ANNUAL REPORT

Fiscal Year 2002

COLLEGE ILLINOIS!

529 PREPAID TUITION PROGRAM

Illinois Student Assistance Commission

COLLEGE ILLINOIS!

ILLINOIS PREPAID
TUITION PROGRAM:
ILLINOIS STUDENT
ASSISTANCE COMMISSION

February 24, 2003

The Honorable Rod R. 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

In compliance with Public Act 90-0546, we are providing the fiscal year 2002 Annual Report for *College Illinois!*, the state's Section 529 Prepaid Tuition Program. This report references the program's fourth consecutive year of operation, including the program's fourth enrollment period from October 31, 2001, through March 27, 2002, during which more than 6,200 new *College Illinois!* contracts were purchased. Once the fourth annual enrollment period was completed, *College Illinois!* prepaid tuition contracts in force on June 30, 2002, totaled 25,708.

The program's most recent Actuarial Valuation Report, prepared by actuaries at Milliman USA, is included in its entirety within the Annual Report. As of June 30, 2002, the actuarial value of expected liabilities exceeds assets (including the value of future payments by contract purchasers) by $81.6 million, resulting in a funded ratio of 81.2 percent. The report also indicates that program assets are expected to cover all benefit payments through the year 2017, even assuming that no additional contracts would be purchased subsequent to June 30, 2002.

This funding ratio is the consequence of the following factors that combined to adversely impact the program's funded status during the past year: lower-than-projected returns on investments, higher-than-anticipated Illinois public university tuition and fees and Commission-endorsed changes in future expectations regarding college costs and investment returns. The Commission has assumed that Illinois public universities will increase tuition and fees by an average of 10 percent during the next two academic years, due to the impact of the state's current budget crisis. Similarly, the Commission has lowered the program's long-term rate of return on investments to 7.75 percent, due to an expectation that recent uncertainty and volatility in the world financial markets will persist, making investment performance more problematic during the next decade. Contract prices set for the 2002-2003 enrollment once again included amounts to partially amortize the program's unfunded liability.

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

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

Sincerely,

Larry E. Matejka, 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

Dr. William J. Hocter, Vice Chairman
Adjunct Professor, DePaul University, of Glencoe

John Albin (term expired June, 2002)
Owner, Albin Farms, and President, Longview Capital Corporation, of Newman

Pauline Betts
Retired Dean of Guidance, Springfield High School, of Springfield

Claudia M. Freed
Executive Director, Educational Assistance Limited, of Clarendon Hills

Odell Hicks, Jr.
President, Odell Hicks & Company, of Chicago

Christopher E. Kurczaba
Partner, Whitcup and Kurczaba, of Chicago

C. Richard Neumiller
Retired, Central Illinois Light Company, of Peoria

Kevin O' Kelly (appointed June, 2002; appointment confirmed December, 2002)
Student Commissioner, of Downers Grove

Hugh E. Van Voorst (appointment confirmed June, 2002)
Director of Aeronautics, Illinois Department of Transportation, of Union Hill

Gretchen A. Winter
Vice President and Counsel, Baxter International Inc., of Chicago

*Commission Membership in FY2002

College Illinois! Investment Advisory Panel

Linda Bates
Certified Financial Planner, of Glenview

George Clam (reappointed January, 2002)
President, Oak Brook Bank, of Woodridge

Patricia Hurston
Senior Vice President, Bank One, of Chicago

Edward Madden
President, Heritage Bank of Schaumburg , of Chicago

Michael Mann (appointed January, 2002)
Associate Director, Illinois Board of Higher Education, of Jacksonville

Michael Neill
Trust Officer, Old National Bank, of Carbondale

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

Chuck Taylor (term expired December, 2001)
Retired, Illinois State University, of Bloomington

PROGRAM OVERVIEW

College Illinois!, the Illinois Prepaid Tuition Program, is administered by the Illinois Student Assistance Commission, the state agency that has been helping Illinois families pay for college for more than 40 years. As a qualified tuition program under Section 529 of the Internal Revenue Code, *College Illinois!* provides individuals with an opportunity to lock in the cost of future tuition and mandatory fees, protecting against tuition inflation. The Program was enacted by the General Assembly and then signed into law by the Governor in November 1997.

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

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

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

During FY2002, *College Illinois!* completed its fourth enrollment period with a total of approximately 29,000 contracts purchased during the life of the program covering over 90,000 years of college tuition and fees. As the only college funding tool backed by the state of Illinois, *College Illinois!* can protect purchasers against tuition and fee increases that historically have averaged over 8 percent per year during the past twenty years at public universities in Illinois. It is an affordable, flexible and tax-advantaged program, designed to be the cornerstone of any family's college funding plan.

FINANCIAL STATEMENTS

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Financial Statements
For the Year Ended June 30, 2002

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

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Illinois Student Assistance Commission, Illinois Prepaid Tuition Program was performed by Miller, Cooper & Co., Ltd., as special assistant auditors for the Auditor General, State of Illinois.

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

MILLER
COOPER
& Co., Ltd

ACCOUNTANTS AND CONSULTANTS

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 State of Illinois, Illinois Student Assistance Commission, Illinois Prepaid Tuition Program for the year then ended June 30, 2002, as listed in the Table of Contents. These financial statements are the responsibility of the Illinois Student Assistance Commission, Illinois Prepaid Tuition Program'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. 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 and are not intended to present fairly the financial position of the Illinois Student Assistance Commission nor the State of Illinois as of June 30, 2002, its changes in financial position and the results of their operations and cash flows 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 and the Illinois Student Assistance Commission as of June 30, 2002, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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As discussed in Note 2, the State of Illinois and the Illinois Student Assistance Commission adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001.

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

MILLER, COOPER & CO., LTD.

Miller, Cooper & Co., Ltd.

Certified Public Accountants

Northbrook, Illinois
October 21, 2002

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

STATEMENT OF NET ASSETS

June 30, 2002

ASSETS	
Current assets	
Cash and cash equivalents	$ 9,152,253
Receivables	
Accrued interest on investments	32,640
Total current assets	9,184,893
Noncurrent assets	
Investments	214,339,435
Total assets	223,524,328
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	246,371
Current portion of compensated absences	23,111
Current portion of tuition payable	5,232,076
Current portion of accretion payable	393,812
Due to other funds	365,430
Total current liabilities	6,260,800
Noncurrent liabilities	
Compensated absences	92,443
Tuition payable	231,407,780
Accretion payable	27,346,730
Total noncurrent liabilities	258,846,953
Total liabilities	265,107,753
NET ASSETS, unrestricted (deficit)	$ (41,583,425)

The accompanying notes are an integral part of this statement.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Year ended June 30, 2002

Operating revenue	
Interest on funds held at US Treasury and banks	$ 193,624
Interest on investment securities	4,573,921
Application and other fees	2,023,117
Operating revenue	6,790,662
Investment securities losses	(13,200,484)
Operating loss before operating expenses	(6,409,822)
Operating expenses	
Salaries and employee benefits	667,290
Accretion expenses	12,559,460
Management and professional services	1,996,023
Investment management fees	611,197
Total operating expenses	15,833,970
Net operating loss	(22,243,792)
Nonoperating expense	
Interest expense	23,992
Change in net assets	(22,267,784)
Total net assets (deficit), July 1, 2001	(19,315,641)
Total net assets (deficit), June 30, 2002	$ (41,583,425)

The accompanying notes are an integral part of this statement.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

STATEMENT OF CASH FLOWS

Year ended June 30, 2002

Cash flows from operating activities:	
Cash received for purchase of contracts	$ 80,228,254
Cash received from sales and services	2,023,117
Cash paid for refund of contracts	(1,689,566)
Cash payments to suppliers for goods and services	(2,519,439)
Cash payments to employees for services	(667,290)
Interest earned	4,752,917
Net cash provided by operating activities	82,127,993
Cash flows from noncapital financing activities:	
Principal paid on interfund borrowing	(350,000)
Interest paid on interfund borrowing	(23,992)
Net cash used in noncapital financing activities	(373,992)
Cash flows from investing activities:	
Purchases of investment securities	(77,073,921)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,680,080
Cash and cash equivalents, July 1, 2001	4,472,173
Cash and cash equivalents, June 30, 2002	$ 9,152,253

(Continued)

The accompanying notes are an integral part of this statement.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

STATEMENT OF CASH FLOWS (Continued)

Year ended June 30, 2002

Reconciliation of operating loss to net cash provided by operating activities

Operating loss	$ (22,243,792)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Net decrease in fair value of investments	13,200,484
GASB 34 fixed assets adjustment	10,437
(Increase) decrease in assets	
Increase in accrued interest on investments	(14,628)
Increase (decrease) in liabilities	
Increase in accounts payable and accrued expenses	159,498
Increase in compensated absences	46,265
Increase in tuition payable	78,417,869
Increase in accretion payable	12,553,499
Decrease in due to other funds	(1,639)
Total adjustments	104,371,785
Net cash provided by operating activities	$ 82,127,993

The accompanying notes are an integral part of this statement.

