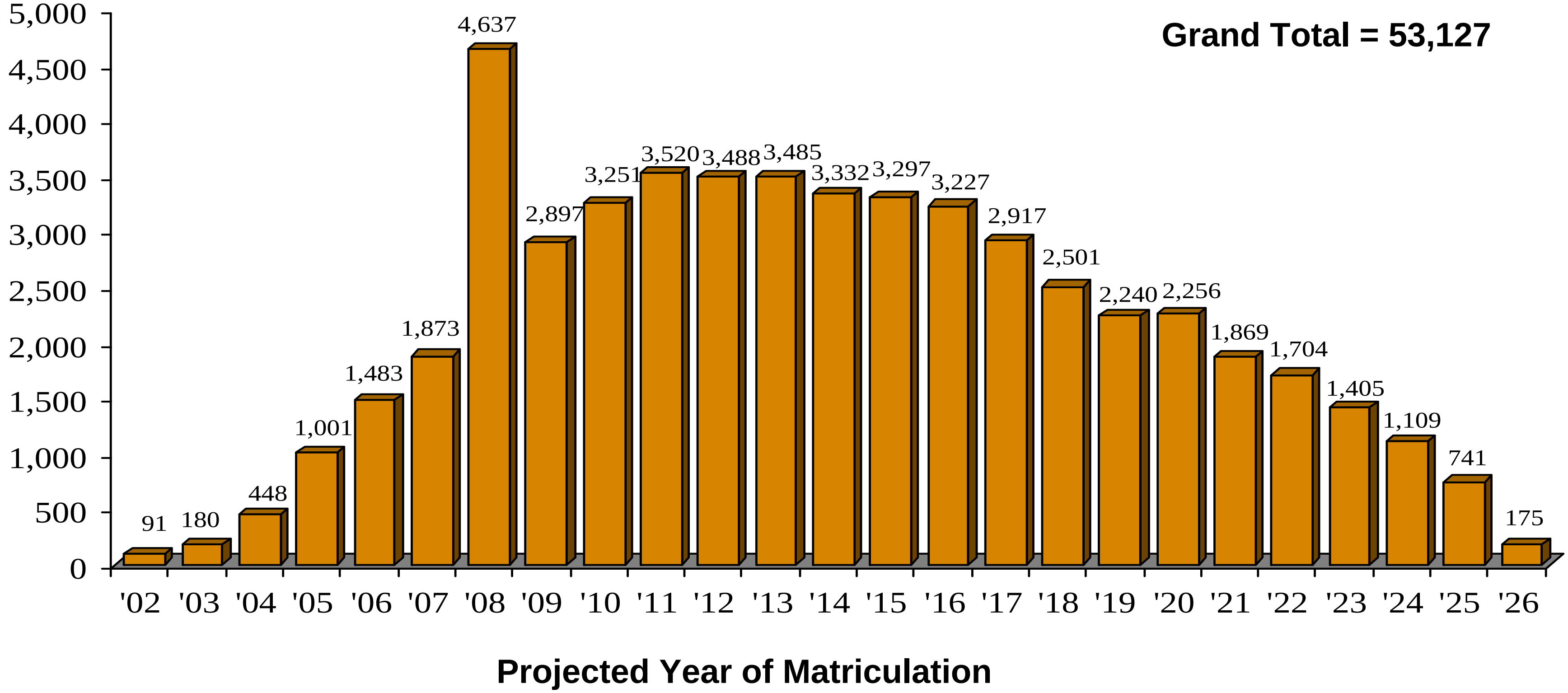


PRICEWATERHOUSECOOPERS
10/23/2008

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.

