COLLEGE ILLINOIS!

529 PREPAID TUITION PROGRAM

ANNUAL REPORT

Fiscal Year 2001

Illinois Student Assistance Commission

COLLEGE ILLINOIS!

ILLINOIS PREPAID
TUITION PROGRAM:
ILLINOIS STUDENT
ASSISTANCE COMMISSION

February 25, 2002

The Honorable George H. Ryan, Governor of the State of Illinois
The Honorable James "Pate" Philip, 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 pleased to present the fiscal year 2001 Annual Report for *College Illinois!*, the state's Section 529 Prepaid Tuition Program. This report references the third year of operations for the program, including the program's third enrollment period – from October 25, 2000, through February 28, 2001 – during which nearly 5,000 new *College Illinois!* contracts were purchased. After completion of our third annual enrollment period, *College Illinois!* prepaid tuition contracts in force on June 30, 2001, totaled 19,935.

The Program's most recent Actuarial Soundness Report, prepared by Richard M. Kaye and Associates in conjunction with PricewaterhouseCoopers LLP, is included in its entirety within this Annual Report. As of June 30, 2001, the actuarial value of expected liabilities exceeds assets (including the value of future payments by contract purchasers) by $18.5 million, resulting in a funded ratio of 93.5%. This funding ratio is the consequence of several factors affecting the program during this past year, including low returns on investment and higher-than-anticipated public university tuition and fees. Notably, the Commission has increased contract prices for the 2001-2002 enrollment to partially amortize this actuarial deficit. Audited financial statements for the period ending June 30, 2001, are also provided in this report.

We remain gratified by the enthusiastic public response to the *College Illinois!* program, and likewise, by the extent to which public awareness of the importance of planning ahead for college costs has risen in recent years. *College Illinois!* seeks to facilitate such planning. It's a safe, secure and affordable way for families to ensure the affordability of a college education for their children.

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

Sincerely,

Larry E. Matejka

Larry E. Matejka, Executive Director
Illinois Student Assistance Commission

Randy P. Erford

Randy P. Erford, Director
College Illinois!

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Deerfield, IL 60015-5209
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The Illinois Student Assistance Commission

J. Robert Barr, Chairman
Senior Counsel, Sidley Austin Brown and Wood, of Evanston

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

John Albin
Owner, Albin Farms, and President, Longview 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

Brian Kelly
Student Commissioner, of Orland Park

Christopher E. Kurczaba
Attorney, Whitcup and Arce, of Chicago

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

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

College Illinois! Investment Advisory Panel

Linda Bates
Certified Financial Planner, of Glenview

George Clam
President, Oak Brook Bank, of Woodridge

Michael Colsch (term expired 12/2000)
Deputy Director, Bureau of the Budget, of Springfield

Patricia Hurston
Senior Vice President, Bank One, of Chicago

Thomas Kiley (term expired 12/2000)
Senior Vice President, M. R. Beal and Company, of Frankfort

Edward Madden (appointed 1/2001)
Vice President, First National Bank of LaGrange

Michael Neill
Trust Officer, First National Bank and Trust of Carbondale, of Carbondale

Alexis Sturm (appointed 1/2001)
Senior Bond Analyst, Bureau of the Budget, of Springfield

Chuck Taylor
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 state tuition program under Section 529 of the Internal Revenue Code, *College Illinois!* provides individuals with an opportunity to prepay tomorrow's college tuition and mandatory fees at approximately today's prices. 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 FY 2001, *College Illinois!* completed its third enrollment period with a total of approximately 22,000 contracts purchased during the life of the program covering over 71,000 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, 2001

MILLER
COOPER
& Co., Ltd

ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistance Auditors for the Auditor General, we have audited the accompanying financial statements as listed in the Table of Contents of the State of Illinois, Illinois Student Assistance Commission - Illinois Prepaid Tuition Program as of June 30, 2001 and for the year then ended. These financial statements are the responsibility of the Illinois Student Assistance Commission - Illinois Prepaid Tuition'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 1, 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 and the results of their operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Illinois, Illinois Student Assistance Commission - Illinois Prepaid Tuition Program, as of June 30, 2001 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MILLER, COOPER & CO., LTD.

Miller, Cooper & Co., Ltd.

Certified Public Accountants

Northbrook, Illinois
October 19, 2001

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

BALANCE SHEET

June 30, 2001

ASSETS	
Current assets	
Cash and cash equivalents	$ 4,472,173
Receivables	
Accrued interest on investments	18,012
Total current assets	4,490,185
Noncurrent assets	
Investments	150,465,999
Fixed assets, net of accumulated depreciation of $5,331	10,436
Total noncurrent assets	150,476,435
Total assets	$ 154,966,620
LIABILITIES AND RETAINED EARNINGS (DEFICIT)	
Current liabilities	
Accounts payable and accrued expenses	$ 156,162
Due to other funds	717,069
Total current liabilities	873,231
Noncurrent liabilities	
Tuition payable	158,221,987
Accretion payable	15,187,043
Total noncurrent liabilities	173,409,030
Total liabilities	174,282,261
Retained earnings (deficit)	(19,315,641)
Total liabilities and retained earnings (deficit)	$ 154,966,620

See accompanying notes to financial statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS (DEFICIT)
Year ended June 30, 2001

Interest revenue	
Interest on funds held at US Treasury and banks	$ 340,785
Interest on investment securities	3,173,652
Total interest revenue	3,514,437
Interest expense	
Interest due to other funds	26,962
Net interest income	3,487,475
Investment securities losses	(9,730,620)
Net investment loss	(6,243,145)
Other operating income	
Application and other fees	1,250,138
Other operating expenses	
Salaries and employee benefits	592,211
Accretion expenses	8,763,375
Management and professional services	1,444,272
Investment management fees	390,703
Depreciation	2,256
Total other operating expenses	11,192,817
NET LOSS	(16,185,824)
Retained earnings (deficit)	
Beginning of year	(3,129,817)
End of year	$ (19,315,641)

See accompanying notes to financial statements.

