



ANNUAL REPORT

FISCAL YEAR 2004

Illinois Student Assistance Commission



ILLINOIS PREPAID
TUITION PROGRAM:
ILLINOIS STUDENT
ASSISTANCE COMMISSION

February 25, 2005

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

We are pleased to issue the fiscal year 2004 Annual Report for *College Illinois!*, the state's Section 529 Prepaid Tuition Program. This report references the program's sixth consecutive year of operation, including the program's sixth enrollment period – from October 27, 2003, through March 31, 2004 – during which almost 6,000 new *College Illinois!* contracts were purchased. Once the sixth annual enrollment period was completed, *College Illinois!* prepaid tuition contracts in force on June 30, 2004, totaled 38,009. In fact, *College Illinois!* participants have committed approximately \$700 million toward the purchase of prepaid tuition contracts, representing more than 120,000 years of college either already prepaid or in the process of being prepaid through the program.

The program's most recent Actuarial Valuation Report, prepared by actuaries at Richard M. Kaye and Associates in conjunction with PricewaterhouseCoopers LLP, is included in its entirety within the Annual Report. As of June 30, 2004, the actuarial value of expected liabilities exceeds assets (including the value of future payments by contract purchasers) by \$72.6 million, resulting in a funded ratio of approximately 90 percent. The Annual Report also indicates that program assets are expected to cover all benefit payments through at least the year 2020, even assuming that no additional contracts are sold subsequent to June 30, 2004. These results are indicative of the financial strength of *College Illinois!*

For a second consecutive year, the program's level of financial soundness has improved as evidenced by a reduction in the deficit amount and a higher funding ratio. The actuarial deficit has declined because the dollar impact of positive factors (i.e., investment performance and price premiums) was greater than the dollar impact of negative factors (i.e., revision of the tuition increase assumption, first-year implementation of the new Truth in Tuition law, and actual tuition and fee increases in 2003-2004). The Commission has been consistently realistic each year in setting investment return and tuition inflation assumptions. The Commission also has set contract prices conservatively during each of the past three enrollment periods, at a level that will over time amortize the actuarial deficit. These past actions combined with continuing strong contract sales and asset appreciation have had a positive impact upon the program's financial soundness. Contract prices for 2004-2005 once again include a factor to continue the amortization of the program's actuarial deficit.

College Illinois! continues to gain in popularity 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. An added benefit for program participants as the program enters FY2005, is the Illinois state tax deduction available for contributions made in calendar year 2005 and beyond. Illinois government officials have wisely provided this benefit for the State's prepaid tuition program that had previously been available only to participants in the State's 529 savings plan, thus eliminating inequity and confusion over this issue.

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

Sincerely,

Larry E. Matejka, Executive Director
Illinois Student Assistance Commission

Randy P. Erford, Director
College Illinois!

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The Illinois Student Assistance Commission

J. Robert Barr, Chairman

Retired Senior Counsel, Sidley Austin Brown and Wood, of Evanston

Pauline Betts

Retired Dean of Guidance, Springfield High School, of Springfield

Robert Casey

Partner, Casey Brannen & Romag, of Batavia

Christopher E. Kurczaba

Partner, Horn Whitcup and Kurczaba, of Chicago

George Lesica

Student Commissioner, of Brookfield

Dr. Mary Ann Louderback

Former Member, Illinois Educational Labor Relations Board, of Cary

C. Richard Neumiller

Retired, Central Illinois Light Company, of Peoria

Hugh E. Van Voorst

President, Van Voorst Lumber and VanFab, Inc., of Union Hill

Gretchen A. Winter

Vice President and Counsel, Baxter International Inc., of Chicago

College Illinois! Investment Advisory Panel

John Albin

President, Longview Capital Corporation, of Newman

George Clam

President, Oak Brook Bank, of Woodridge

Edward Madden

President, Heritage Bank of Schaumburg, of Chicago

Michael Mann

Associate Director, Illinois Board of Higher Education, of Jacksonville

Michael Neill

Trust Officer, Old National Bank, of Carbondale

Ingrid Stafford

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

PROGRAM OVERVIEW

College Illinois!, the Illinois Prepaid Tuition Program, is administered by the Illinois Student Assistance Commission, the state agency that has been helping Illinois families pay for college for almost 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 or ten years. *College Illinois!* covers undergraduate tuition and mandatory fees but does not cover other expenses such as room and board, books and transportation.

Benefits provided by *College Illinois!* are entirely exempt from both federal and state income tax. The federal legislation for federal tax exemption included a sunset provision for these benefits of December 31, 2010, although Congress is currently considering legislation that will most likely extend this benefit. In addition, legislation was passed at the state level in the summer of 2004 providing a tax deduction for contributions to *College Illinois!* beginning with tax year 2005.

During FY2004, *College Illinois!* completed its sixth enrollment period. As of June 30, 2004 there were approximately 38,009 contracts in force with a purchase value of approximately \$700 million. As the only college funding tool backed by the state of Illinois, *College Illinois!* can protect purchasers against tuition and fee increases that historically have averaged over 7.7 percent per year during the past twenty years at public universities in Illinois. It is an affordable, flexible and tax-advantaged program, designed to be the cornerstone of any family's college funding plan.

FINANCIAL STATEMENTS

**State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program**

Financial Audit
For the Year Ended June 30, 2004

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

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

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State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Agency Officials

Executive Director

Larry E. Matejka

Deputy Executive Director

Kathleen T. Rooney

Chief Financial Officer

Marcia Thompson

General Counsel

Karen Salas

Director of Internal Audit

Wendy Funk

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015-5209

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Financial Statement Report

Summary

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

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

McGladrey & Pullen

Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2004, 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, Illinois Student Assistance Commission as of June 30, 2004, 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, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The State of Illinois, Illinois Student Assistance Commission has not presented a management's discussion and analysis 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 October 22, 2004 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
October 22, 2004

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois Prepaid Tuition Program (Program) of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. 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 State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Prepaid Tuition Program in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
October 22, 2004

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Net Assets
June 30, 2004

Assets

Current

Cash and cash equivalents	\$ 6,917,130
Receivables:	
Accrued interest on investments	9,584
Total current assets	<u>6,926,714</u>

Noncurrent

Investments	<u>491,938,345</u>
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Total assets	<u>498,865,059</u>
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Liabilities

Current

Accounts payable and accrued expenses	367,390
Tuition payable	14,682,535
Accreted tuition payable	1,105,137
Due to other State funds	25,848
Compensated absences	7,434
Total current liabilities	<u>16,188,344</u>

Noncurrent

Tuition payable	442,544,971
Accreted tuition payable	79,365,712
Compensated absences	66,909
Total noncurrent liabilities	<u>521,977,592</u>

Total liabilities	<u>538,165,936</u>
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Net Assets, unrestricted (deficit)	<u>\$ (39,300,877)</u>
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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, 2004