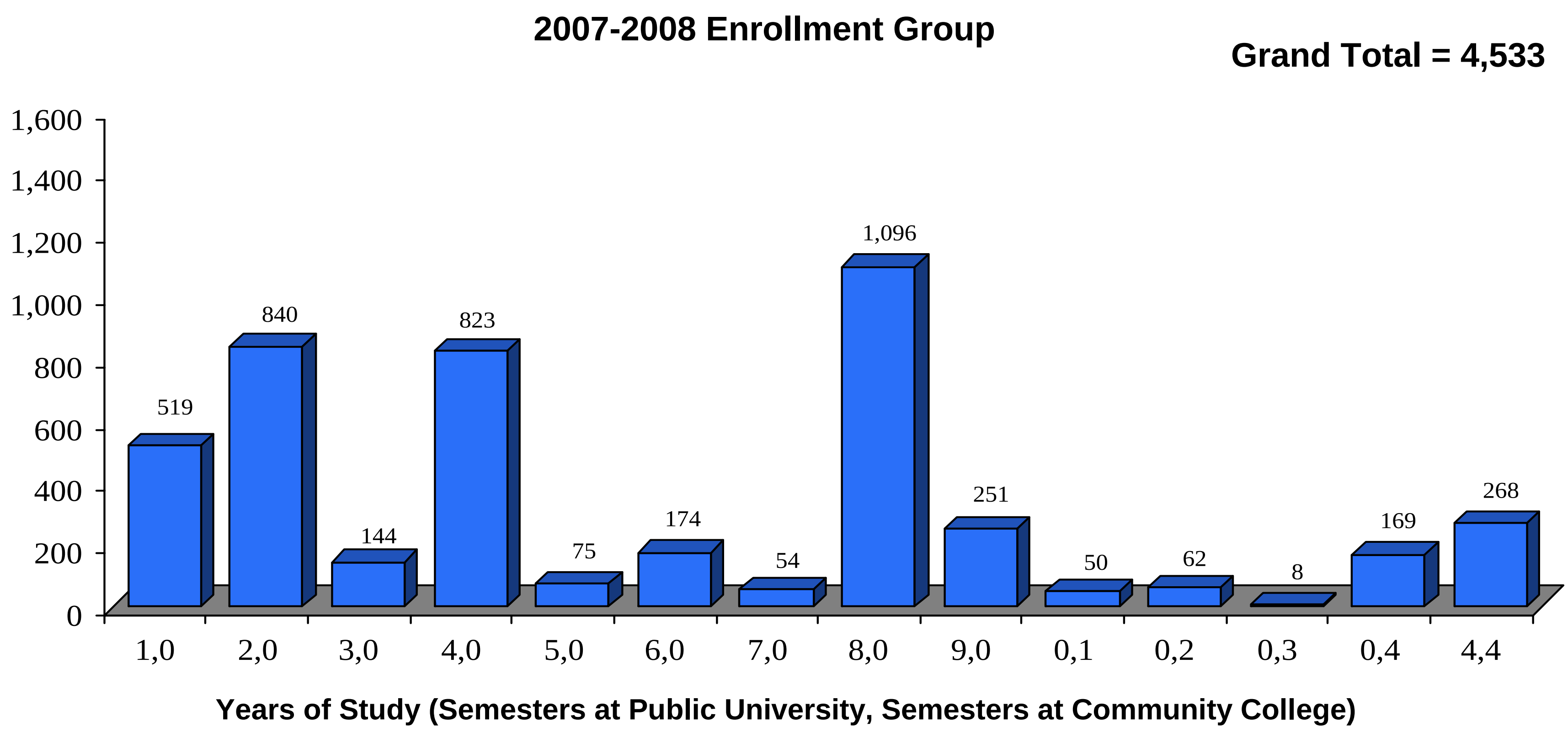
1999-2008 Enrollment Groups Combined



The 2008 data includes students with expected matriculation dates prior to 2008 who have not yet enrolled.