Illinois Prepaid Tuition Program

STATEMENT OF CASH FLOWS

Year ended June 30, 2001

Cash flows from operating activities:	
Cash received from contracts	$ 51,088,282
Cash payments to suppliers for goods and services	(1,942,583)
Cash payments to employees for services	(548,238)
Net cash provided by operating activities	48,597,461
Cash flows from noncapital financing activities:	
Principal paid on borrowing	(350,000)
Cash flows from capital and related financing activities:	
Purchase of office equipment	(7,538)
Cash flows from investing activities:	
Purchases of investments	(89,895,637)
Sales of investments	14,395,637
Interest and dividends on investments	489,876
Net cash used in investing activities	(75,010,124)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,770,201)
Cash and cash equivalents, beginning of year	31,242,374
Cash and cash equivalents, end of year	$ 4,472,173

See accompanying notes to financial statements.

Illinois Prepaid Tuition Program

STATEMENT OF CASH FLOWS (Continued)

Year ended June 30, 2001

Reconciliation of net loss to net cash provided by operating activities

Net loss	$ (16,185,824)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	2,256
Net decrease in fair value of investments	6,556,966
(Increase) decrease in assets	
Decrease in accrued interest on investments	132,618
Increase (decrease) in liabilities	
Decrease in accounts payable and accrued expenses	(45,647)
Increase in intergovernmental payables	10,338
Decrease in due to other funds	(333,499)
Increase in deferred revenues	58,610,163
Other	(149,910)
Total adjustments	64,783,285
Net cash provided by operating activities	$ 48,597,461

See accompanying notes to financial statements.

NOTE 1 – Nature of Program and Summary of Significant Accounting Policies

A. Nature of Program

Legislation authorizing the Illinois Student Assistance Commission (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 the Commission. 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 the Commission 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 $500,000.

The first contracts were offered for sale in 1998. After three enrollment periods, as of June 30, 2001, the Illinois Prepaid Tuition Program (*College Illinois!*) had 19,935 contracts with a purchased value of $339,622,981. As of June 30, 2001, the fund has received cash collections of $161,658,923.

B. Reporting Entity

The accompanying financial statements report the financial position, results of operations, and cash flows of the Illinois Prepaid Tuition Program as of and for the fiscal year ended June 30, 2001. For financial reporting purposes, the Fund is considered as a separate accounting entity to be administered by ISAC. The Fund is a fund of ISAC and the State of Illinois.

NOTE 1 – Nature of Program and Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

The accompanying financial statements have been prepared in conformity with Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." They apply all applicable GASB pronouncements and all Financial Accounting Standards Board Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins issued after November 30, 1989, except those that conflict with or contradict the GASB pronouncements, in which case GASB applies.

D. Fund Accounting

The activities of the Fund are accounted for in an enterprise fund. The enterprise fund accounts for resources received and used for financing self-supporting activities of the Illinois Prepaid Tuition Program that offer services on a user-charge basis to the general public. The measurement focus is based upon a flow of economic resources basis.

E. Basis of Accounting

The financial statements are presented on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when the liability is incurred.

F. Statement of Cash Flows

Cash and cash equivalents include cash on hand and in banks, interest bearing deposits with banks, and securities with maturities at the date of purchase of 90 days or less. Due to the nature of Illinois Prepaid Tuition Program activities, income from investments and interest expense are considered operating activities.

NOTE 1 – Nature of Program and Summary of Significant Accounting Policies (Continued)

G. Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

H. 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 2 – Deposits and Investments

A. Deposits

At year-end the carrying amount and bank balance of Illinois Prepaid Tuition Program's deposits totaled $4,472,173 as detailed below:

NOTE 2 – Deposits and Investments (Continued)

A. Deposits (Continued)

Category:	Bank Balance
(1) Deposits covered by federal depository insurance or collateral held by the Illinois Prepaid Tuition Program or its agent in Illinois Prepaid Tuition Program's name	$ 200,000
(2) Deposits covered by collateral held by the pledging financial institution or its trust department, or by its agent, in Illinois Prepaid Tuition Program's name	-
(3) Deposits covered by collateral held by the pledging financial institution or its trust department, or its agent, but not in Illinois Prepaid Tuition Program's name and deposits which are uninsured and uncollateralized	746,758
Total savings and checking deposits	946,758
Deposit reported with Illinois State Treasurer	3,525,415
Total Deposits	$ 4,472,173

NOTE 2 – Deposits and Investments (Continued)

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 first investment plan, the Illinois Prepaid Tuition Program Statement of Investment Policy on January 22, 1999, and approved revisions to the policy on November 13, 2000. 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, Brinson Partners and William Blair & Company as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. An additional $75,500,000 of contract payments received has been invested as of the end of the fiscal year June 30, 2001. 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, 2001, 57.6 % of the funds were invested in Domestic Equities, 39.5 % in Domestic Fixed Income and 2.9 % 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 Balance Sheet and as revenue or expense on the Income Statement.