Operating revenues:	
Income from investment securities	\$ 47,708,555
Interest revenue - other	84,589
Application and other fees	2,470,103
Total operating revenues	<u>50,263,247</u>
Operating expenses:	
Salaries and employee benefits	580,340
Accreted tuition expenses	31,202,872
Management and professional services	2,556,079
Investment management fees	1,431,470
Total operating expenses	<u>35,770,761</u>
Change in net assets	14,492,486
Net assets (deficit), July 1, 2003	<u>(53,793,363)</u>
Net assets (deficit), June 30, 2004	<u>\$ (39,300,877)</u>

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows
Year Ended June 30, 2004

Cash flows from operating activities	
Cash receipts from prepaid tuition contracts	\$ 117,157,592
Cash received from application and other fees	2,470,103
Cash paid for refund of contracts	(2,680,197)
Cash paid for tuition and accretion	(4,898,856)
Cash payments to suppliers for goods and services	(2,558,129)
Cash payments to employees for services	(580,426)
Net cash provided by operating activities	<u>108,910,087</u>
Cash flows from investing activities	
Purchase of investment securities	(187,527,503)
Sales and maturities of investment securities	70,166,420
Interest and dividends on investments	8,962,361
Cash paid to investment managers	(1,431,470)
Net cash used in investing activities	<u>(109,830,192)</u>
Net decrease in cash and cash equivalents	(920,105)
Cash and cash equivalents, July 1, 2003	<u>7,837,235</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 6,917,130</u>

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows (Continued)
Year Ended June 30, 2004

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

Operating income	\$ 14,492,486
Adjustments to reconcile operating income to net cash provided by operating activities:	
Investment and other interest income	(47,793,144)
Accreted tuition expense	31,202,872
Investment management fees	1,431,470
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	(14,982)
Due to other funds	10,905
Tuition payable	109,580,566
Compensated absences	(86)
Total adjustments	<u>94,417,601</u>
Net cash provided by operating activities	<u>\$ 108,910,087</u>
Supplemental disclosure of noncash transactions:	
Net appreciation in fair value of investments	<u>\$ 38,847,472</u>

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Notes to Financial Statements

Note 1. Description of Program

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

Legislation authorizing ISAC to administer an Illinois Prepaid Tuition Program was passed in November 1997. The Illinois Prepaid Tuition Program is administered by ISAC with advice and counsel from an investment advisory panel consisting of seven members appointed by ISAC. The purpose of this program is to provide Illinois families with an affordable tax-advantaged method to pay for college. Illinois Prepaid Tuition contracts will allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at current program prices which are considerably less than projected future college costs. Benefits of the contracts can also be used at private and out-of-state colleges and universities. Contracts can be purchased in a lump sum payment or in installments.

The first contracts were offered for sale in 1998. After six enrollment periods, as of June 30, 2004, the Illinois Prepaid Tuition Program had 38,009 contracts with a purchased value of \$679,914,842. As of June 30, 2004, the fund has received cash collections of \$475,896,929.

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.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Notes to Financial Statements

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, 2004, 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.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies - Continued

E. Investments

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

F. Interfund Transactions

The Illinois Prepaid Tuition Program has the following type of interfund transactions with other funds of the State:

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

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

G. Compensated Absences

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

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

H. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 38,009 contracts held by the fund as of June 30, 2004.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies - Continued

I. Net Assets, Unrestricted (Deficit)

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

J. Use of Estimates

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

K. Funding and Actuarial Assumptions

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

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

Note 3. Deposits and Investments

A. Authorized Investments

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 prepaid tuition program. The panel is required to annually review and advise the Commission on provisions of the strategic investment plan, which will specify the investment policies to be utilized by the Commission in the administration of the Prepaid Tuition Program.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Notes to Financial Statements

Note 3. Deposits and Investments - Continued

A. Authorized Investments - 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.

B. Deposits

Cash on deposit for the Illinois Prepaid Tuition Program had a carrying amount of \$634,665 and a bank balance of \$634,665 at June 30, 2004. Of the total bank balance, \$100,000 was insured through the Federal Deposit Insurance Corporation (FDIC). The remaining \$534,665 was uncollateralized.

Deposits in the custody of the State Treasurer, or in transit, totaled \$4,190,068 at June 30, 2004. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Commission does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

C. Investments

ISAC is required annually to adopt a comprehensive investment plan to invest the funds received through contract payments. The Commission approved the program's most recent revision to the investment plan on January 16, 2004. The comprehensive investment plan specifies the investment policies to be utilized by the Commission in its administration of the Illinois Prepaid Tuition Program. The Commission may direct that assets of those funds be invested in a manner which will provide the investment return and risk level consistent with the actuarial return requirements and risk levels and cash flow demands of the Fund. The investments should be in compliance with all applicable federal and state laws and other statutes governing the investment of Tuition Program resources.

ISAC has retained State Street Global Advisors, Banc One Investment Advisors, William Blair & Company, Osprey Partners, Wasatch Advisors, Richmond Capital Management, Jarislowsky Fraser and added LSV Asset Management, SSgA Russell 1000 Growth CTF, SSgA 2000 Value Index Fund, and SSgA – Russell 1000 Value Account as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. Approximately \$108,500,000 of additional contract payments received has been invested as of the end of the fiscal year June 30, 2004. 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 College Illinois! Program by the investment managers is restricted to the payout of tuition and fee benefits for program beneficiaries.

State of Illinois
 Illinois Student Assistance Commission
 Illinois Prepaid Tuition Program

Notes to Financial Statements

Note 3. Deposits and Investments - Continued

C. Investments

As of June 30, 2004, 61% of the funds were invested in Domestic Equities, 33% in Domestic Fixed Income, 5% in International Equity and 1% as Cash and Equivalents. Investments of the Fund are recorded at fair value based on quoted market prices.

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

	Carrying Amount / Fair Value			Total
	1	2	3	
U.S. Government and Agency Securities	\$ -	\$ -	\$ 166,132,037	\$ 166,132,037
Stocks - Domestic	-	-	186,001,265	186,001,265
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 352,133,302</u>	<u>352,133,302</u>
Not subject to categorization:				
Mutual Funds - Domestic				114,180,273
Mutual Funds - International				25,624,770
* The Illinois Funds				<u>2,092,397</u>
Total Investments				<u>\$ 494,030,742</u>

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

State of Illinois
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Notes to Financial Statements

Note 4. Balances Due to Other State Funds

As of June 30, 2004, the Illinois Prepaid Tuition Program owed the Audit Fund \$25,848 for the cost of the fiscal year 2003 audit.