(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 today's prices. Benefits of the contracts can also be used at private and out-of-state colleges and universities. Contracts can be purchased in a lump sum payment or in installments. In June, 1998 ISAC was provided with a $1,250,000 General Revenue Fund loan to cover administrative costs associated with start-up of the program. The remaining unpaid balance is $250,000.

The first contracts were offered for sale in 1998. After four enrollment periods, as of June 30, 2002, the Illinois Prepaid Tuition Program had 28,683 contracts with a purchased value of $455,753,858. As of June 30, 2002, the fund has received cash collections of $242,896,195.

(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 has no 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 (State), it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements present only the Illinois prepaid tuition program administered by the State of Illinois and ISAC and do not purport to, and do not, present fairly the financial position of the State of Illinois and ISAC as of June 30, 2002, and changes in its financial position and cash flows, where applicable, for the year then ended in conformity with GAAP.

(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 are considered operating activities. Nonoperating revenues 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 in the Illinois prepaid tuition program fund financial statements 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 business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as for the individual nonshared proprietary funds administered by ISAC.

(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.

(e) Investments

The Illinois Prepaid Tuition Program presents investments on its statement of net assets at fair value. Any realized and unrealized gains or losses are included as investment securities losses on 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) Capital Assets

Capital assets, which include equipment, are reported at cost. Capital assets are depreciated using the straight-line method over a period of five years. The Prepaid Tuition Fund capitalizes all equipment that has a cost or value greater than $5,000.

(h) 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.

(i) Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 28,683 contracts held by the fund as of June 30, 2002.

(j) 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".

(k) Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

(l) New Accounting Pronouncements

Effective July 1, 2001, the State adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments* and Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*. These Statements establish new financial reporting requirements and significantly change the format and content of the State's financial statements. The financial statements of the Illinois Prepaid Tuition Program have been prepared in conformance with these Statements.

Effective July 1, 2001, the State adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* This Statement modifies, establishes, and rescinds certain financial statement note disclosures. The financial statements of the Illinois Prepaid Tuition Program have been prepared in conformance with this Statement.

(m) 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.

(3) Deposits and Investments

(a) Deposits

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

Cash on deposit for the Illinois Prepaid Tuition Program had a carrying amount of $337,883 and a bank balance of $337,883 at June 30, 2002. Of the total bank balance, $100,000 was insured through the Federal Deposit Insurance Corporation (FDIC). The remaining $237,883 was uncollateralized.

Deposits in the custody of the State Treasurer, or in transit, totaled $6,987,245 at June 30, 2002. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

(b) Investments

ISAC is required annually to adopt a comprehensive investment plan to invest the funds received through contract payments. The Commission approved the program's most recent revision to the investment plan on November 9, 2001. 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 Programs.

ISAC has retained State Street Global Advisors, UBS Global Asset Management, Inc., and William Blair & Company, and added Osprey Partners and Wasatch Advisors as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. An additional $72,500,000 of contract payments received during fiscal year 2002 has been invested as of the end of the fiscal year June 30, 2002. The program has retained Watson Wyatt Investment Consulting to evaluate the investment performance of the Program on a quarterly basis. Use of funds invested on behalf of the College Illinois! Program by the investment managers is restricted to the payout of tuition and fee benefits for program beneficiaries.

As of June 30, 2002, 53% of the funds were invested in Domestic Equities, 43% in Domestic Fixed Income and 4% as Cash and Equivalents. Investments of the Fund are recorded at fair value based on quoted market prices. The Fund does not receive any distributions of the unrealized gains or losses from the fair value of the investments. The unrealized gains or losses are reflected as a contra asset account on the Statement of Net Assets and as revenue or expense on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

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

	Carrying/Fair Value			
	Category			
	1	2	3	Total
Domestic Equity	$ -	$ -	$117,281,265	$117,281,265
Domestic Fixed Income	-	-	97,058,170	97,058,170
Total Investments	$ -	$ -	$214,339,435	214,339,435
Not subject to risk categories				1,827,125
The Illinois Funds (1)				$216,166,560

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

(4) Interfund Balances and Activity

Balances Due to Other Funds

The following balances at June 30, 2002 represent amounts due to other ISAC and State of Illinois funds.

Fund	Amount	Description/Purpose
Illinois Prepaid Tuition Program	$108,926	Due to Illinois Designated Account Purchase Program representing long term note payable plus interest.
	250,000	Due to General Revenue Fund representing a long term loan.
	6,504	Due to other State funds representing the Illinois Prepaid Tuition Program's share of telecommunications and audit expenditures.
	$365,430	

(5) Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001	Additions	Deletions	Net Transfers	Balance June 30, 2002
Capital assets being depreciated:					
Equipment	$ 15,767	$ -	$ (15,767)	$ -	$ -
Less: Accumulated depreciation:					
Equipment	5,331	-	(5,331)	-	-
Total capital assets being depreciated net	$ 10,436	$ -	$ (10,436)	$ -	$ -

Illinois Prepaid Tuition Program is implementing GASB 34. Illinois Prepaid Tuition Program changed the capitalization policy to correspond with the new State capitalization thresholds.

(6) Tuition Payable

Tuition payable activity for the year ended June 30, 2002 is as follows:

Beginning balance as of July 1, 2001	$ 158,221,987
Add:	
Contribution	82,251,373
Less:	
Fees	(2,023,120)
Return of contribution	(1,731,183)
Tuition payments	(79,201)
Ending balance as of June 30, 2002	$ 236,639,856

(7) Accretion Payable

Accretion payable is the present value of the estimated tuition payment to be made in excess of principal payment received which is expected to be earned from investments of tuition contracts. The accretion expense for the fiscal year 2001-2002 is estimated as a percentage of net tuition contracts paid to date. The rate is 7% and is based on an actuarial report prepared by Milliman, U.S.A.

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 Fund Net Assets and as a liability on the Statement of Net Assets.

Average monthly Tuition Payable balance over the year	$181,233,189
Actuarial estimate of 7% of Tuition Payable	$ 12,686,323
Present value	$ 12,559,460
Beginning balance of Accretion Payable as of June 30, 2001	$ 15,187,043
Accretion expense for the year	12,559,460
Accretion payments	(5,961)
Ending balance Accretion Payable as of June 30, 2002	$ 27,740,542

(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 2002 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2002. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

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

ISAC pays employer retirement contributions for the Illinois Prepaid Tuition Program based upon an actuarially determined percentage of its payroll. For fiscal year 2002, the employer contribution rate was 14%. 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 2002 budget process. The pick-up is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(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, 2002. However, 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.

(10) Fund Deficits

The Illinois Prepaid Tuition Program is addressing the $41.6 million deficit net assets reduction/elimination in different ways. The Commission added a premium to contract prices for the 2001-2002 enrollment year, as well as for the 2002-2003 enrollment period, to partially amortize the current actuarial deficit, and the Commission could take similar actions in subsequent years until any deficit is fully amortized. The actuarial determination (see Note 10) that results in the $81.6 million deficit on June 30, 2002, does not consider or attempt to quantify (positively or negatively) the impact derived from additional contracts purchased after June 30, 2002 and their respective liability.