NOTE 2 – Deposits and Investments (Continued)

B. Investments

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 /Fair Value			
	Category			
	1	2	3	Totals
Domestic Equity	$ -	$ -	$ 89,256,776	$ 89,256,776
Domestic Fixed Income	-	-	61,209,223	61,209,223
Total Investments	$ -	$ -	$ 150,465,999	$ 150,465,999

C. Equipment

Fixed assets are capitalized and depreciated on a straight-line basis over a period of five years. Fixed assets are valued at historical cost or estimated historical cost. The Fund capitalizes all equipment that has a cost or value greater than $100.

	Equipment Cost	Less: Accumulated Depreciation	Net
Beginning balance	$ 8,533	$ 3,075	$ 5,458
Additions	7,234	2,256	4,978
Retirements	-	-	-
Ending balance	$ 15,767	$ 5,331	$ 10,436

NOTE 3 – Retirement

Substantially, all of the employees of ISAC participate in the State of Illinois Employees' Retirement System (SERS). Membership in SERS is automatic for most state employees who are not eligible for another state-sponsored retirement plan. Contributions to SERS are based on a percentage of an individual's total compensation. Future benefit payments are provided by SERS based on an individual's final average compensation and amount of credited service. Included in salaries and benefits in the accompanying financial statements is $42,763, which represents Illinois Prepaid Tuition Program's matching contributions for the year ended June 30, 2001.

SERS issues a separate component unit financial report each year. The financial position and results of operations of SERS for the fiscal year 2001 are also included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2001 and are hereby incorporated by reference. In addition, information regarding actuarially determined contribution requirements and covered payroll is contained within the separately issued financial statements of ISAC and is hereby incorporated by reference. The report may be obtained by writing to the State Employees Retirement System, 2101 South Veterans Parkway, P.O. Box 19255, Springfield, Illinois 62794.

In addition to providing pension benefits, the State provides certain health, dental, and life insurance benefits to annuitants that are former State employees. This includes annuitants of the agency. Substantially, all State employees, including the agency's employees, may become eligible for post-employment benefits if they eventually become annuitants. 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.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental, and life insurance benefits is recognized on a pay-as you-go basis.

NOTE 4 – Liabilities

A. Compensated Absences

Employee vacation and sick leave are recognized in the period that they are earned. Vacation pay accumulates until taken and is limited to the number of hours allowed based upon years of service as specified by ISAC's policy. As of June 30, 2001, accumulated unpaid employee vacation and sick leave aggregated $ 69,289 and is included within accrued expenses in the accompanying balance sheets.

B. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 19,935 contracts held by the fund as of June 30, 2001.

C. Accretion Payable

Accretion payable is the present value of the estimated tuition payment to be made in excess of principal payment received and is expected to be earned from investments of tuition contracts. The Accretion Expense for the fiscal year 2000-2001 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 PricewaterhouseCoopers.

For fiscal year 2001 the accretion expense was calculated monthly based on the balance in the Tuition Payable account. Accretion Expense is reflected as an expense in the Statement of Revenues and Expenses and as an increase in liability on the Balance Sheet.

Average Tuition Payable Balance over the year	$ 126,455,621
Actuarial Estimate of 7% of Tuition Payable	8,851,893
Present Value	$ 8,763,375
Beginning Balance Accretion Payable as of June 30, 2000	$ 6,423,668
Accretion Expense for the year	8,763,375
Ending Balance Accretion Payable as of June 30, 2001	$ 15,187,043

NOTE 5 – 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 the *College Illinois!* Prepaid Tuition Program by PricewaterhouseCoopers. According to the report, there is a deficit of ($18,548,199) in the program.

Market Value of Assets	$ 154,093,388
Actuarial Present value of future payments expected to be made to contract purchasers	111,489,040
Subtotal	265,582,428
Actuarial Present value of future payments expected to be made by the program	284,130,627
(Deficit) as of June 30, 2001	$ (18,548,199)

NOTE 6 - DEFICIT RETAINED EARNINGS

The Illinois Prepaid Tuition Program is addressing the $19.3 million deficit retained earnings reduction/elimination in different ways. The commission has increased prices for the 2001-2002 enrollment year to partially amortize the deficit and, if it is deemed necessary, could take similar actions in subsequent years until any deficit is amortized.

In terms of the program's actuarial deficit, investment performance is only one influencing factor. The reserve of last year was eliminated due to fewer contracts being sold during fiscal 2001 than expected and tuition and fee increases for public universities being greater than expected, in addition to lower than expected investment performance results. Investment results are expected to perform in line with the actuarial assumptions over the long term.

Cash-flow for the program remains positive. Even excluding any contracts purchased in 2001-2002 and thereafter, expected annual revenue from the first three enrollments will exceed annual payout of benefits through FY2007 and total program assets exceed annual payout through FY2018.