Type of Contract Sold to the 2007-2008 Enrollment Group

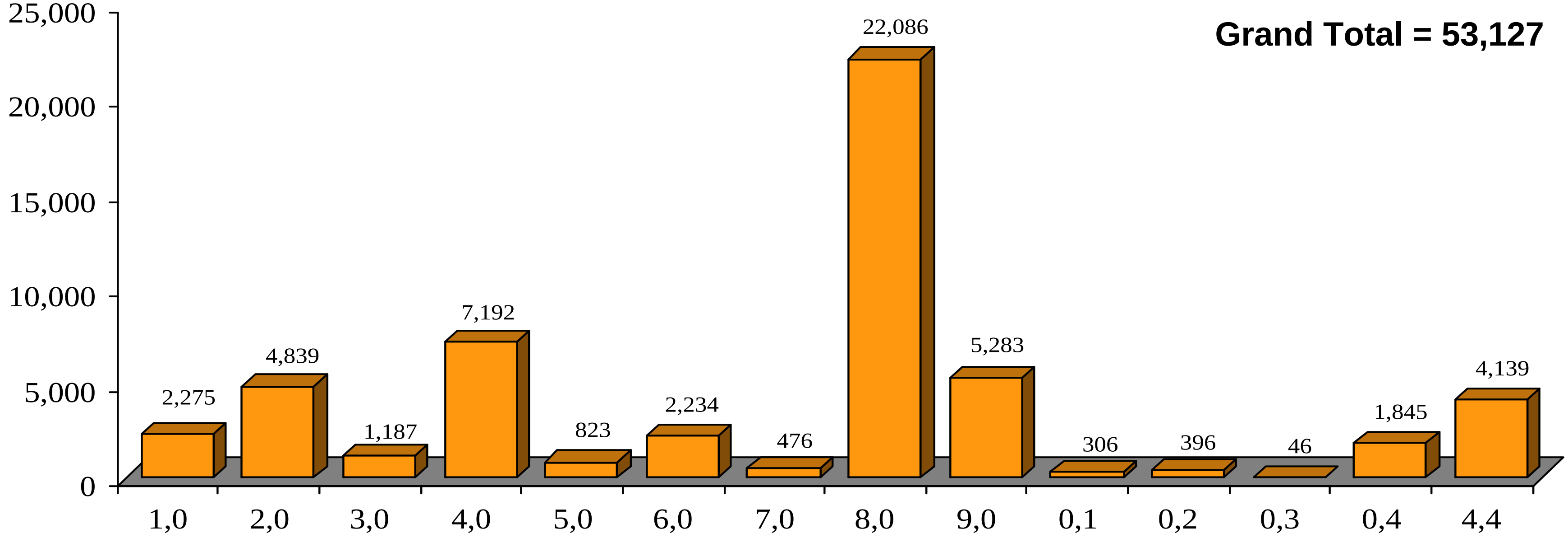
Contracts can be purchased for a variety of plans. The chart below illustrates the total number of active contracts from the 2007-2008 enrollment period by type of plan.



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.

1999-2008 Enrollment Groups Combined



Years of Study (Semesters at Public University, Semesters at Community College)

Valuation Assumptions and Methods

Actuarial Assumptions

The assumptions used in the actuarial valuation of the Trust Fund are described below.

Truth in Tuition. We have segregated the beneficiaries into two categories, those beneficiaries that fall under the Truth in Tuition law and those that do not. We have assumed that if the beneficiary has enrolled in school prior to the fall of 2004, they would not be covered under the Truth in Tuition law. Furthermore, the Truth in Tuition law does not apply to community colleges. Nearly 91% of the beneficiaries who are not modeled under the Truth in Tuition Law relate to community college contracts.

Beneficiaries Falling Under Truth in Tuition Law	50,270
All Other Beneficiaries	2,857

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

Tuition and Fee Increases. The weighted average tuition is assumed to increase 10.00% in 2009, 9.00% in 2010, and then 8.00% per annum thereafter for public university students and 6.5% per annum for the community colleges. Fees are assumed to increase 10.00% in 2009, 9.00% in 2010, and then 8.00% per annum thereafter for public university students subject to Truth in Tuition. For continuing students at public universities and students attending community colleges, fees are combined with tuition in our projections and follow their respective tuition inflation assumptions.