In terms of the program's actuarial deficit, actual investment performance is only one influencing factor. Expected future investment performance is another factor, as is the level of actual tuition and fee increases at Illinois public universities, as well as future expectations for tuition and fees increases at those institutions. Nearly one-half of the increase in the program's actuarial deficit from FY2001 to FY2002 relates to increasing the Illinois public universities' tuition growth expectation during the next two fiscal years (to 10% rather than 7%) and lowering the program's long-range investment return assumption (by 25 basis points). The Commission changed these assumptions when pricing 2002-2003 contracts, in recognition that the State's budget crisis likely will result in higher-than-expected public university tuitions during the next two years and in recognition of the many external shocks that have adversely affected financial markets during the past 12 months. Actual investment results are expected to perform in line with these actuarial assumptions over the long term.

The number of contracts purchased annually and the level at which they are priced also impacts significantly upon the program's actuarial deficit or reserve. In fact, the more than 6,200 contracts purchased in 2001-2002 contributed approximately $4.0 million toward reducing the program's actuarial deficit.

Actuarial projections indicate that the program's cash-flow (monthly payments less tuition benefits and expenses) is expected to remain positive through FY2005 even without reflecting the expected proceeds from contracts sold after June 30, 2002. Moreover, on this basis, total program assets are projected to cover benefit payments through FY2017.

(11) Actuarial Report

ISAC is required 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 by Milliman, U.S.A. According to the report, there is a deficit of ($81,584,938) in the program.

Market Value of Assets	$223,315,062
Actuarial Present value of future payments expected to be made by contract purchasers	129,569,616
Subtotal	352,884,678
Actuarial Present value of future payments expected to be made by the program	434,469,616
(Deficit) as of June 30, 2002	$ (81,584,938)

ACTUARIAL REPORT

ACTUARIAL VALUATION

OF THE

COLLEGE ILLINOIS!

PREPAID TUITION PROGRAM

JUNE 30, 2002

By:

ALAN H. PERRY, A.S.A.

WILLIAM A. REIMERT, F.S.A.

A MILLIMAN GLOBAL FIRM

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December 20, 2002

Illinois Student Assistance Commission
College Illinois! Prepaid Tuition Program
1755 Lake Cook Road
Deerfield, Illinois 60015

Ladies and Gentlemen:

This report presents the results of the actuarial valuation of the *College Illinois!* Prepaid Tuition Program as of June 30, 2002.

Purpose

The main purposes of this report are:

- to calculate the actuarial present value of the prepaid tuition contracts purchased through June 30, 2002 and compare the value of those obligations with the assets in the Trust Fund as of that date;
- to review the experience and changes in the actuarial assumptions during the last year and indicate their effects on the results; and
- to set forth the basis for the actuarial assumptions and methods utilized in those calculations.

The results contained in this report are based on contract data provided by InTuition Solutions, Inc. and preliminary financial statements and actuarial assumptions provided by the *College Illinois!* Prepaid Tuition Program. We have relied on this data in preparing this report.

Background

In 1998 with the enactment of Public Act 90-0546, Illinois established the *College Illinois!* Prepaid Tuition Program "...to both encourage and better enable Illinois families to help themselves finance the cost of higher education..." *College Illinois!* is administered by the Illinois Student Assistance Commission. In addition, Section 35(d) of this act authorized "an appropriation to the Commission from general funds sufficient to pay for start-up costs associated with establishment of the program. This appropriation constitutes a loan that shall be repaid to the General Revenue Fund within 5 years by the Commission from prepaid tuition program contributions. Subsequent program administrative costs shall be provided from reasonable fees and charges equitably assessed to purchasers of prepaid tuition contracts."

$1.0 million of the $1.25 million start-up loan appropriated by the Illinois General Assembly has been repaid to the State's General Revenue Fund through June 30, 2002. During the Spring of 2003, the program is scheduled to make the final $250,000 repayment of this aforementioned start-up loan.

Program Design

The *College Illinois!* Prepaid Tuition Program sells contracts for up to 135 credit hours of benefits (9 semesters) to qualified beneficiaries. Each tuition contract provides a multiple of one semester's tuition and mandatory fees at a public university and/or community college in Illinois. At redemption, the contract pays the current tuition and mandatory fees at the Illinois public university or community college that the beneficiary attends. If the beneficiary does not attend an Illinois public university or community college, benefits are paid based on the average mean-weighted tuition and mandatory fees at Illinois public universities and/or community colleges.

Contracts can be purchased on a lump sum or installment payment plan basis.

Statutory Requirements

Section 30(d) of 90-0546 provides in part that each year the Illinois Student Assistance Commission shall prepare an annual report that includes "an evaluation by at least one nationally recognized actuary of the financial viability of the program."

Section 35(d) requires that "The Governor shall indicate in a separate document submitted concurrent with each annual State budget the estimated amount of moneys in the *College Illinois!* Prepaid Tuition Trust Fund which shall be necessary and sufficient, during that State fiscal year, to discharge all obligations anticipated under *College Illinois!* prepaid tuition contracts. The Governor also shall indicate in a separate document submitted concurrent with each annual State budget the amount of moneys from the *College Illinois!* Prepaid Tuition Trust Fund necessary to cover anticipated expenses associated with administration of the program. The Commission shall obtain concurrence from a nationally recognized actuary as to all amounts necessary for the program to meet its obligations."

The state statute provides no guidance for establishing the actuarial basis to evaluate the "financial viability" of the *College Illinois!* Prepaid Tuition Program other than that the evaluation be prepared by "a nationally recognized actuary". For purposes of this report, we have assumed that the phrase "financial viability," when applied to the *College Illinois!* Prepaid Tuition Program, means that the *College Illinois!* Prepaid Tuition Trust Fund has sufficient assets (including the value of future installment payments due under current contracts) to cover the actuarially estimated value of the tuition obligations under those contracts (including any administrative costs associated with those contracts). It is important to note that although this particular analysis assumes no future contract purchases beyond those already made through June 30, 2002, the program expects that additional *College Illinois!* contracts will be purchased during its 2002-2003 enrollment period and each year thereafter for the foreseeable future.

We have also interpreted the state statute to require that the actuarial liabilities be evaluated using sound actuarial principles that are generally consistent with the practices and principles widely used for retirement programs. Reference to other programs is necessary because of the innovative nature of a prepaid tuition program. No generally accepted standard of practice has evolved within the actuarial profession specifically addressing prepaid tuition programs. We chose the standards applicable to retirement programs because these programs generally provide for payments at some future date where that payment has a high probability of payment at, or close to, some specific age.

The method for determining the "best estimate" liability for the Program reflects the possible variability of inflation, tuition, and investment returns and the correlation between each of these variables. The methodology is described in the section below, Variability of Results and Valuation Basis.

Investment Policy

The Investment Policy of a prepaid tuition program is important because it sets forth acceptable investment allocations among asset classes. The asset allocation affects the magnitude and variability of investment returns realized and, therefore, the financial structure of the plan. For the valuation, we have assumed that Program investments will be allocated as follows, based on the investment policy target allocations, as updated November 2002:

U.S. Large Cap Equities	45%
U.S. Small/Mid Cap Equities	10%
International Equities	5%
U.S. Bonds	38%
Cash	2%

Actuarial Assumptions

The actuarial assumptions used to prepare this report are summarized in Appendix C. The two most significant of those assumptions are the rate of investment returns and tuition growth in the future. *College Illinois!* selected both of these assumptions. They are:

- the investment return assumption of 7.75% per year (this is a 0.25% decrease from the 8.0% investment return assumption used to prepare the prior year's report); and,
- the tuition growth assumptions summarized in the table below.