ACTUARIAL REPORT

COLLEGE ILLINOIS!
PREPAID TUITION PROGRAM

Actuary's Report on Soundness
June 30, 2001

October 2001

PricewaterhouseCoopers LLP
203 North LaSalle
Chicago, IL 60601
Telephone (312) 701-5500
Facsimile (312) 701-6533

October 2, 2001

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

Dear Mr. Erford:

Richard M. Kaye & Associates in conjunction with PricewaterhouseCoopers LLP (PwC) has performed an actuarial valuation of the *College Illinois*! Prepaid Tuition Program as of June 30, 2001. The valuation compares the value of the assets of the program to the value of expected future tuition payments to beneficiaries. The following pages summarize the actuarial valuation of the trust fund as of June 30, 2001.

A comparison of the assets and liabilities of the trust fund shows that as of June 30, 2001 there is an actuarial deficit of $18,548,199.

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

Richard M. Kaye
Richard M. Kaye & Associates
Consultant to PricewaterhouseCoopers LLP

John T. Devereux, FCAS, MAAA
Principal Consultant, PricewaterhouseCoopers LLP

Table of Contents

Section

Introduction

Introduction

Purpose

College Illinois! Prepaid Tuition Program (CIPTP) has engaged Richard M. Kaye & Associates and PricewaterhouseCoopers LLP (PwC) to provide a determination of the soundness of the Illinois Prepaid College Trust Fund (Trust Fund) as of June 30, 2001. This soundness measure results in a point estimate of the actuarial reserve associated with the Trust Fund as of June 30, 2001.

Distribution and Use

This report was prepared for internal use by the management of CIPTP. 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

Executive Summary

Valuation Results

As of June 30, 2001, the trust has an actuarial deficit of $18,548,199 (the expected liabilities of the trust exceed the value of assets, including the value of future payments by contract purchasers, by that amount). The reserve of last year was eliminated due to a) investment return in the year ended June 30, 2001 less than expected; b) fewer contracts sold during fiscal 2001 than expected; and c) tuition and fee increases for public universities greater than expected. This deficit is based upon a number of assumptions and is therefore subject to uncertainty. Page 23 of the report shows the financial status of the trust based upon alternative scenarios, some of which show a reserve rather than a deficit. Nevertheless, to be conservative, the Commission has increased prices for the 2001/2002 enrollment year to partially amortize the deficit. It should be noted that the Commission could take similar actions in subsequent years until any deficit is amortized.

Contracts in Force

As of June 30, 2001, the total contracts in force (net of cancellations) for CIPTP was 19,935. The contracts sold for four years at a university accounted for approximately 43% of all contract sales. Contracts for university enrollment represents approximately 84% of sales. Contracts for community college enrollment and combined community college and university enrollment account for approximately 16% of sales. Enrollment data is summarized in Appendix D.

Weighted Average Tuition

The Weighted Average Tuition (WAT) is the average of tuition and fees for public in-state schools weighted in proportion to the number of Illinois resident students attending such schools. The 2001-2002 Illinois public university WAT is $4,842, an increase of 7.9% over the 2000-2001WAT. The 2001-2002 Illinois community college WAT is $1,731, an increase of 4.4% over the 2000-2001WAT.

Actuarial Assumptions

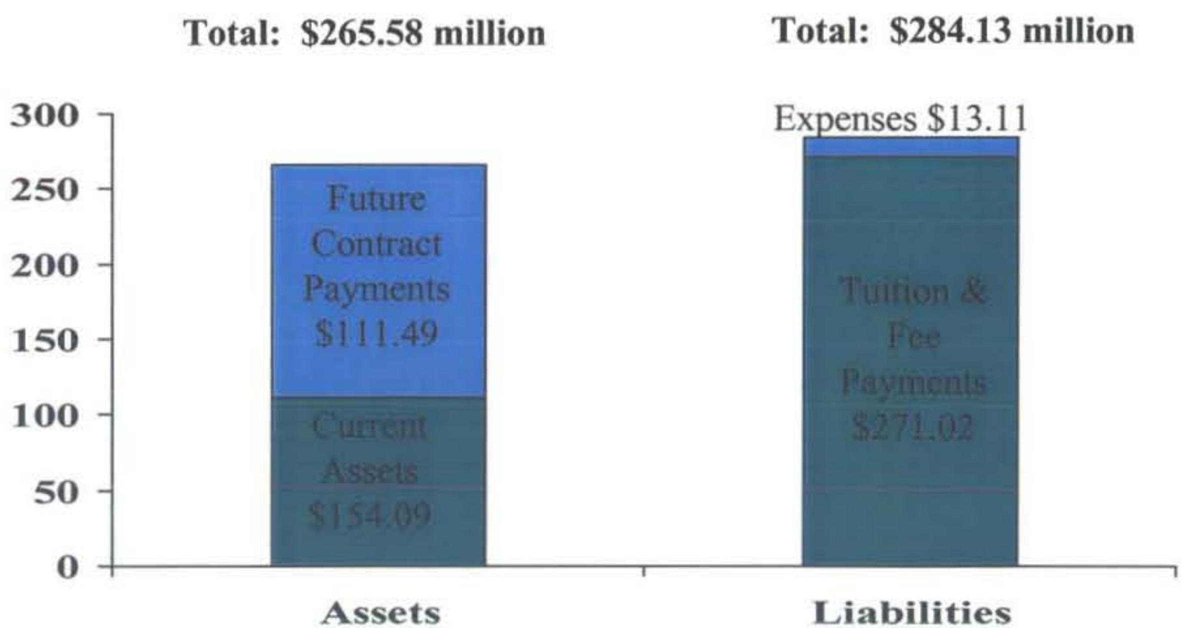
The major actuarial assumptions are chosen by the Commission. Specifically, tuition and fees are assumed to increase at 7.0%, while investments are expected to earn 8.0% per annum, and new contracts are assumed to be 6000 in each subsequent enrollment. The actuarial assumptions and methods are fully described in the following section of this report.