Note 5. Compensated Absences Payable

Changes in compensated absences for the year ended June 30, 2004, were as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amounts Due Within One Year
Compensated absences	\$ 74,429	\$ 31,736	\$ 31,822	\$ 74,343	\$ 7,434

Note 6. Tuition Payable

Tuition payable activity for the year ended June 30, 2004 is as follows:

Balance July 1, 2003	\$ 347,305,676
Add:	
Contribution	117,157,592
Less:	
Return of contribution	(2,680,197)
Tuition payments	(4,555,565)
Balance June 30, 2004	<u>\$ 457,227,506</u>
Reported as:	
Current	\$ 14,682,535
Noncurrent	442,544,971
	<u>\$ 457,227,506</u>

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Notes to Financial Statements

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 2004 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.25% and is based on the average increase in tuition for Illinois colleges.

Average monthly tuition payable during the year	<u>\$ 382,036,997</u>
Estimate of 8.25% increase of tuition payable	<u>\$ 31,518,052</u>
Present value	<u>\$ 31,202,872</u>
Beginning balance accretion payable as of July 1, 2003	\$ 49,609,240
Accretion expense	31,202,872
Accretion payments	<u>(341,263)</u>
Ending balance accretion payable as of June 30, 2004	<u>\$ 80,470,849</u>
Reported as:	
Current	\$ 1,105,137
Noncurrent	<u>79,365,712</u>
	<u>\$ 80,470,849</u>

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

Note 8. Pension Plan

Substantially all of ISAC's full-time employees who are not eligible for participation in another state sponsored retirement plan participate in the State Employees' Retirement System (SERS) which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined/benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2004 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004. 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.

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Notes to Financial Statements

Note 8. Pension Plan – Continued

ISAC pays employer retirement contributions for the Illinois Prepaid Tuition Program based upon an actuarially determined percentage of its payroll. For fiscal year 2004, the employer contribution rate was 13.44%. The required and actual contribution was \$54,013. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including ISAC) with employees covered by the State Employees' and Teachers' Retirement Systems. Generally, this "pick-up" of employee retirement was part of the fiscal year 2003 budget process. The pick-up is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

Note 9. Post-employment Benefits

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

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2004.

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

Note 10. Fund Deficits

College Illinois!, the State's section 529 prepaid tuition program, has taken action to reduce and ultimately eliminate its \$72 million current actuarially determined deficit over time. The Illinois Student Assistance Commission (ISAC), administrator of the College Illinois! program, has added a premium to contract prices during each of the past four enrollment periods (2001-02 through 2004-05) to partially amortize the current actuarial deficit, and the Commission could perpetuate these or similar actions in subsequent years until any deficit is fully amortized.

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 future enrollment period, as well as future expectations for tuition and fees increases at those institutions. A large proportion of the program's actuarial deficit is related to increasing the Illinois public universities' tuition growth expectation to 10% for fiscal years 2003 and 2004, 9% for fiscal year 2005 and 7.5% long-term rather than 7%. Another factor contributing to the actuarial deficit is that beginning with fiscal year 2003, the program's long-range investment return assumption was lowered by 25 basis points from 8% to 7.75%.

State of Illinois
 Illinois Student Assistance Commission
 Illinois Prepaid Tuition Program

Notes to Financial Statements

Note 10. Fund Deficits - Continued

The Commission changed these assumptions when pricing contracts during 2002 through 2004, recognizing that the State's continuing budget crisis has resulted in higher-than-expected public university tuition during each of the past three years and implementation of the new Truth-in-Tuition law (in 2004) also may impact future tuition increases for classes of new students entering the State's public universities. In 2002 the Commission reduced the program's long-term investment return assumption, in recognition that the economy may recover more slowly than expected due to external shocks that have adversely affected financial markets during the past several years.

The number of contracts purchased annually and the level at which they are priced also impacts significantly upon the program's actuarial deficit or reserve. In fact, the approximately 6,000 contracts purchased in 2003-2004 contributed an estimated \$11 million toward reducing the program's actuarial deficit.

ISAC is required by State statute to prepare a report describing the financial condition of the program. Included in this report shall be an actuarial evaluation on the financial viability of the program. An Actuary's Report on Soundness was prepared on College Illinois! Prepaid Tuition Program. According to the actuarial evaluation report, there is a deficit of (\$72,639,496) in the program.

	<u>Actuarial Evaluation</u>
Net assets, before tuition/accretion payable	\$ 498,397,479
Actuarial present value of future payments expected to be made by contract purchasers	<u>165,687,895</u>
Subtotal	664,085,374
Actuarial present value of future payments expected to be made by the program	<u>736,724,870</u>
Actuarial deficit as of June 30, 2004	<u><u>\$ (72,639,496)</u></u>

Actuarial projections indicate that the program's cash flow (contributions received less tuition benefits and expenses) is expected to remain positive through FY2009 even without reflecting the expected proceeds from contracts sold after June 30, 2004. Moreover, on this basis, total program assets are projected to cover benefit payments through FY2020.

State of Illinois
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Notes to Financial Statements

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, 2004.

Note 12. New Governmental Accounting Standards

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

Statement No. 40 – *Deposit and Investment Risk Disclosures, an amendment to certain provisions of GASB Statement No. 3*, requires certain disclosures of investments that have fair values that are sensitive to changes in interest rates. The Commission is required to implement this Statement for the year ending June 30, 2005.

Statement No. 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires governments to report the effects of capital asset impairment in their financial statements when it occurs. It also provides guidance for accounting for insurance recoveries. The Commission is required to implement this Statement for the year ending June 30, 2006.

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The Commission is required to implement this Statement for the year ending June 30, 2007.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The Commission is required to implement this Statement for the year ending June 30, 2008.

Management has not yet completed their assessment of these Statements, however, they are not expected to have a material effect on the overall financial statement presentation.

ACTUARIAL REPORT



**Actuary's Report on Soundness
June 30, 2004**

October 2004

October 15, 2004

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

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

Dear Mr. Erford:

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, 2004. 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, 2004.

A comparison of the assets and liabilities of the trust fund shows that as of June 30, 2004 there is an actuarial deficit of \$72,639,496.

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

Respectfully submitted,

PricewaterhouseCoopers LLP

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

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

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

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- 3 Valuation Assumptions and Methods
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- C Cash Flow Projection
- D CIPTP Beneficiaries

Introduction

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

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, 2004. This soundness measure results in a point estimate of the actuarial reserve associated with the Trust Fund as of June 30, 2004.

Distribution and Use

This report was prepared for internal use by the board of *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 reserve shown in this report are point estimates. As estimates, these values are subject to variability. The possibility of this variability arises from the fact that not all factors affecting the projections have taken place and cannot be evaluated with absolute certainty. We have, however, used methods of estimation that we believe produce reasonable results given current information. No guarantee should be inferred that cash flows will develop as shown in this report.