Investment Return. The actuarial valuation of the Trust Fund was determined using an assumed 8.50% gross rate of return on investments in 2009, 8.75% in 2010, and 9.00% per annum afterwards as recommended by the Commission and their investment advisors. Investment expense is estimated to be 30 basis points. 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 one percent shortfall in such a goal would place the fund in a more extreme deficit position. Additionally, the nature of this type of program involves the 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 payments.

Actuarial Assumptions (continued)

Administrative Expenses. Administrative expenses of the program are assumed to be paid through a combination of investment earnings and fees assessed on purchasers. Administrative expenses were assumed to be $2,295,000 for fiscal year 2009. We do not include marketing expenses as we believe those costs should be allocated to future contracts. We also exclude 50% of the budgeted Records Administration Services Costs as those expenses are also assumed to be a result of future contracts. We have assumed that administrative expenses will increase at the rate of 3.5% per annum and that all expenses beyond 2008 will 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). For those students who did not enroll when expected, we assume that they will enroll in the fall of the current school year.

Bias Load. Contract beneficiaries are assumed on average to attend more expensive schools than indicated by the headcount information that was used to determine the 2008-2009 WAT. We have added a load to the tuition assumption to recognize this bias toward enrollment at more expensive schools. The bias load varies between 3% and 9% and is based on the beneficiary's age at enrollment. An overall weighted average bias load is calculated for each enrollment year and ranges between 4.4% and 4.7%.

Future Contract Sales. It is assumed that 5,000 contracts will be sold during the 2008-2009 enrollment period and that sales will increase by 500 in each subsequent enrollment period, capping at 15,000.

Cancellations, Terminations, and Refunds. It is assumed that 12.5% of contracts sold will not be utilized. We have assumed that a refund will be paid equivalent to the 2008-2009 WAT increased by 2% in each subsequent period.

Actuarial Assumptions (continued)

Deaths and Disabilities. Mortality rates for beneficiaries are assumed to follow the 1990 U.S. Life Tables. Approximately 0.80% of the total payout of benefits and expenses are expected to be the result of death and disability.

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

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 Data. The number of beneficiaries by contract type is displayed in tabular form in Appendix D.

Weighted Average Tuition: Four-Year Universities. The Weighted Average Tuition (WAT) is the average of tuition and mandatory fees for public in-state schools weighted in proportion to the number of full-time equivalent students attending such schools. The WAT for public universities for 2008-2009 is $9,452.

To account for the Truth in Tuition law, for projection purposes the Illinois public university overall WAT was broken down into a 2008 enrollment WAT, a 2007 enrollment WAT, a 2006 enrollment WAT, and a 2005 enrollment WAT. Given that a “continuing rate” is no longer available for public university beneficiaries whose matriculation began prior to the enactment of the Truth in Tuition law, the overall WAT was applied to these beneficiaries. Furthermore, since fees are allowed to increase annually, even for students under the Truth in Tuition law, our projections estimate fees separately from tuition. The table below lists these various tuition-only WATs.

WAT Type	Headcount	Tuition Component of WAT
2008 Enrollment	33,986	$8,174
2007 Enrollment	26,207	$7,505
2006 Enrollment	33,091	$6,688
2005 Enrollment	44,129	$5,979
Overall	137,413	$6,984

Fees. Fees were projected separately from tuition for beneficiaries who fall under the Truth in Tuition law since the law does not apply to fees. Fees are assumed to increase 10.00% in 2009, 9.00% in 2010, and then 8.00% per annum thereafter for these students. For continuing students at public universities and students attending community colleges, fees are combined with tuition in our projections and follow their respective tuition inflation assumptions. Fees represented $2,469 of the overall public university 2008-2009 WAT.

Weighted Average Tuition: Community Colleges. The WAT for community colleges is $2,762 for 2008-2009.

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 between 8.50% and 9.0% each year throughout the life of the contracts, we also expect actual returns to vary from year to year. The Trust Fund can also be affected by other changes, such as new legislation or the refinement of the underlying actuarial model. 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. Therefore, we have rerun the valuation under alternative assumptions for future investment income, tuition increases, and fee increases and present results under the following alternative scenarios. Note that tuition increases in these scenarios are assumed to represent tuition plus fee increases for continuing students at public universities and students attending community colleges.