Funded Status

The value of expected liabilities exceeds the assets as of June 30, 2001 (including the value of future payments by contract purchasers) of the trust fund by $18,548,199. The funded ratio, assets divided by liabilities, is about 93.5%. The assumptions used to perform the actuarial valuation of the fund are described on pages 19 and 20 of this report. The primary assumptions are:

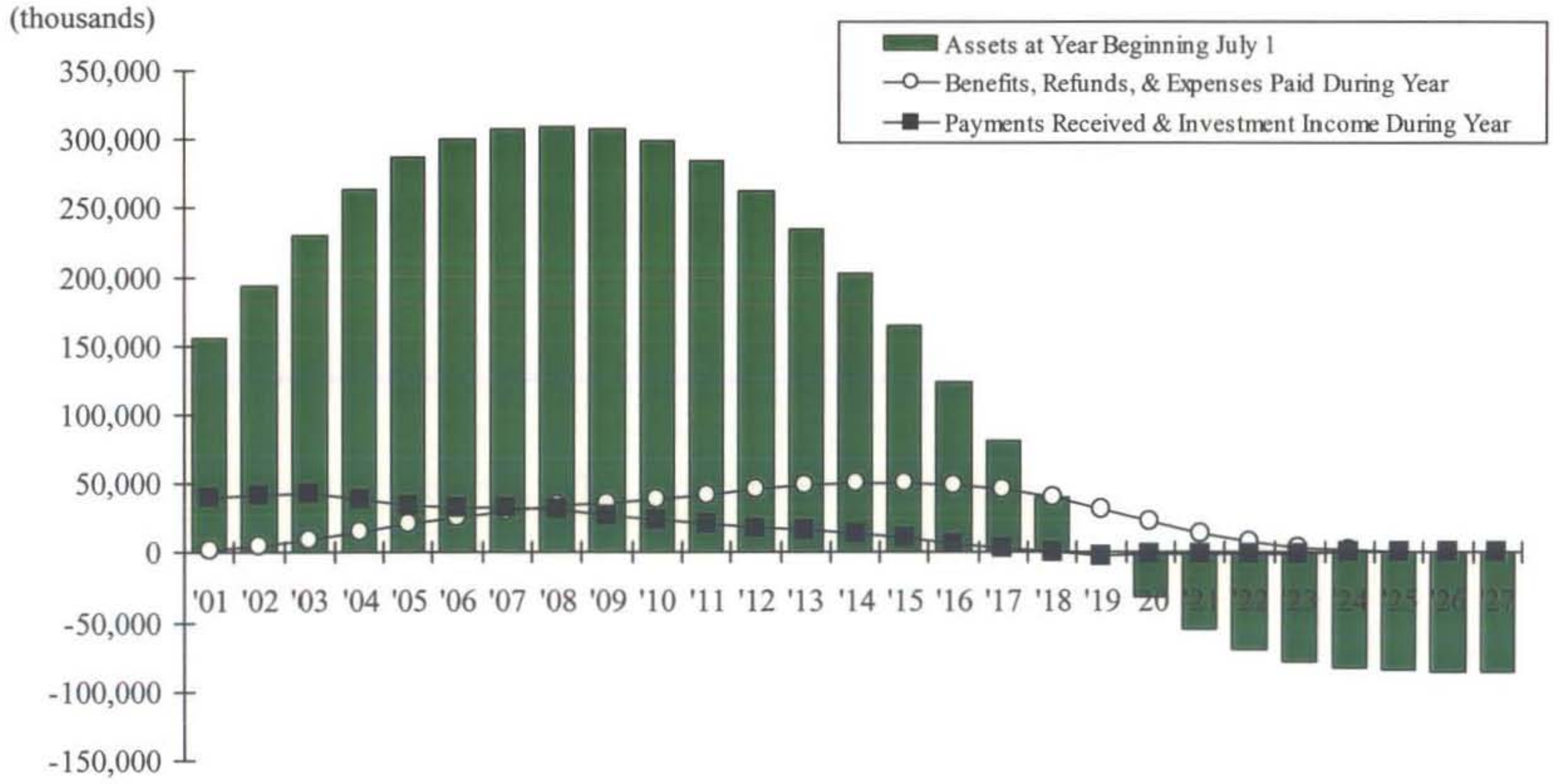
Tuition Increases: 7.0% per annum
Investment Return: 8.0% per annum

New contracts: 6000 in future enrollments



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.