Executive Summary

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Executive Summary

Valuation Results

As of June 30, 2004, 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 \$72.6 million. The current deficit is \$3.6 million lower than the \$76.2 million deficit estimated as of June 30, 2003. The deficit declined as the dollar impact of positive factors was greater than the dollar impact of negative factors. On the positive side, asset appreciation exceeded expectations by \$16 million and the premium inherent in the prices charged during the latest enrolment period designed to improve the soundness of the program generated another \$11 million. On the negative side, tuition and fee experience and assumptions increased the deficit by \$18 million and the interest accumulated on last year's deficit was \$6 million. The increased tuition and fee experience and assumptions reflect the combined impact of the higher than expected tuition increase for 2004/2005 school year, the impact of the new Truth in Tuition law and the increase in the Commission's long-term view on future tuition growth from 7.0% to 7.5% per annum. 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 20 of the report, we display the financial status of the Trust Fund based upon alternative assumptions regarding investment results and tuition and fee increases.

The program's current funded ratio of approximately 90.1% is an improvement over the 87.0% funded ratio as of June 30, 2003. The cash flow projection shown in Appendix C indicates that the program's cash flow is expected to remain positive through fiscal year 2009. The total program assets are projected to cover expected benefit payments through fiscal year 2020. These latter two projections represent improvement over last year when the corresponding years were 2005 and 2018 respectively.

Truth in Tuition

The Trust Fund deficit recognizes the first-year impact of the state's new Truth in Tuition law, which provides that, beginning with the 2004-2005 year, Illinois public universities cannot increase the amount of tuition charged to students who remain enrolled for four consecutive years. It is difficult at this time to assess the continuing impact on tuition and fees of this legislation.

Contracts in Force

As of June 30, 2004, the total number of contracts in force (net of cancellations) for CIPTP was 38,009. The contracts sold for four years at a university accounted for approximately 44% of all contract sales. Contracts for university enrollment represents approximately 86% of sales. Contracts for community college enrollment and combined community college and university enrollment account for approximately 14% of sales. Enrollment data is summarized in Appendix D.

Weighted Average Tuition

The Weighted Average Tuition (WAT) is the average of tuition and mandatory fees for public in-state schools weighted in proportion to the number of full-time equivalent students attending such schools. The 2004-2005 Illinois public university WAT is \$6,565, a 13.5% increase over the 2003-2004 WAT. The 2004-2005 Illinois community college WAT is \$2,138, an increase of 10.5% over the 2003-2004 WAT.

Actuarial Assumptions

The major actuarial assumptions are chosen by the Commission. Specifically, tuition and fees are assumed to increase at 9.0% from 2004-2005 to 2005-2006 and then 7.5% thereafter for public university students subject to Truth in Tuition, 7.5% per annum for continuing students at public universities, and 6.5% for the community colleges. Investments are expected to earn 7.75% per annum, and new contracts are assumed to be 6,000 in each subsequent enrollment. The actuarial assumptions and methods are fully described in the following section of this report.

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Funded Status

The value of expected liabilities exceeds the assets as of June 30, 2004 (including the value of future payments by contract purchasers) of the trust fund by \$72,639,496. The funded ratio, assets divided by liabilities, is approximately 90.1%. The assumptions used to perform the actuarial valuation of the fund are described on pages 15 through 17 of this report. The primary assumptions are:

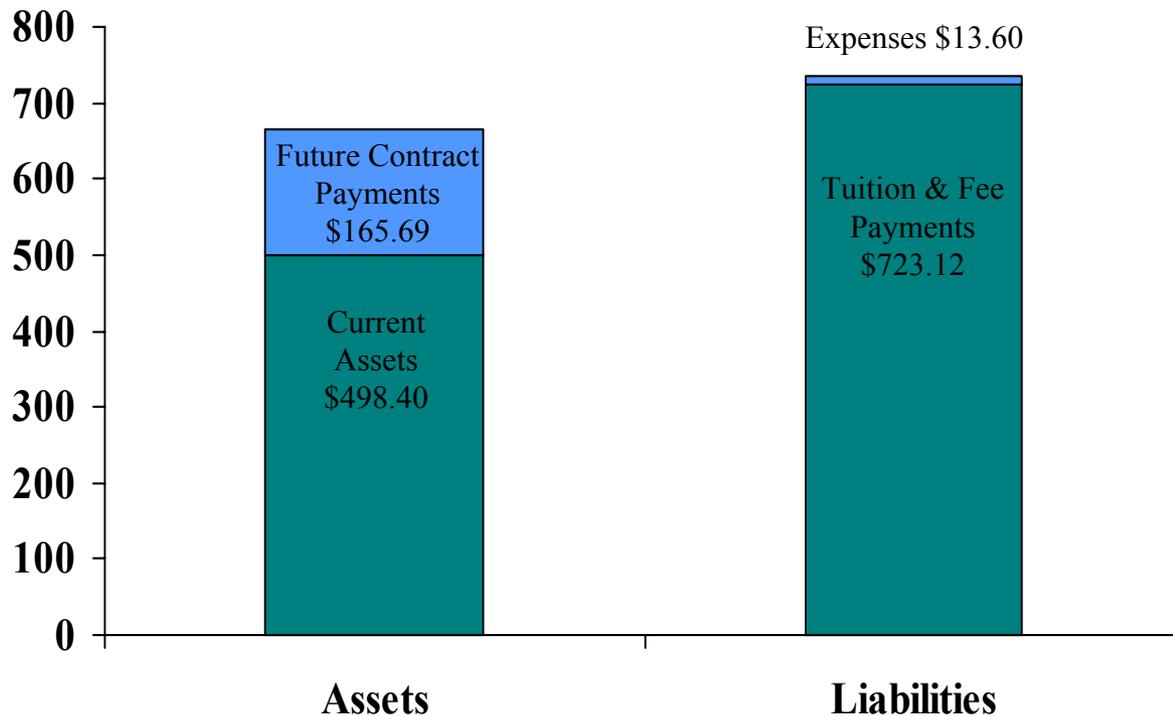
Tuition Increases: 9.0% for 2005-2006 and 7.5% per annum thereafter for public university students subject to Truth in Tuition, 7.5% for continuing students at public universities, and 6.5% per annum for community colleges