	Universities		Community Colleges	
	New assumption	Prior assumption	New assumption	Prior assumption
Fall 2003 and 2004	10.0%	7.0%	6.5%	7.0%
Fall 2005 and later	7.0%	7.0%	6.5%	7.0%

Summary of Results

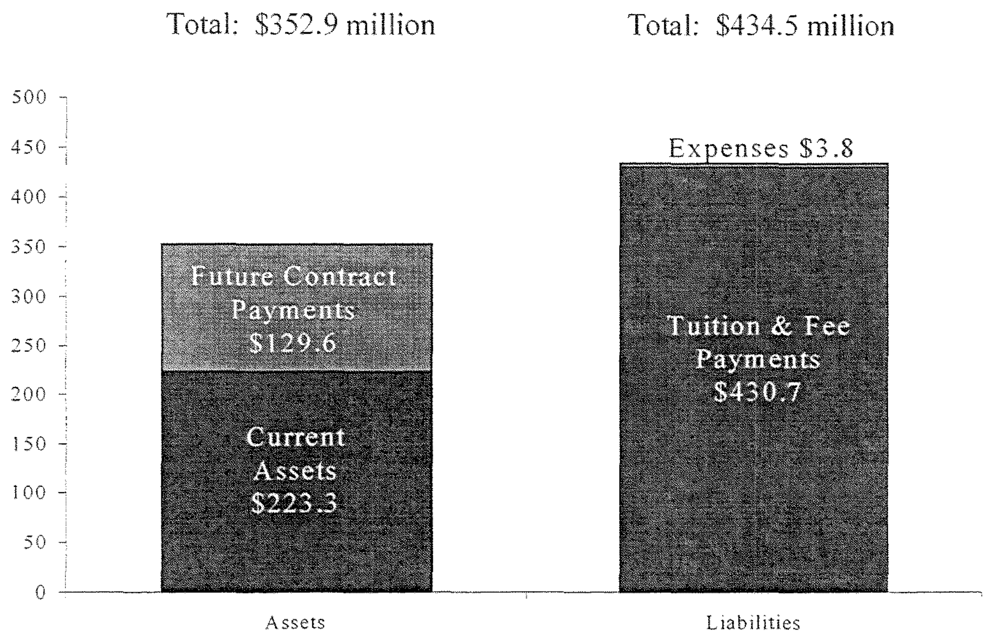
The actuarial value of the obligations of the *College Illinois!* Prepaid Tuition Program as of June 30, 2002 is summarized below and compared with the total assets of the Program.

	Present Value of Obligations for Future Payments	Value of Total Program Assets	Reserve (Deficit)
	(Amounts in Millions)		
College Illinois! Prepaid Tuition Program:			
Tuition Obligations	$430.7	n/a	n/a
Administrative Expenses	3.8	n/a	n/a
Grand Total	$434.5	$352.9	($81.6)

As indicated above, the *College Illinois!* Prepaid Tuition Program has assets that fall short of the "best estimate" of the obligations by roughly $81.6 million or 18.8%.

The present value of future obligations for Administrative Expenses reflects the expected costs of administering the contracts sold to date until all tuition benefits have been paid. The $3,800,000 administrative expense obligation is equivalent to about $148 per contract.

Funded Status



The value of expected liabilities exceeds assets of the Prepaid Tuition Trust Fund by $81.6 million, as of June 30, 2002 (including the value of future payments by contract purchasers). The funded ratio, assets divided by liabilities, is 81.2%

Actuarial Gain/Loss Analysis

During the 2002 fiscal year, the deficit increased from $18.5 million to $81.6 million or 18.8% of obligations. This $63.1 million increase is mostly attributable to changes in the actuarial assumptions, unfavorable investment results and higher than expected tuition growth. Each of the factors affecting the deficit is discussed below.

The deficit was expected to increase during the year by about $1.5 million due to lost interest at 8.00% on last year's deficit.

The return on Program investments for the fiscal year was approximately –4.5% on a dollar-weighted basis. For the June 30, 2001 actuarial valuation, an 8.0% return was assumed. This produced a net actuarial loss of approximately $21.6 million.

Tuition rates for the 2002-2003 school year increased by 10.7% for universities and 5.7% for community colleges, while a 7.0% rate was assumed in the prior valuation. This resulted in a loss of $6.1 million.

The Program sold 6,205 new contracts during the year. Each contract was priced so as to add to the reserve. We estimate that the deficit was reduced by about \$4.0 million from these new contracts.

The Commission changed the tuition growth assumption from a constant 7.0% per year to two years of 10.0% and 7.0% thereafter for universities and a constant 6.5% for community colleges. In addition, we have reflected the continued phase-in of the surcharges at the University of Illinois. This increased the deficit by \$30.6 million.

The Commission lowered the expected return on assets from 8.00% to 7.75%. This increased the deficit by \$8.8 million.

This is the first year that Milliman USA performed the actuarial valuation for the *College Illinois!* Prepaid Tuition Program. Some of the actuarial methods have been revised from prior valuations.

1. The value of tuition and expense obligations were calculated using stochastic methods instead of deterministic methods.
2. The method for valuing future administrative expenses was changed.

The combined effect of these changes in actuarial methods was to decrease the deficit by \$1.2 million.

In summary, the changes in the deficit due to experience, assumption changes and method changes can be summarized as follows:

(amounts in millions)

Reserve (deficit) as of June 30, 2001	(\$18.5)
Interest on the reserve at 8.0%	(1.5)
Investment gain (loss)	(21.6)
Tuition gain (loss)	(6.1)
Reserve from new sales	4.0
Change in tuition growth assumption	(30.6)
Change in investment return assumption	(8.8)
Change in valuation method	1.2
Miscellaneous	0.3
Reserve (deficit) of June 30, 2002	(\$81.6)

Variability of Results and Valuation Basis

The present values of the obligations shown above were based on assumptions which represent an estimate of anticipated experience under the Fund that are reasonably related to past educational cost and investment data. Differences between those projections and actual amounts will depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

A prime source of variation will be normal fluctuations that occur in the rate of increase in tuition, investment returns, and expense inflation. One way of estimating the range of possible outcomes is to stochastically model the financial operation of the Program using "Monte Carlo" techniques. This approach involves preparing 1000 projections of financial results under randomly derived scenarios of tuition growth, investment returns, and expense inflation. Each of these scenarios is based on statistical factors such as standard deviation and correlation that were established by reviewing historical results adjusted where appropriate to reflect current conditions. By tabulating the results under all of these projections, we estimated the amount of assets as of June 30, 2002 that, along with all anticipated contract payments plus investment returns, will be needed to cover the obligations of the Prepaid Tuition Program.

Since we adopted a "best estimate" approach for this actuarial valuation, the present value of obligations for future payments shown previously is the median result from the stochastic simulations described above. Thus based on the actuarial assumptions used for this valuation, there is a 50% likelihood that the assets needed as of June 30, 2002 to cover all program obligations is greater than that figure and a 50% likelihood that it is lower.

Sensitivity Analysis

A second approach to estimate the range of possible outcomes is to perform a sensitivity analysis. This involves calculating the reserve position of the Fund using alternative assumptions regarding expected tuition growth and investment returns. We have shown the reserve/(deficit) of the Fund under six alternative sets of assumptions below.

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.

The reserve/(deficit) that would exist as of June 30, 2002 under each of these scenarios is presented in the following table:

Scenario	Reserve/(Deficit) As of 6/30/02 *(Amounts in Millions)*
1	$(43.4)
2	(61.6)
3	(45.2)
4	(123.8)
5	(44.5)
6	(80.5)

These alternative assumptions do not model the impact of future sales upon the program's actuarial deficit or reserve. Commission actions to add a premium to contract prices each year into the future could eliminate the program's actuarial deficit, over time.

Data Reliance

In performing this analysis, we relied on data and other information provided by InTuition Solutions, Inc. and the *College Illinois!* Prepaid Tuition Program. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Cash Flow Projection

Appendix E shows a cash flow projection based on the deterministic, "best estimate," actuarial assumptions. The starting Market Value of Invested Assets as of July 1, 2002 is $223.3 million. At the end of FY2030, all tuition obligations associated with the contracts sold to date are expected to have been paid resulting in a cumulative shortfall of $278.3 million. Since the actuarial assumptions are intended to represent "best estimates" of future obligations, there is a 50% chance that actual results will be better than this projection and a 50% chance that actual results will be worse.

These projections indicate that the program's cash flow (monthly payments less tuition benefits and expenses, excluding investment income) is expected to remain positive through FY2005 even without reflecting the expected proceeds from contracts sold after June 30, 2002. Moreover, on this basis total program assets are projected to cover benefit payments through FY2017.