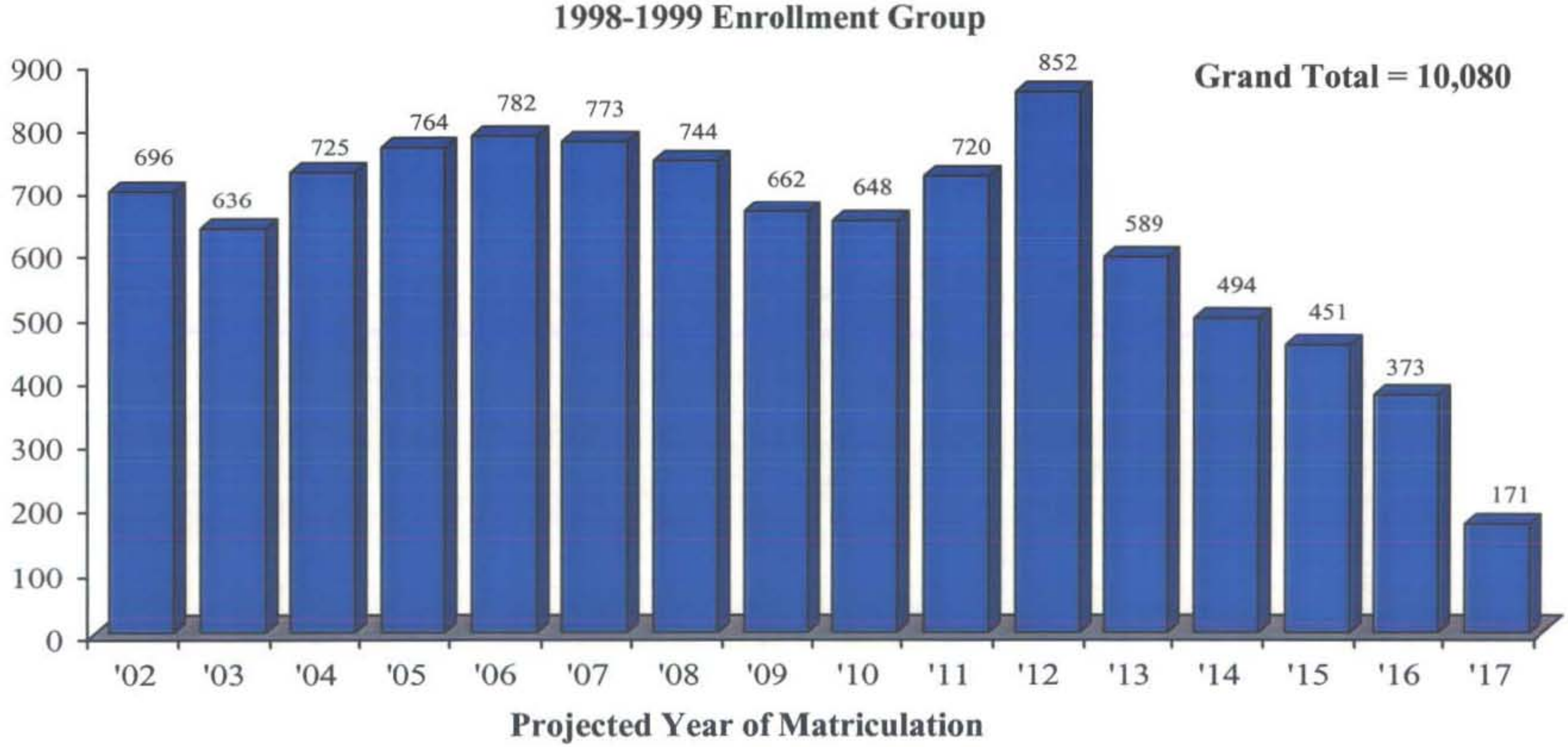
Year Beginning July 1

PRICEWATERHOUSECOOPERS

2/20/2002

Contracts in Force for the 1998-1999 Enrollment Group

The chart below illustrates the total number of active contracts by expected year of community college or university matriculation for the 1998-1999 enrollment group.