1. Tuition increases are 100 basis points lower in each future year than assumed in the measurement of soundness.
2. Tuition increases are 100 basis points higher in each future year than assumed in the measurement of soundness.
3. Fee increases are 100 basis points lower in each future year than assumed in the measurement of soundness.
4. Fee increases are 100 basis points higher in each future year than assumed in the measurement of soundness.
5. The investment return is 100 basis points lower in each future year than assumed in the measurement of soundness.
6. The investment return is 100 basis points higher in each future year than assumed in the measurement of soundness.

The actuarial reserve that would exist as of June 30, 2008 under each of these scenarios is presented in the following table:

Scenario	Indicated Surplus / (Deficiency) as of 6/30/2008	Funded Ratio	Scenario	Indicated Surplus / (Deficiency) as of 6/30/2008	Funded Ratio
1	**($205,932,956)**	**85.2%**	**4**	**($298,371,379)**	**79.9%**
2	**($346,711,807)**	**77.4%**	**5**	**($384,093,073)**	**75.6%**
3	**($250,248,664)**	**82.6%**	**6**	**($174,429,087)**	**87.1%**

Alternative Asset Valuation

Alternative Asset Valuation

At the request of the Commission, an alternative asset calculation was performed for comparative purposes. This approach consisted of realizing the shortage or excess of actual investment return versus expected investment return over a five-year time horizon. An interest rate of 8.70% percent, the long-term net investment assumption, was utilized in determining the amortized amounts of the shortages or excesses in the investment return.

As of June 30, 2008, this approach would decrease the reported deficit by $87.6 million, resulting in an alternative asset value of $1,080.2 million, a deficit of $185.6 million, and an alternative funded ratio of 87.3%.

The $87.6 million figure represents unrealized investment losses that would be amortized into the alternative asset value over the next four years. If future asset returns equal expected asset returns over the next four years, the alternative asset valuation would eventually yield the same result as the actual current assets.

Valuation Year	Investment Yield Excess / (Shortage) At Valuation Year	Investment Yield Excess / (Shortage) At June 30, 2008	Excess / (Shortage) Realized	Excess / (Shortage) Unrealized
2005	8.9	11.4	9.5	1.9
2006	(5.9)	(6.9)	(4.5)	(2.4)
2007	58.6	63.7	28.7	35.0
2008	(159.5)	(159.5)	(37.4)	(122.1)
	Totals:	(91.3)	(3.7)	(87.6)

The figures above are in millions.

Plan Provisions

Plan Provisions

The plan covers the tuition and mandatory fees at an Illinois public 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 or supplies. 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, 120-month, and 180-month installment options, and 5-year, 10-year, and 15-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 purchaser may request a refund 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" as defined in Section 529 of the Internal Revenue Code. Purchasers can also choose to postpone the beneficiary's use of contract benefits to a later time or receive a refund payment equal to all contributions, plus two percent interest, less applicable cancellation fees.

Death or Disability: In the event of death or total disability of the qualified beneficiary, monies 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	$992,675,853
b. Actuarial Present Value of future payments expected to be made to the fund by contract purchasers	$193,922,837
c. Subtotal (a + b)	$1,186,598,690
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	$1,459,764,205
e. Surplus / (Deficiency) as of June 30, 2008 (c - d)	($273,165,515)

Trust Assets

Appendix B

Summary of Assets	Market Value
a) Cash	$5,997,576
b) Securities Lending Income	764,547
c) SSgA S&P 500	146,887,668
d) C.S. Mckee Investment Managers	76,402,793
e) RhumbLine Advisors Large Cap Growth	126,133,656
f) SSgA Passive Bonds	54,472,113
g) LSV Asset Management	36,189,939
h) Piedmont Investment Advisors	30,960,141
i) Great Lakes Advisors	39,391,965
j) Earnest Partners LLC	39,331,329
k) Nicholas Applegate	48,658,981
l) LSV Asset Management International	97,342,509
m) Denver Investment Advisors	45,504,548
n) Pugh Capital Management	30,938,032
o) Income Research and Management	81,122,381
p) Galliard Capital	80,793,114
q) RhumbLine Advisors	52,696,606
r) Accounts Payable and Accrued Liabilities - Net of Accrued Interest	912,045
Total Assets as of June 30, 2008 **Sum of (a) through (q), less (r)**	**$992,675,853**