Conclusion

Based on the foregoing, the *College Illinois!* Prepaid Tuition Program does not have sufficient assets, including the value of future installment payments, to cover the actuarially estimated value of the tuition obligations under all contracts outstanding as of the valuation date (June 30, 2002). This determination has been based on reasonable actuarial assumptions that represent *College Illinois!* staff's estimate of anticipated experience taking into account past experience and future expectations. Since the results of the valuation are dependent on the actuarial assumptions used, actual results can be expected to deviate from the figures indicated in this report to the extent that future experience differs from those assumptions.

This actuarial determination does not consider or attempt to quantify the impact derived from additional contracts purchased after June 30, 2002. It should be noted, as well, that the Commission added a premium to contract prices during the 2001-2002 enrollment year, as well as for the 2002-2003 enrollment period, to partially amortize the current actuarial deficit, and the Commission could take similar actions in subsequent years until any deficit is amortized.

We look forward to reviewing the results of our analyses with you and the Commission at your earliest convenience.

Respectfully submitted,

MILLIMAN USA, INC.

Alan H. Perry

Alan H. Perry, A.S.A.
Member American Academy of Actuaries

William A. Reimert, F.S.A.
Member American Academy of Actuaries

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College Illinois! Prepaid Tuition Program

I. Statement of Assets as of June 30, 2002

	Investments	Market Value
1)	Equities	$117,281,265
2)	Fixed-Income	97,311,979
3)	Cash	9,152,253
4)	Accounts Receivable	39,923
5)	Accounts Payable	(470,358)
	Total Market Value of Investments	$223,315,062
	Present Value of Installment Contract Receivables	129,569,616
	Value of Total Fund Assets	$352,884,678

II. Reconciliation of Investments

1)	Investments at June 30, 2001	$154,093,388
2)	Contract purchase payments	82,251,371
3)	Investment income	4,971,242
4)	Realized and unrealized gains (losses)	(12,774,644)
5)	Administrative Expense	(3,101,567)
6)	Tuition Payments	(85,162)
7)	Refunds	(1,689,566)
8)	Loan Repayment	(350,000)
9)	Investments at June 30, 2002	$223,315,062

Dollar-weighted rate of return (4.5%)

Appendix A

College Illinois! Prepaid Tuition Plan

All Participant Data as of June 30, 2002

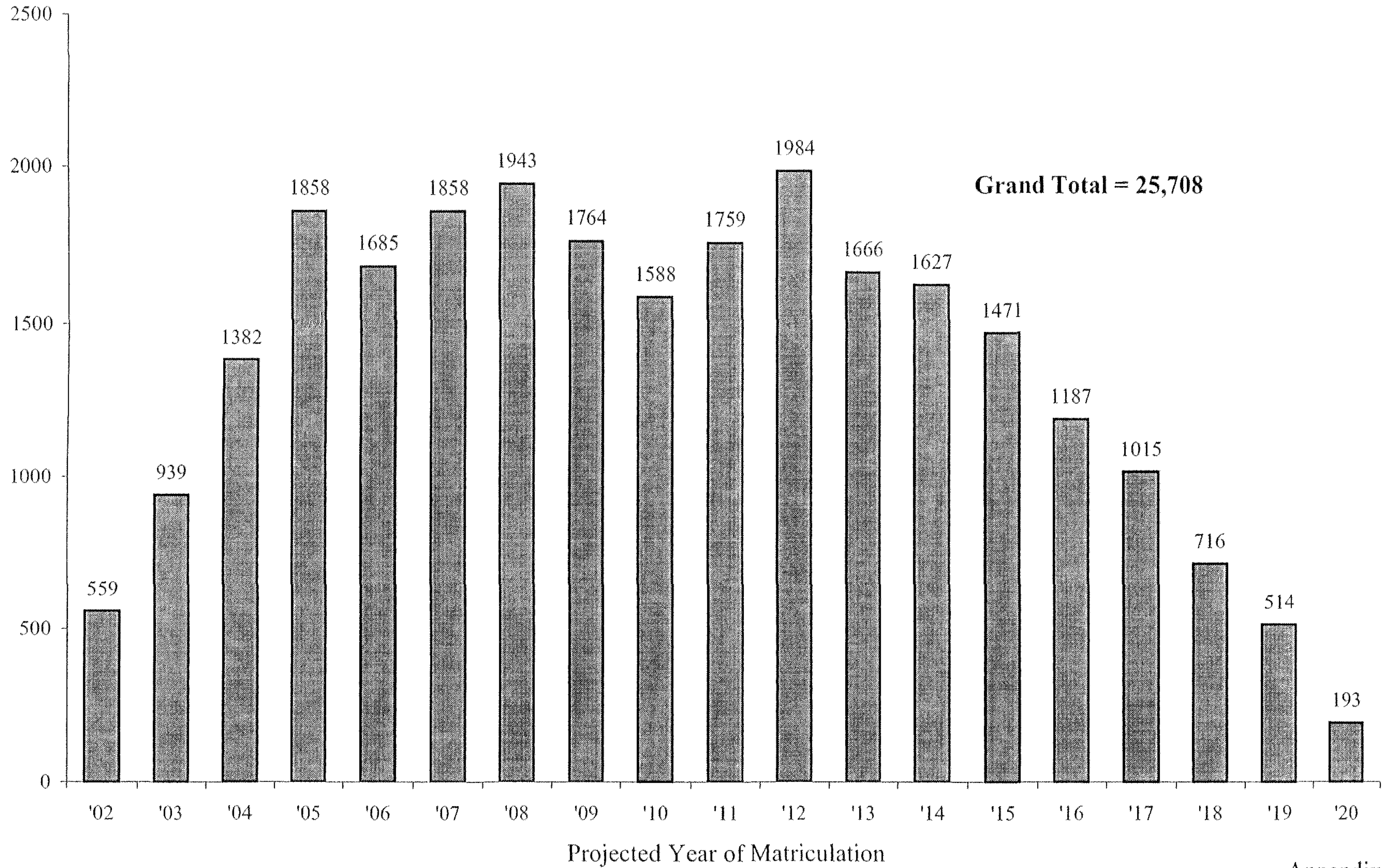
Plan Type
(Public University Semesters, Community College Semesters)

Projected Payout Year	(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 by Payout Year	Percent of Total
2002-2003	14	67	13	129	18	73	20	136	33		5	2	16	33	559	2.2%
2003-2004	30	96	24	185	27	73	7	282	80	1	20	2	42	70	939	3.7%
2004 - 2005	39	139	21	259	21	85	14	506	109	2	10	4	52	121	1,382	5.4%
2005 - 2006	35	229	42	343	34	134	23	652	130	5	19	1	80	131	1,858	7.2%
2006 - 2007	55	173	30	272	26	45	10	660	156	9	16	2	82	149	1,685	6.6%
2007 - 2008	46	208	41	316	27	94	11	678	157	6	12	1	104	157	1,858	7.2%
2008 - 2009	49	167	34	235	22	59	11	900	187	5	15	3	83	173	1,943	7.6%
2009 - 2010	54	138	26	211	19	53	5	772	190	3	13		92	188	1,764	6.9%
2010 - 2011	41	127	28	202	11	41	9	688	185	5	9	2	81	159	1,588	6.2%
2011 - 2012	44	112	25	190	12	25	4	838	191	4	8	2	69	235	1,759	6.8%
2012 - 2013	38	114	37	176	14	32	5	1,008	249	3	9	2	84	213	1,984	7.7%
2013 - 2014	52	95	24	184	13	34	6	781	211	4	10	2	73	177	1,666	6.5%
2014 - 2015	41	113	24	171	11	22	4	794	209	6	10	1	67	154	1,627	6.3%
2015 - 2016	42	109	13	133	8	19	2	729	196	10	12	3	61	134	1,471	5.7%
2016 - 2017	33	90	16	125	8	12	5	572	170	7	7	1	41	100	1,187	4.6%
2017 - 2018	29	82	7	89	4	12	2	508	144	6	6		35	91	1,015	3.9%
2018 - 2019	22	41	7	61	4	11		364	113	5		1	18	69	716	2.8%
2019 - 2020	9	26	5	38	2	6		263	85	3	8		12	57	514	2.0%
2020 - 2021	12	13	1	11	2	2		83	43		3		8	15	193	0.8%
Total	685	2,139	418	3,330	283	832	138	11,214	2,838	84	192	29	1,100	2,426	25,708	
Percent of Total	2.7%	8.3%	1.6%	13.0%	1.1%	3.2%	0.5%	43.6%	11.0%	0.3%	0.7%	0.1%	4.3%	9.4%		