New contracts: 6,000 in future enrollments

Investment Return: 7.75% per annum

Total: \$664.09 million

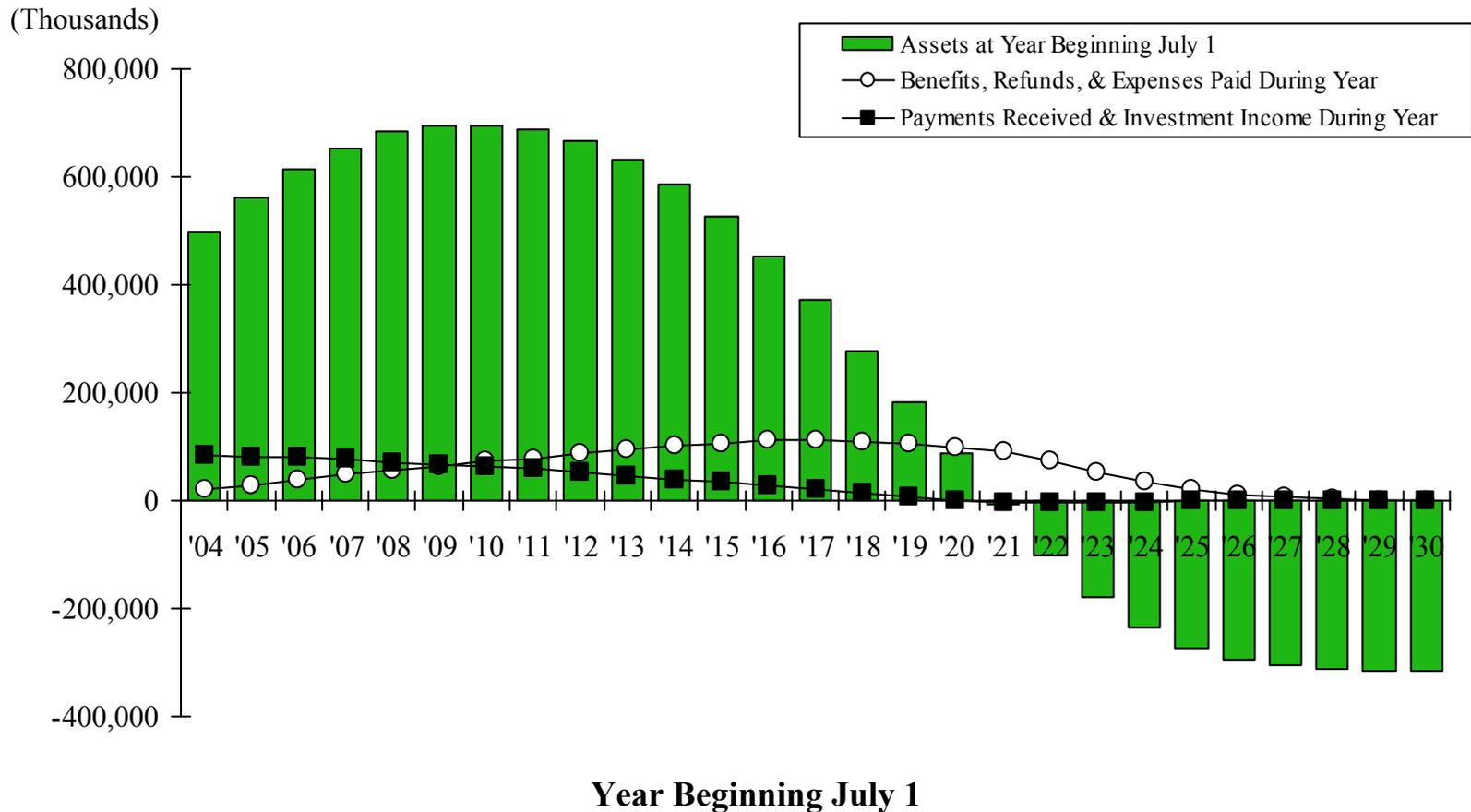
Total: \$736.72 million



COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Cash Flow Projection

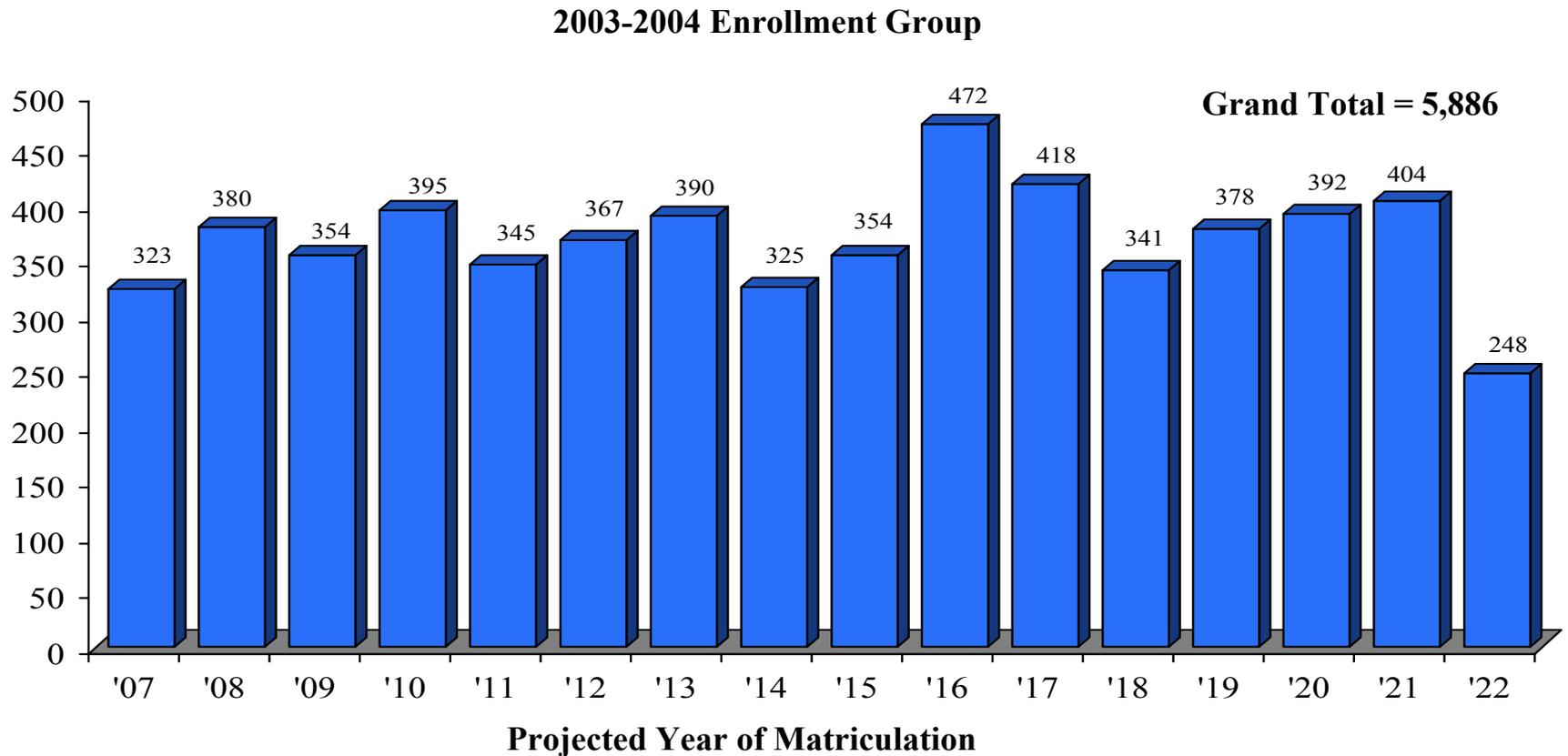
The expected income and disbursements of the Trust Fund, based on the assumptions used in the actuarial valuation and the current group of contract beneficiaries, are shown below. These amounts are cash amounts, not present value amounts.



COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Contracts in Force for the 2003-2004 Enrollment Group

The chart below illustrates the total number of active contracts by expected year of community college or university matriculation for the 2003-2004 enrollment group.

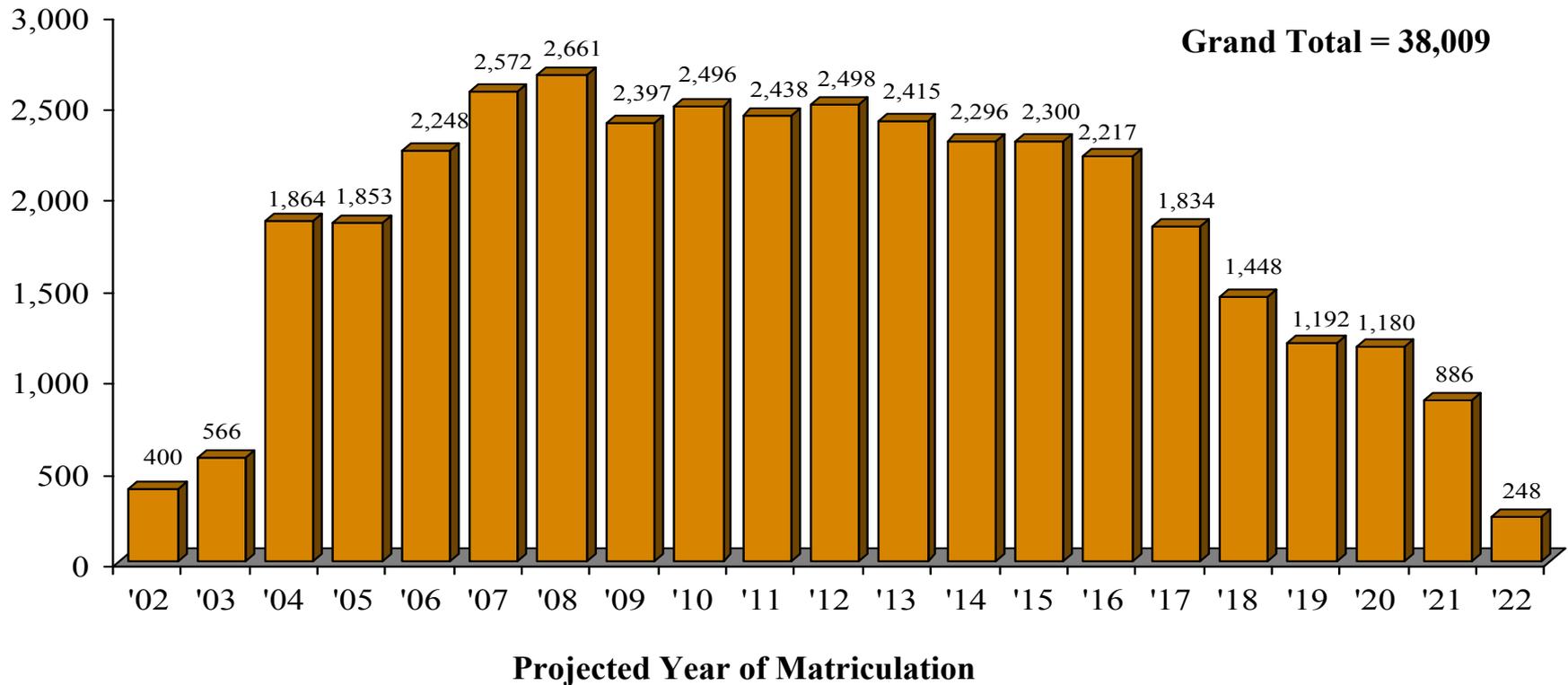


COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Contracts in Force for All Enrollment Groups

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

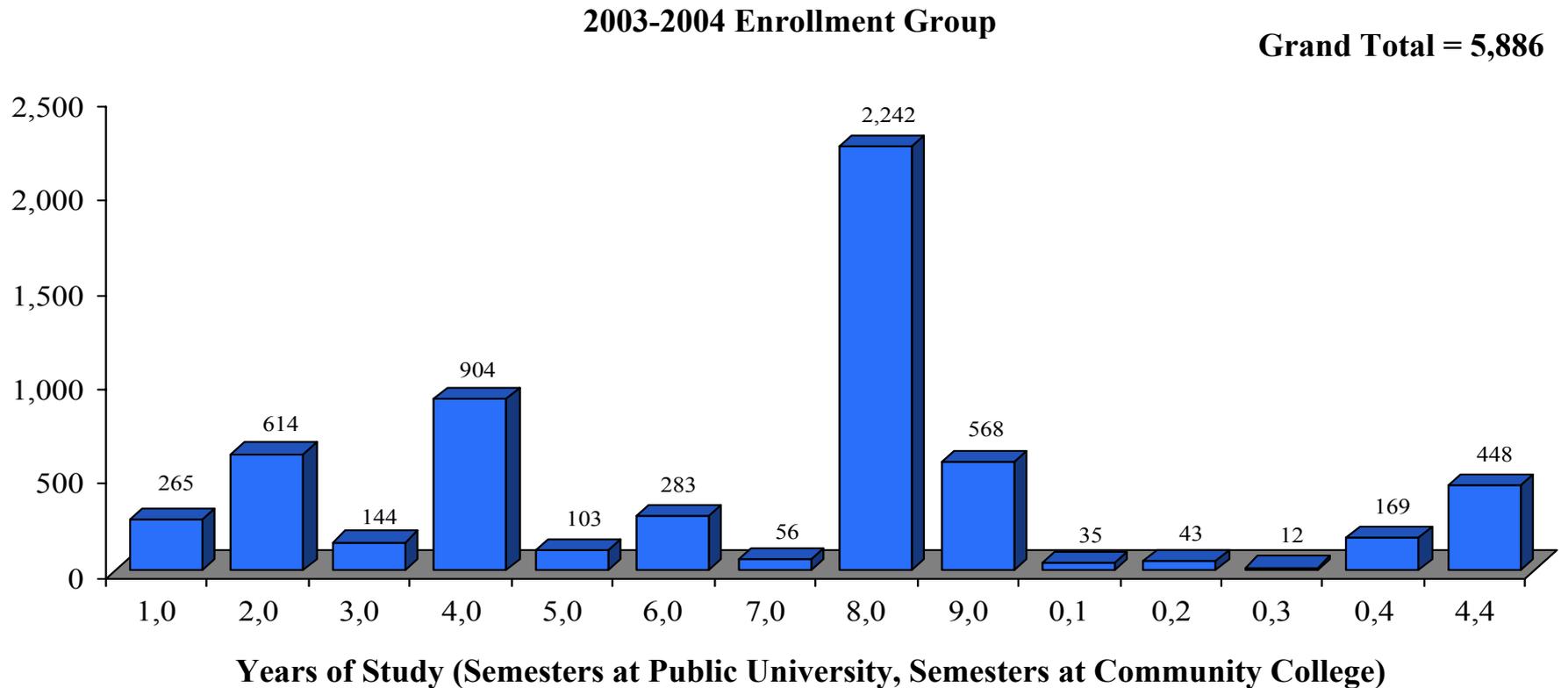
1998-2004 Enrollment Groups Combined



COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Type of Contract Sold to the 2003-2004 Enrollment Group

Contracts can be purchased for a variety of plans. The chart below illustrates the total number of active contracts from the 2003-2004 enrollment period by type of plan.