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
2008	992,675,853	80,978,916	53,756,800	78,910,853
2009	1,044,364,590	91,801,963	43,919,257	84,637,401
2010	1,081,119,285	107,872,805	37,104,612	89,071,442
2011	1,099,422,534	125,305,045	30,241,375	89,310,381
2012	1,093,669,244	141,112,197	22,409,473	87,514,063
2013	1,062,480,584	155,172,895	16,673,657	83,700,455
2014	1,007,681,801	168,142,242	13,429,189	78,005,312
2015	930,974,059	178,912,255	10,064,680	70,532,852
2016	832,659,337	188,012,853	6,848,378	61,288,517
2017	712,783,379	196,223,533	4,290,773	50,250,580
2018	571,101,199	197,765,774	2,059,081	37,735,298
2019	413,129,805	193,701,687	2,057,499	24,239,105
2020	245,724,721	193,205,771	2,056,196	9,704,994
2021	64,280,141	186,801,421	1,811,542	(5,701,265)
2022	(126,411,004)	176,581,378	889,924	(21,708,545)
2023	(323,811,002)	181,629,780	0	(39,227,551)
2024	(544,668,333)	165,111,631	0	(57,436,662)
2025	(767,216,625)	143,113,462	0	(75,459,312)
2026	(985,789,398)	107,409,663	0	(92,301,815)
2027	(1,185,500,877)	71,606,522	0	(107,497,340)
2028	(1,364,604,738)	44,004,393	0	(121,399,205)
2029	(1,530,008,336)	24,960,608	0	(134,630,103)
2030	(1,689,599,047)	12,938,332	0	(147,782,687)
2031	(1,850,320,066)	7,052,718	0	(161,407,152)
2032	(2,018,779,936)	2,925,832	0	(175,811,953)
2033	(2,197,517,721)	1,101,565	0	(191,251,095)
2034	(2,389,870,382)	186,539	0	(207,930,078)
2035	(2,597,986,998)	3,254	0	(226,025,067)

CIPTP Beneficiary Data - Enrollment Year 2007-2008 Appendix D.1

Projected Enrollment Year	Plan Type (Semesters at Public University, at Community College) (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)	Total Enrollment by Year	Percent of Total
2011	37	84	19	48	5	23	2	44	14	4	5	1	8	3	297	**6.6%**
2012	29	57	10	65	9	7	4	64	12	0	4	1	10	14	286	**6.3%**
2013	18	63	16	60	3	13	8	59	15	2	4	0	17	23	301	**6.6%**
2014	37	58	16	50	9	14	2	69	16	0	2	1	10	16	300	**6.6%**
2015	25	51	9	54	3	21	6	67	9	3	5	0	12	23	288	**6.4%**
2016	31	50	7	48	4	12	7	71	13	5	6	1	17	12	284	**6.3%**
2017	28	49	10	47	5	12	4	74	14	2	6	0	13	15	279	**6.2%**
2018	33	45	5	49	4	8	4	71	12	5	9	0	7	16	268	**5.9%**
2019	28	46	10	45	1	8	2	57	16	2	7	0	9	9	240	**5.3%**
2020	35	61	10	62	6	17	4	97	21	4	2	1	10	25	355	**7.8%**
2021	31	41	8	57	5	7	3	56	18	1	1	0	12	15	255	**5.6%**
2022	32	33	5	55	3	9	2	63	16	4	1	1	11	18	253	**5.6%**
2023	40	49	5	57	5	6	1	62	15	9	4	0	10	19	282	**6.2%**
2024	35	62	6	56	4	6	2	83	14	6	1	2	6	11	294	**6.5%**
2025	54	65	4	48	7	9	3	108	33	3	2	0	12	30	378	**8.3%**
2026	26	26	4	22	2	2	0	51	13	0	3	0	5	19	173	**3.8%**
Total	**519**	**840**	**144**	**823**	**75**	**174**	**54**	**1,096**	**251**	**50**	**62**	**8**	**169**	**268**	**4,533**	
Percent	**11.4%**	**18.5%**	**3.2%**	**18.2%**	**1.7%**	**3.8%**	**1.2%**	**24.2%**	**5.5%**	**1.1%**	**1.4%**	**0.2%**	**3.7%**	**5.9%**		