Appendix B
(Page 1 of 6)

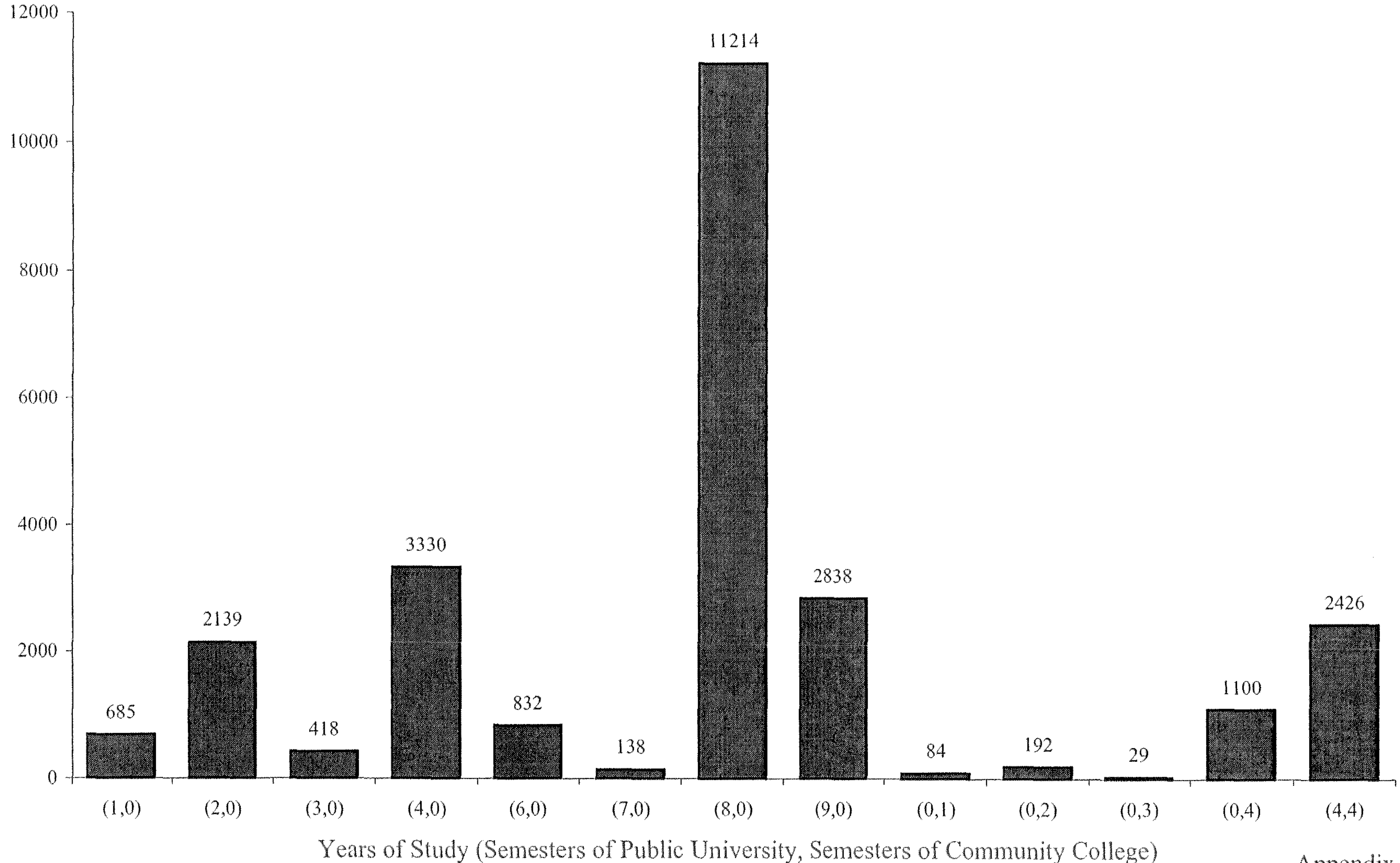
College Illinois! Prepaid Tuition Plan

All Participant Data as of June 30, 2002



College Illinois! Prepaid Tuition Plan

All Participant Data as of June 30, 2002



2001 Enrollment Year Participant Data as of June 30, 2002

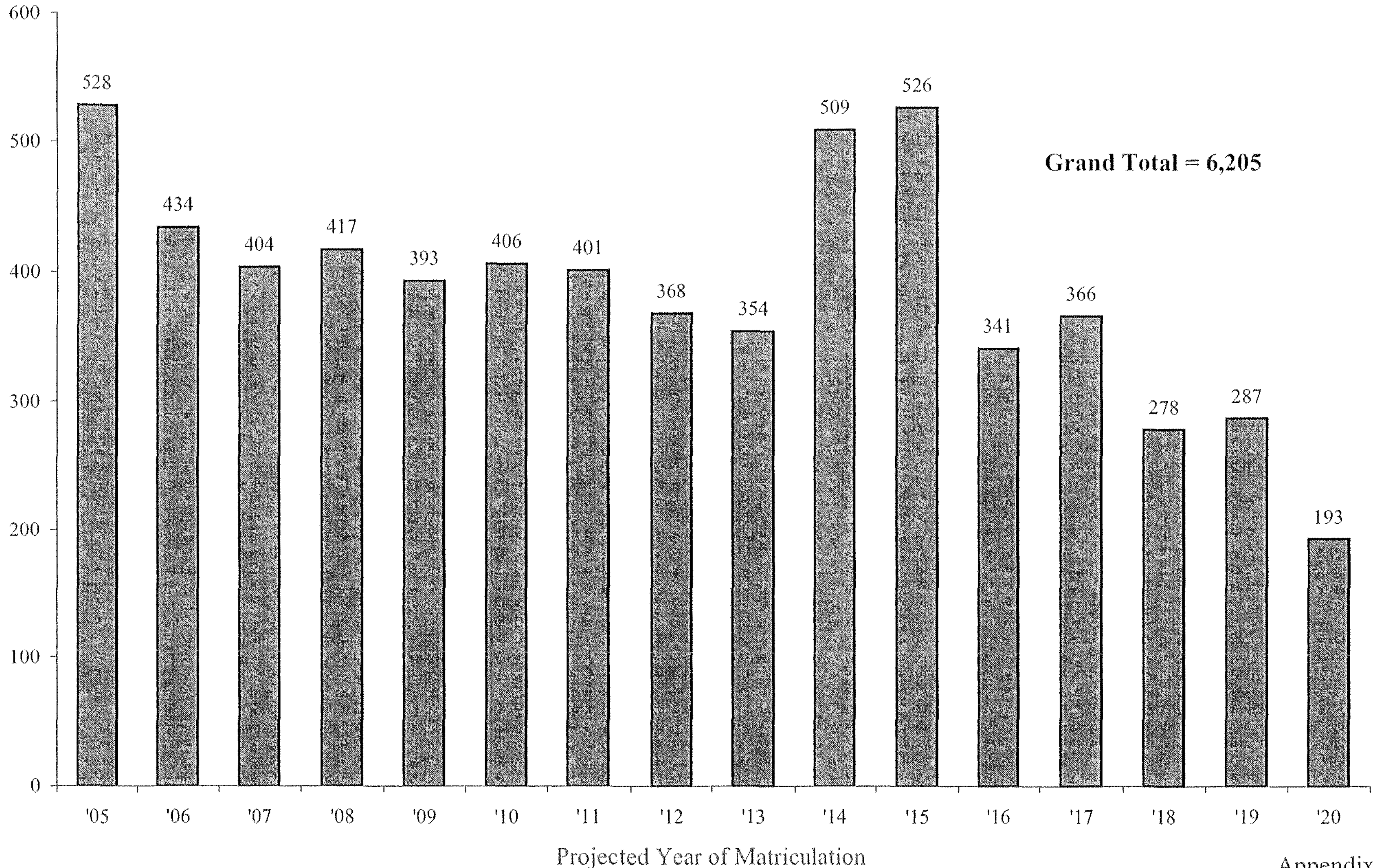
Plan Type
(Public University Semesters, Community College Semesters)