Contracts in Force for the 1999-2000 Enrollment Group

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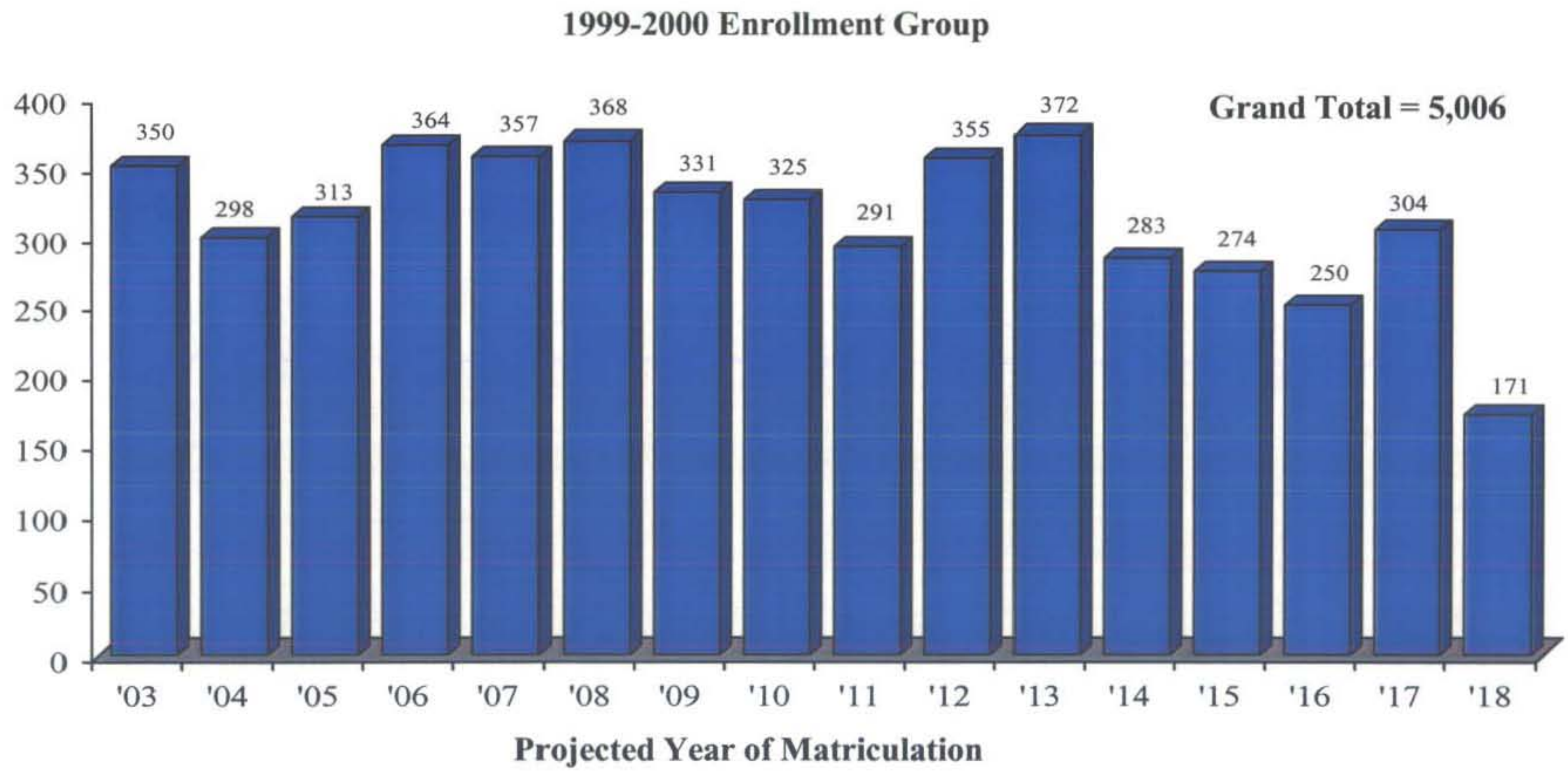