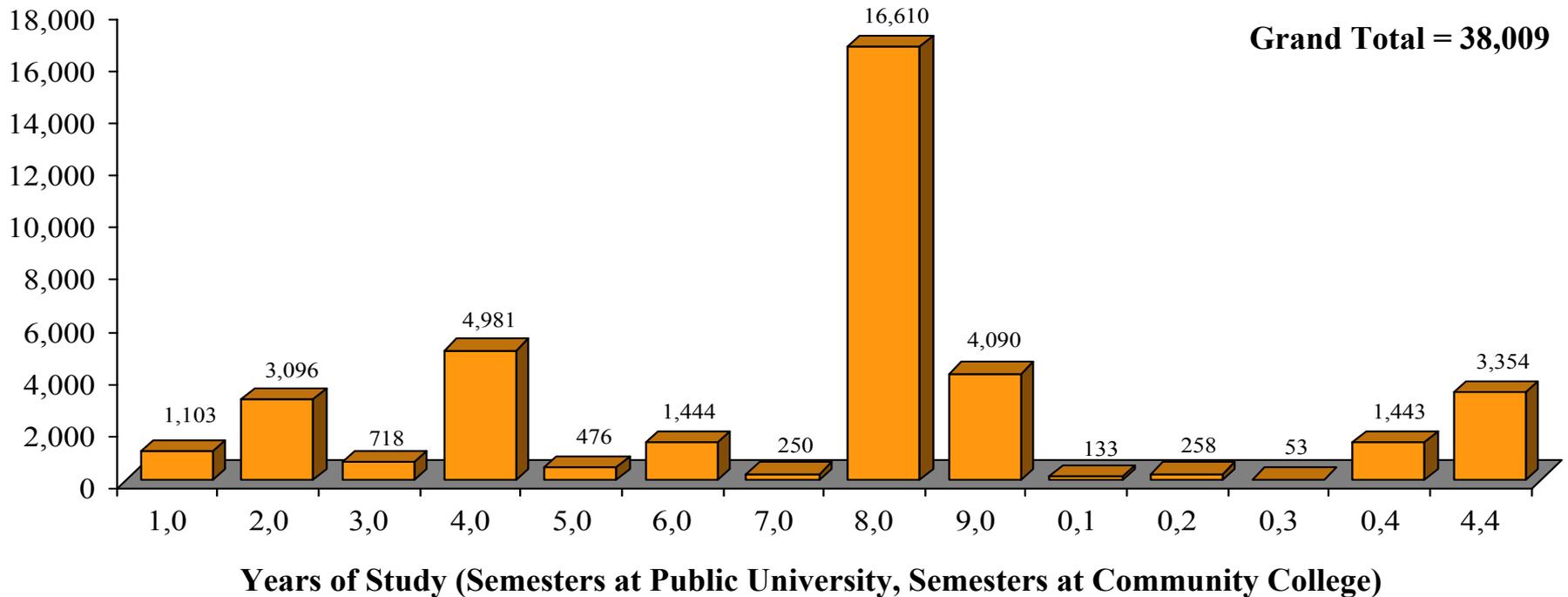


COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Type of Contract Sold to All Enrollment Groups

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

1998-2004 Enrollment Groups Combined



**Valuation Assumptions
and Methods**

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

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. The Truth in Tuition law does not apply to community colleges. Further, 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.

Beneficiaries Falling Under Truth in Tuition Law	35,199
All Other Beneficiaries	2,810

Tuition and Fee Increases. 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.

Tuition and Fee Increases. The Weighted Average Tuition (WAT) for university students subject to Truth in Tuition is projected to increase 9.0% for the first year, 7.5% thereafter, 7.5% for continuing students at universities, and the WAT for community colleges is projected to increase by 6.5% each year.

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

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

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 \$2,796,575 for fiscal year beginning July 1, 2004. 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 included in administrative expenses the cost of investment consulting and management fees which are estimated to be \$1,471,575 for fiscal year beginning July 1, 2004. We have assumed that administrative expenses will increase at the rate of 3.5% per annum and that all expenses beyond 2004 will be spread over current and future contract sales. The end result is an average cost per contract per year of \$52.

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 that did not enroll when expected, we assume that they will enroll in the fall of the next available 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 2004-2005 WAT. We have added a load to the tuition assumption to recognize this bias toward enrollment at more expensive schools. The bias load is calculated on an enrollment year basis and ranges between 4.5% to 4.8%.

Future Contract Sales. It is assumed that 6,000 contracts will be sold during the 2004-2005 enrollment period and all subsequent enrollment periods.

Cancellations, Terminations and Refunds. It is assumed that 8% of contracts sold will not be utilized. This rate is based on similar prepaid tuition programs. We have assumed that a refund will be paid equivalent to the 2004-2005 WAT increased by 2% in each subsequent period. The majority of cancellations are expected to occur within the first year of enrollment. Approximately 0.7% of the total payout of benefits and expenses are expected to be the result of cancellations, terminations and refunds.

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Actuarial Assumptions (continued)

Deaths and Disabilities. Mortality rates for beneficiaries are assumed to follow the 1990 U.S. Life Tables. Approximately 1.1% 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%

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Actuarial Methods

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

CIPTP Beneficiaries (Appendix D). The 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 2004-2005 is \$6,565.

Weighted Average Tuition: Community Colleges. The WAT for community colleges is \$2,138 for 2004-2005.

Sensitivity Testing

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Sensitivity Testing

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

1. Tuition increases are 100 basis points lower in each future year than assumed in the measurement of soundness.
2. Tuition increases are 50 basis points lower in each future year than assumed in the measurement of soundness.
3. The investment return is 100 basis points higher in each future year than assumed in the measurement of soundness.
4. The investment return is 100 basis points lower in each future year than assumed in the measurement of soundness.
5. Tuition increases are 50 basis points lower and the investment return is 50 basis points higher in each future year than assumed in the measurement of soundness.
6. Tuition increases are 50 basis points lower and the investment return is 50 basis points lower in each future year than assumed in the measurement of soundness.
7. The number of contracts sold in the future is 5,500 a year in each future year.
8. The number of contracts sold in the future is 7,500 a year in each future year.
9. The number of contracts sold in the future is 5,500 a year and tuition increases are 100 basis points lower in each future year than assumed in the measurement of soundness.
10. The number of contracts sold in the future is 6,000 a year for the next three years and 4,500 a year thereafter.
11. Tuition increase under the Truth in Tuition law is 7.5% per annum.
12. Tuition increase under the Truth in Tuition law is 11.5% for one year, 7.5% per annum thereafter.