Projected Payout Year	(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 by Payout Year	Percent of Total
2005 - 2006	11	101	14	127	7	73	17	105	31	3	10		13	16	528	8.5%
2006 - 2007	12	36	4	76	6	24	5	180	50	2	4		9	26	434	7.0%
2007 - 2008	16	46	10	60	4	25	3	163	37		1		11	28	404	6.5%
2008 - 2009	11	41	6	67	2	20	3	172	35	1	1		21	37	417	6.7%
2009 - 2010	18	38	9	63	5	15		167	42	1	1		13	21	393	6.3%
2010 - 2011	9	29	8	63	1	12	3	176	43		1	2	18	41	406	6.5%
2011 - 2012	19	30	8	40	2	9	1	187	50	1	3	1	11	39	401	6.5%
2012 - 2013	11	17	6	41	2	6	1	182	45		2		18	37	368	5.9%
2013 - 2014	11	19	2	47	3	10		163	50	2	1		7	39	354	5.7%
2014 - 2015	9	27	4	60	3	5	1	276	58	1	2		18	45	509	8.2%
2015 - 2016	15	32	5	60	2	7		252	70	4	5	2	14	58	526	8.5%
2016 - 2017	12	18	4	41	1	1	1	174	54	2	1		12	20	341	5.5%
2017 - 2018	12	28	2	40	1	6	1	178	42	4	2		10	40	366	5.9%
2018 - 2019	8	18	3	20	1	6		151	46	2			6	17	278	4.5%
2019 - 2020	4	20	1	27	1	6		136	46	1	6		6	33	287	4.6%
2020 - 2021	12	13	1	11	2	2		83	43		3		8	15	193	3.1%
Total	190	513	87	843	43	227	36	2,745	742	24	43	5	195	512	6,205	
Percent of Total	3.1%	8.3%	1.4%	13.6%	0.7%	3.7%	0.6%	44.2%	12.0%	0.4%	0.7%	0.1%	3.1%	8.3%		

Appendix B
(Page 4 of 6)

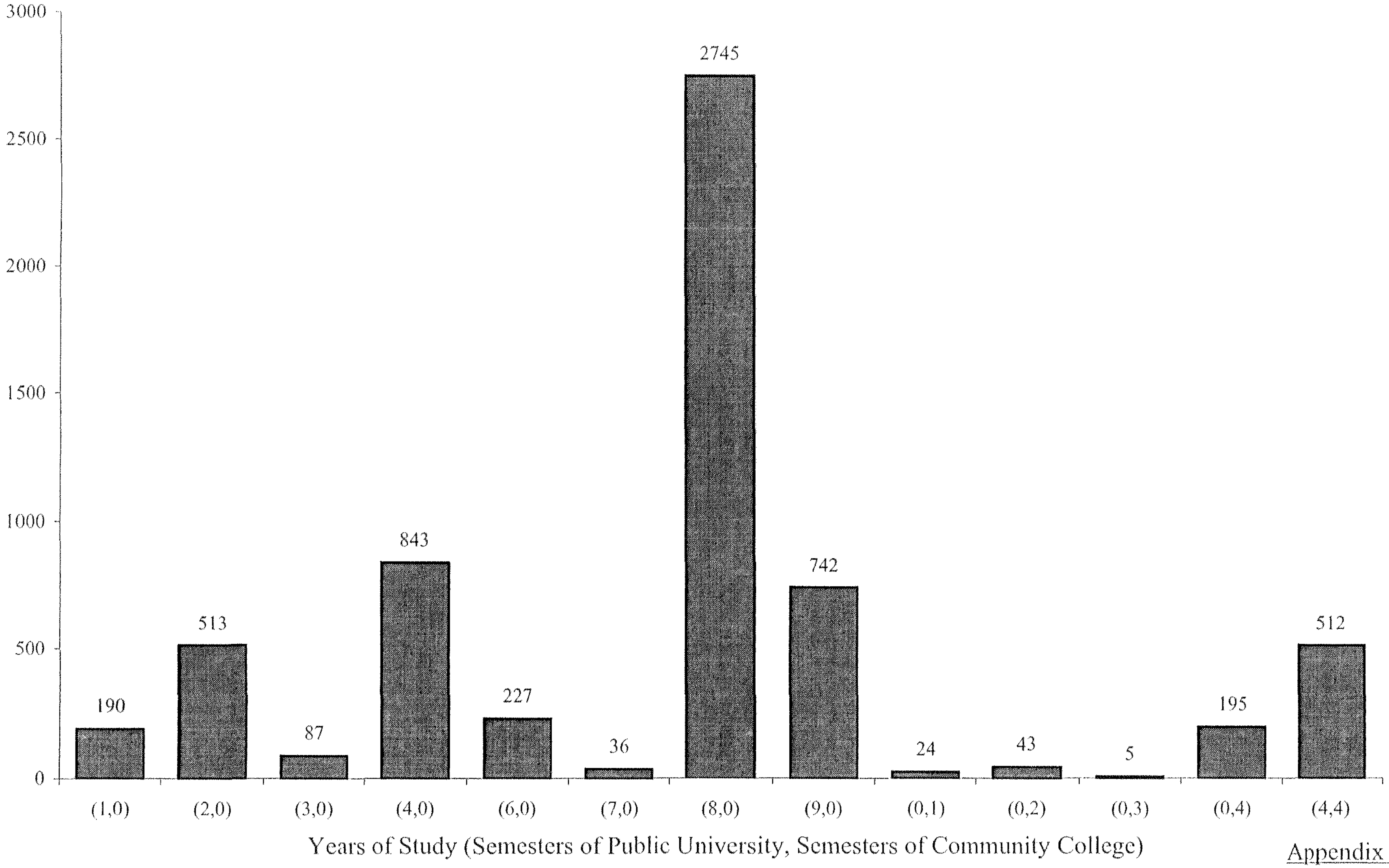
College Illinois! Prepaid Tuition Plan

2001-2002 Enrollment Year Participant Data as of June 30, 2002



College Illinois! Prepaid Tuition Plan

2001-2002 Enrollment Year Participant Data as of June 30, 2002



Appendix B

College Illinois! Prepaid Tuition Program

Summary of Actuarial Assumptions

Economic Assumptions for Simulation Model:

	Inflation	US Large Cap Equity	US Small-Mid Cap Equity	Fixed Income	Cash	University Tuition*	Community College Tuition
Expected Arithmetic Annual Return	2.50%	9.78%	10.28%	6.28%	4.28%	7.10%	6.60%
Standard Deviation	3.15	17.90	21.45	7.60	2.65	4.85	4.80
Serial Correlation	0.60	0.00	0.00	0.00	0.00	0.34	-0.11
Correlation with:							
Inflation	1.00	-0.23	-0.06	-0.33	0.61	-0.04	0.26
US Large Cap		1.00	0.83	0.50	0.06	-0.04	0.00
US S/M Cap			1.00	0.50	0.09	0.18	0.14
Fixed Income				1.00	0.02	0.26	0.11
Cash					1.00	0.27	0.22
UniversityTuition						1.00	-0.06
Community College Tuition							1.00

* We assumed that University tuition in the fall of 2003 and 2004 will increase at 10.1% each year.

Based on the economic assumptions above, the expected long-term annualized compound rate of return on investments is 7.75%.

Tuition: Weighted average tuition was adjusted with the following loads to add a bias for matriculation at more expensive schools:

Beneficiary Age	Bias Factor
0 to 5	3.00%
6 to 13	6.00%
14 to 15	9.00%

Appendix C
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Summary of Actuarial Assumptions
(continued)

Expenses: The expenses included in the present value of future obligations are those relating to the fees paid to the Program administrator and contract maintenance expenses for all contracts sold to date:

Annual maintenance expense per contract = $15.00
Annual Expense per contract in payout status= $15.00

These contract maintenance expenses are assumed to increase annually at the rate of inflation plus 0.5%.