CIPTP Beneficiary Data - All Enrollment Years

Appendix D.2

Projected Enrollment Year	Plan Type (Semesters at Public University, at 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	0	5	1	8	1	7	5	38	13	0	0	0	5	8	91	**0.2%**
2003	0	5	2	13	3	15	1	91	30	0	0	0	2	18	180	**0.3%**
2004	1	8	2	47	5	21	4	225	76	0	1	1	8	49	448	**0.8%**
2005	3	25	3	77	9	54	22	597	113	0	5	1	23	69	1,001	**1.9%**
2006	3	39	17	152	35	128	17	743	194	0	6	1	29	119	1,483	**2.8%**
2007	8	70	36	300	28	131	19	859	197	1	5	0	58	161	1,873	**3.5%**
2008	191	642	130	851	80	250	37	1,596	329	18	43	5	178	287	4,637	**8.7%**
2009	103	268	68	420	44	149	20	1,164	272	9	21	2	125	232	2,897	**5.5%**
2010	125	277	85	465	52	154	26	1,326	296	15	23	5	137	265	3,251	**6.1%**
2011	128	339	95	482	58	138	25	1,433	332	15	26	3	136	310	3,520	**6.6%**
2012	129	309	95	463	59	109	30	1,529	335	15	29	5	127	254	3,488	**6.6%**
2013	115	343	96	461	59	122	37	1,433	353	16	29	4	143	274	3,485	**6.6%**
2014	142	274	86	422	44	130	18	1,481	313	12	22	3	110	275	3,332	**6.3%**
2015	123	279	68	417	37	116	29	1,437	324	22	31	1	127	286	3,297	**6.2%**
2016	148	284	66	409	51	113	39	1,385	326	22	26	2	123	233	3,227	**6.1%**
2017	130	273	61	357	41	120	29	1,240	305	16	22	0	99	224	2,917	**5.5%**
2018	132	231	46	307	31	104	24	1,062	258	18	19	2	82	185	2,501	**4.7%**
2019	126	193	43	291	29	70	20	919	259	16	26	1	64	183	2,240	**4.2%**
2020	120	202	50	306	47	76	18	929	251	24	14	4	62	153	2,256	**4.2%**
2021	109	173	36	245	36	66	22	739	206	15	9	0	58	155	1,869	**3.5%**
2022	121	170	31	216	13	61	12	678	187	16	13	2	41	143	1,704	**3.2%**
2023	117	146	31	188	26	45	9	502	137	28	9	2	50	115	1,405	**2.6%**
2024	94	152	21	169	23	34	7	383	97	20	10	2	34	63	1,109	**2.1%**
2025	81	106	14	103	10	19	6	245	67	8	4	0	19	59	741	**1.4%**
2026	26	26	4	23	2	2	0	52	13	0	3	0	5	19	175	**0.3%**
Total	**2,275**	**4,839**	**1,187**	**7,192**	**823**	**2,234**	**476**	**22,086**	**5,283**	**306**	**396**	**46**	**1,845**	**4,139**	**53,127**	
Percent	**4.3%**	**9.1%**	**2.2%**	**13.5%**	**1.5%**	**4.2%**	**0.9%**	**41.6%**	**9.9%**	**0.6%**	**0.7%**	**0.1%**	**3.5%**	**7.8%**		