The actuarial reserve that would exist as of June 30, 2004 under each of these scenarios is presented in the following table:

Scenario	Indicated Actuarial Reserve as of 6/30/2004	Funded Ratio	Scenario	Indicated Actuarial Reserve as of 6/30/2004	Funded Ratio
1	(\$18,264,882)	97.3%	7	(\$73,174,634)	90.1%
2	(\$44,782,213)	93.7%	8	(\$71,293,600)	90.3%
3	(\$14,931,861)	97.8%	9	(\$18,795,426)	97.2%
4	(\$138,324,716)	82.9%	10	(\$72,851,113)	90.1%
5	(\$16,595,368)	97.6%	11	(\$63,607,052)	91.3%
6	(\$74,842,974)	89.9%	12	(\$87,692,024)	88.3%

Plan Provisions

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Plan Provisions

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

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

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

Scholarship: When a qualified beneficiary is awarded a grant or scholarship that duplicates the benefits covered by a prepaid tuition contract, the 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

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Funded Status

Appendix A

a. Market Value of Assets	\$498,397,479
b. Actuarial present value of future payments expected to be made to the fund by contract purchasers	<u>\$165,687,895</u>
c. Subtotal (a + b)	\$664,085,374
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	<u>\$736,724,870</u>
e. Reserve as of June 30, 2004 (c - d)	<u>\$(72,639,496)</u>

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Trust Assets

Appendix B

Summary of Assets	Market Value
a) Cash deposited with banks	\$6,917,130
b) Wasatch Advisors	\$50,226,220
c) State Street Global Advisors (SSgA) S&P 500 Index Fund	\$74,731,176
d) SSgA Russell 1000 Growth Fund	\$13,117,136
e) SSgA Russell 2000 Value Fund	\$26,331,960
f) William Blair	\$50,591,291
g) Jarislowsky Fraser	\$25,624,770
h) Banc One Investment Advisors	\$90,752,710
i) Richmond Capital Management	\$75,379,327
j) LSV Asset Management	\$42,647,733
k) SSgA Large Cap Value Account	\$42,536,023
l) Accounts Payable and Accrued liabilities	\$457,997
<hr/>	
Total Assets as of June 30, 2004	
(a)+(b)+(c)+(d)+(e)+(f)+(g)+(h)+(i)+(j)+(k)-(l)	\$ 498,397,479

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

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

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
2004	498,397,479	20,879,581	43,909,592	39,161,892
2005	560,589,382	28,176,754	36,768,931	43,314,025
2006	612,495,583	37,543,191	32,576,844	46,668,791
2007	654,198,027	47,495,246	26,896,071	49,144,358
2008	682,743,210	57,721,992	20,068,179	50,541,702
2009	695,631,099	64,502,535	14,055,299	50,943,711
2010	696,127,574	72,329,928	11,779,558	50,470,658
2011	686,047,863	78,929,419	9,571,072	49,247,178
2012	665,936,693	86,775,923	6,563,490	47,148,165
2013	632,872,426	94,131,719	2,830,170	44,044,333
2014	585,615,210	100,053,753	0	39,952,738
2015	525,514,195	106,501,946	0	34,944,803
2016	453,957,053	112,793,438	0	29,057,527
2017	370,221,142	113,903,140	0	22,507,742
2018	278,825,744	110,252,701	0	15,622,800
2019	184,195,843	103,597,051	0	8,650,353
2020	89,249,145	98,309,249	0	1,579,086
2021	(7,481,018)	90,214,187	0	(4,898,199)
2022	(102,593,405)	72,390,536	0	(3,930,460)
2023	(178,914,401)	53,340,874	0	(2,896,155)
2024	(235,151,429)	35,497,950	0	(1,927,369)
2025	(272,576,748)	20,395,791	0	(1,107,394)
2026	(294,079,934)	10,969,059	0	(595,567)
2027	(305,644,560)	6,042,777	0	(328,094)
2028	(312,015,430)	3,143,269	0	(170,664)
2029	(315,329,363)	1,279,240	0	(69,457)
2030	(316,678,060)	0	0	0

COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

CIPTP Beneficiaries (All Enrollment Groups)

Appendix D

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	18	10	75	13	70	18	126	29	0	1	0	11	29	400	1.1%
2003	5	19	9	65	15	45	4	261	65	0	4	2	25	47	566	1.5%
2004	60	217	37	417	33	125	19	583	135	2	28	8	55	145	1,864	4.9%
2005	33	211	37	324	33	133	25	687	135	6	20	3	73	133	1,853	4.9%
2006	74	228	49	368	40	130	18	836	208	9	22	3	87	176	2,248	5.9%
2007	59	299	56	409	34	153	13	981	229	8	15	3	114	199	2,572	6.8%
2008	69	235	54	392	33	93	26	1,169	214	6	21	2	108	239	2,661	7.0%
2009	76	202	51	335	28	100	9	1,000	247	3	16	2	119	209	2,397	6.3%
2010	83	189	59	324	36	92	13	1,056	257	10	16	5	109	247	2,496	6.6%
2011	68	169	42	291	26	68	8	1,114	266	5	10	2	105	264	2,438	6.4%
2012	65	164	60	289	32	65	13	1,180	278	9	14	2	100	227	2,498	6.6%
2013	69	173	54	283	23	65	16	1,077	292	8	12	7	105	231	2,415	6.4%
2014	59	165	45	244	21	57	8	1,107	253	10	12	2	85	228	2,296	6.0%
2015	69	161	33	244	17	44	11	1,113	272	13	18	2	91	212	2,300	6.1%
2016	62	183	38	245	22	53	13	1,050	269	15	11	2	80	174	2,217	5.8%
2017	68	130	21	180	12	41	13	904	227	6	8	1	58	165	1,834	4.8%
2018	56	107	17	155	14	45	7	689	188	9	4	2	36	119	1,448	3.8%
2019	37	73	16	112	16	23	6	566	181	5	12	1	27	117	1,192	3.1%
2020	50	68	17	111	18	19	7	578	174	5	9	3	31	90	1,180	3.1%
2021	30	73	10	91	7	17	2	428	128	4	2	1	17	76	886	2.3%
2022	11	12	3	27	3	6	1	105	43	0	3	0	7	27	248	0.7%
Total	1,103	3,096	718	4,981	476	1,444	250	16,610	4,090	133	258	53	1,443	3,354	38,009	