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

Utilization of Benefits: We assume beneficiaries use the benefits as described by the *College Illinois!* Master Agreement according to the following schedule:

Distribution of Benefit Utilization

Years Since	Number of Years Purchased				
Matriculation	1	2	3	4	5
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

History of Tuition and Fees in Illinois

	Public University		Community College	
Academic Year	Annual Tuition & Fees	Percent Increase	Annual Tuition & Fees	Percent Increase
1979-1980	$ 828		$ 469	
1980-1981	901	8.82%	501	6.82%
1981-1982	1,013	12.43%	539	7.58%
1982-1983	1,152	13.72%	612	13.54%
1983-1984	1,334	15.80%	704	15.03%
1984-1985	1,503	12.67%	732	3.98%
1985-1986	1,615	7.45%	766	4.64%
1986-1987	1,710	5.88%	791	3.26%
1987-1988	1,787	4.50%	853	7.84%
1988-1989	2,066	15.61%	896	5.04%
1989-1990	2,330	12.78%	925	3.24%
1990-1991	2,410	3.43%	954	3.14%
1991-1992	2,538	5.31%	1,038	8.81%
1992-1993	2,901	14.30%	1,108	6.74%
1993-1994	3,134	8.03%	1,201	8.39%
1994-1995	3,303	5.39%	1,259	4.83%
1995-1996	3,434	3.97%	1,323	5.08%
1996-1997	3,629	5.68%	1,370	3.55%
1997-1998	3,817	5.18%	1,452	5.99%
1998-1999	3,942	3.27%	1,506	3.72%
1999-2000	4,160	5.53%	1,576	4.65%
2000-2001	4,406	5.91%	1,653	4.89%
2001-2002	4,786	8.62%	1,731	4.72%
2002-2003	5,298	10.70%	1,830	5.72%

Compounded Rate of Increase in:	Inflation	University Tuition	Inflation	CC Tuition
Over last 5 years	2.3%	6.8%	2.3%	4.7%
Over last 10 years	2.5%	6.2%	2.5%	5.1%
Over last 23 years	4.0%	8.4%	4.0%	6.1%

Appendix D

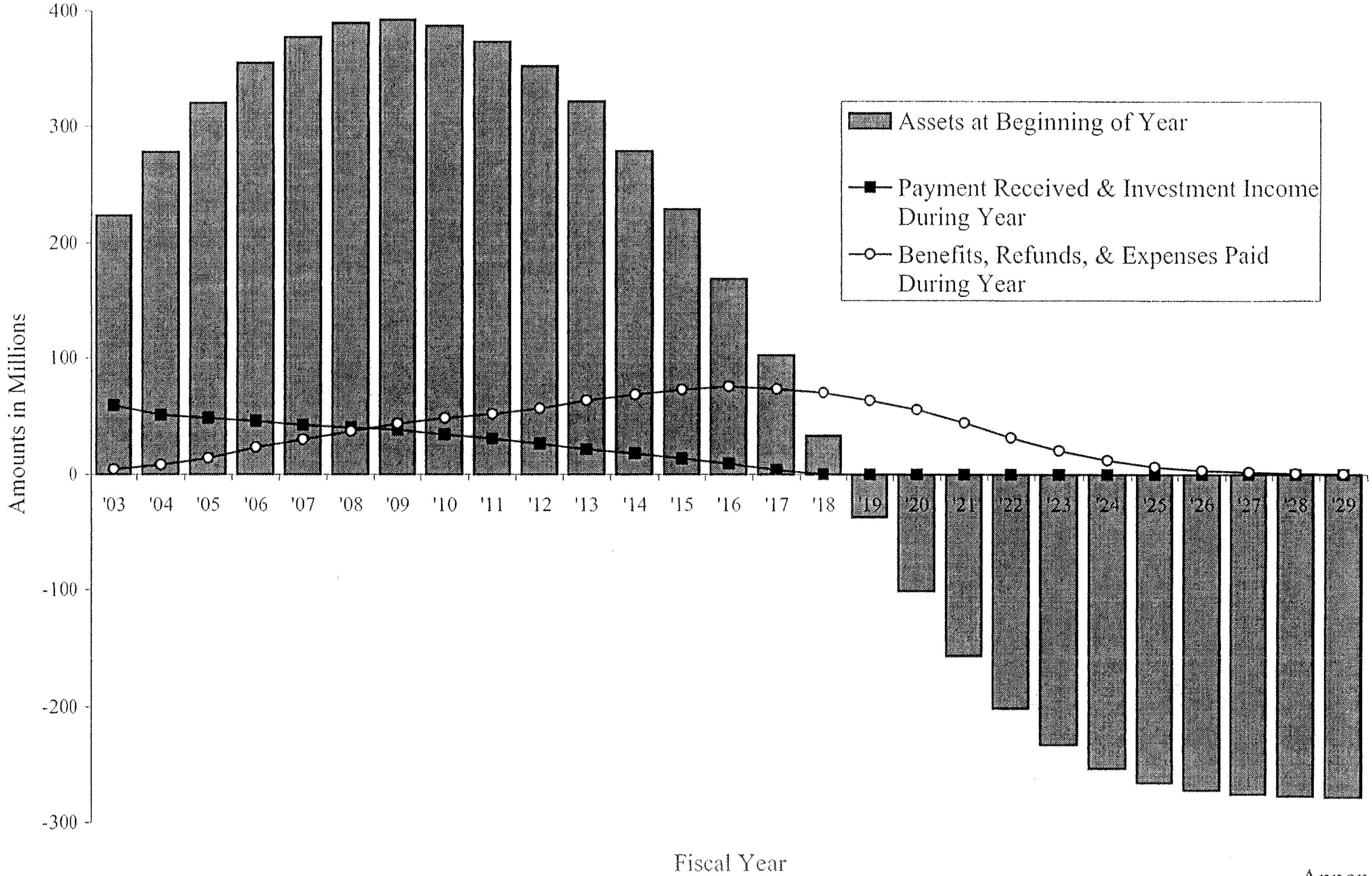
College Illinois! Prepaid Tuition Program

Cash Flow Projection
(Amounts in Millions)

Fiscal Year	Beginning Balance	Monthly Payments	Tuition Benefits	Expenses	Investment Income	Ending Balance
2003	$223.3	$40.5	$4.0	$0.4	$18.6	$278.0
2004	278.0	28.7	7.8	0.4	22.1	320.6
2005	320.6	23.4	13.7	0.4	24.9	354.8
2006	354.8	18.6	22.7	0.4	26.8	377.1
2007	377.1	14.3	29.4	0.4	28.0	389.6
2008	389.6	11.3	36.4	0.4	28.5	392.6
2009	392.6	10.1	43.1	0.4	28.2	387.4
2010	387.4	6.8	48.0	0.4	27.5	373.3
2011	373.3	4.4	51.3	0.4	26.1	352.1
2012	352.1	2.2	56.4	0.4	24.1	321.6
2013	321.6	0.0	63.2	0.4	21.3	279.3
2014	279.3	0.0	67.9	0.4	17.8	228.8
2015	228.8	0.0	72.7	0.3	13.4	169.2
2016	169.2	0.0	75.0	0.3	8.9	102.8
2017	102.8	0.0	73.1	0.3	3.8	33.2
2018	33.2	0.0	70.0	0.2	0.0	(37.0)
2019	(37.0)	0.0	63.6	0.2	0.0	(100.8)
2020	(100.8)	0.0	55.5	0.1	0.0	(156.4)
2021	(156.4)	0.0	44.4	0.1	0.0	(200.9)
2022	(200.9)	0.0	31.4	0.1	0.0	(232.4)
2023	(232.4)	0.0	20.7	0.0	0.0	(253.1)
2024	(253.1)	0.0	12.1	0.0	0.0	(265.2)
2025	(265.2)	0.0	6.6	0.0	0.0	(271.8)
2026	(271.8)	0.0	3.6	0.0	0.0	(275.4)
2027	(275.4)	0.0	1.9	0.0	0.0	(277.3)
2028	(277.3)	0.0	0.8	0.0	0.0	(278.1)
2029	(278.1)	0.0	0.2	0.0	0.0	(278.3)

College Illinois! Prepaid Tuition Plan

Projected Cash Flow



Appendix E
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