Contracts in Force for the 2000-2001 Enrollment Group

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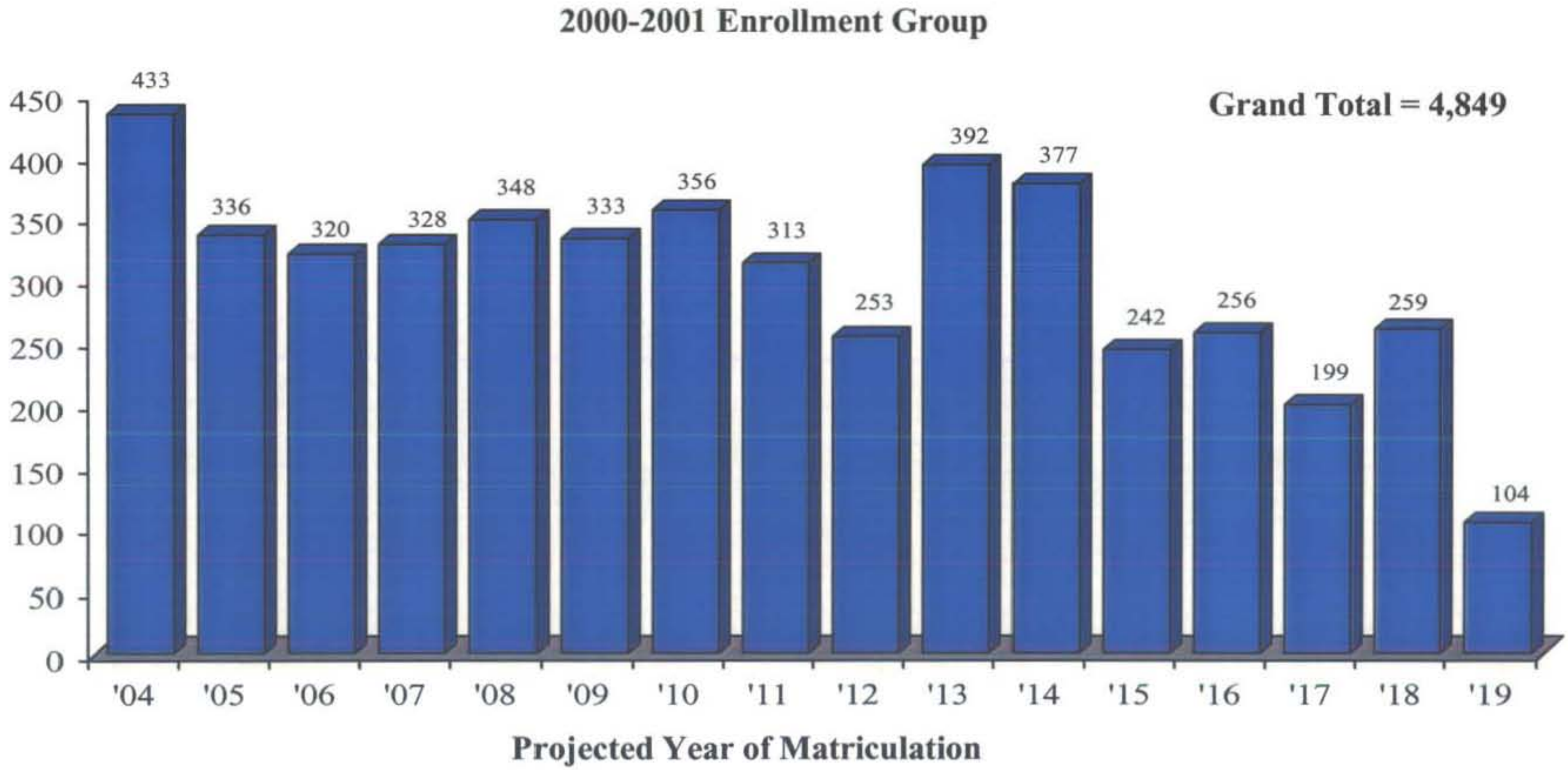
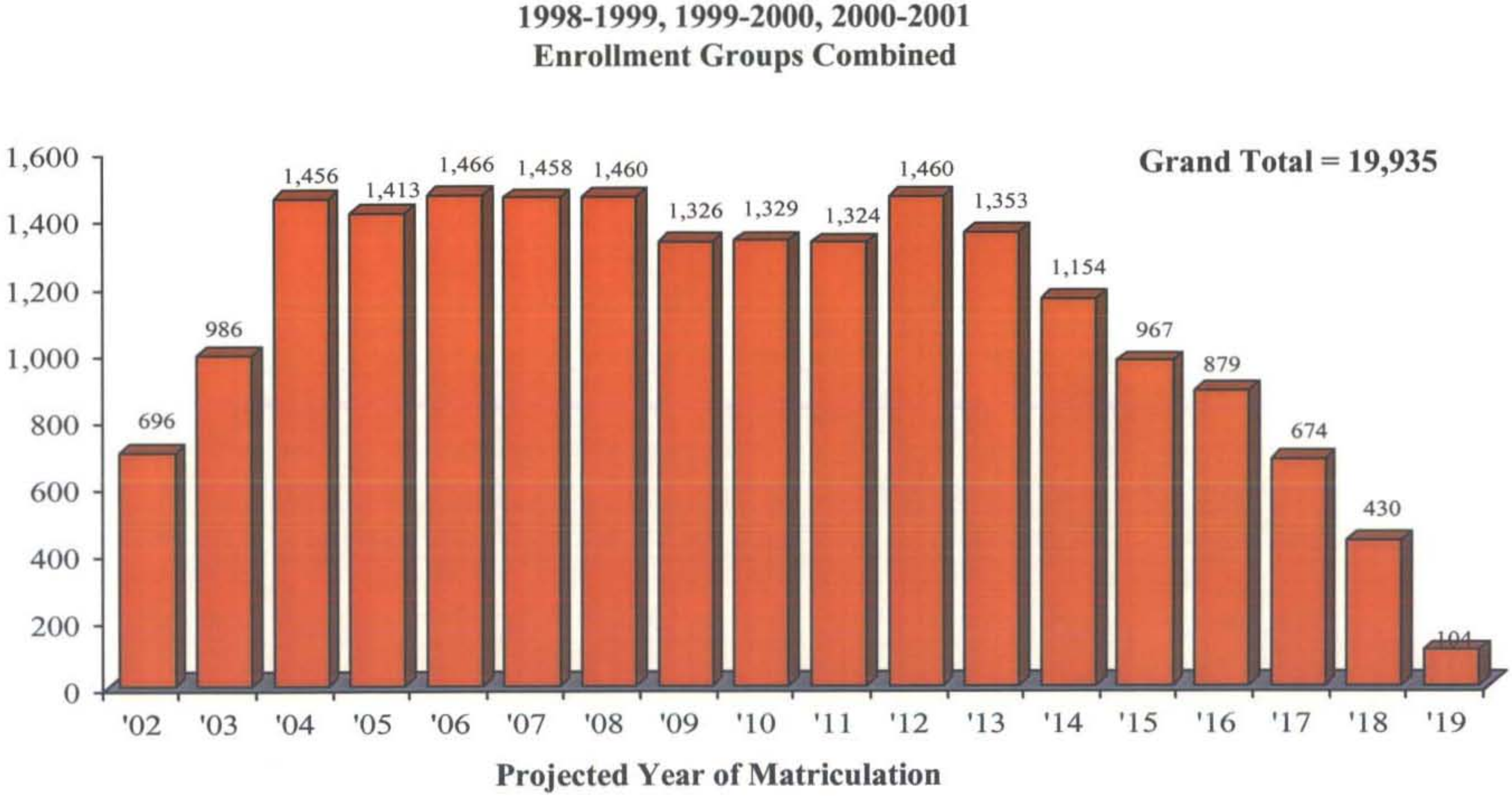


Contracts in Force for All Enrollment Groups

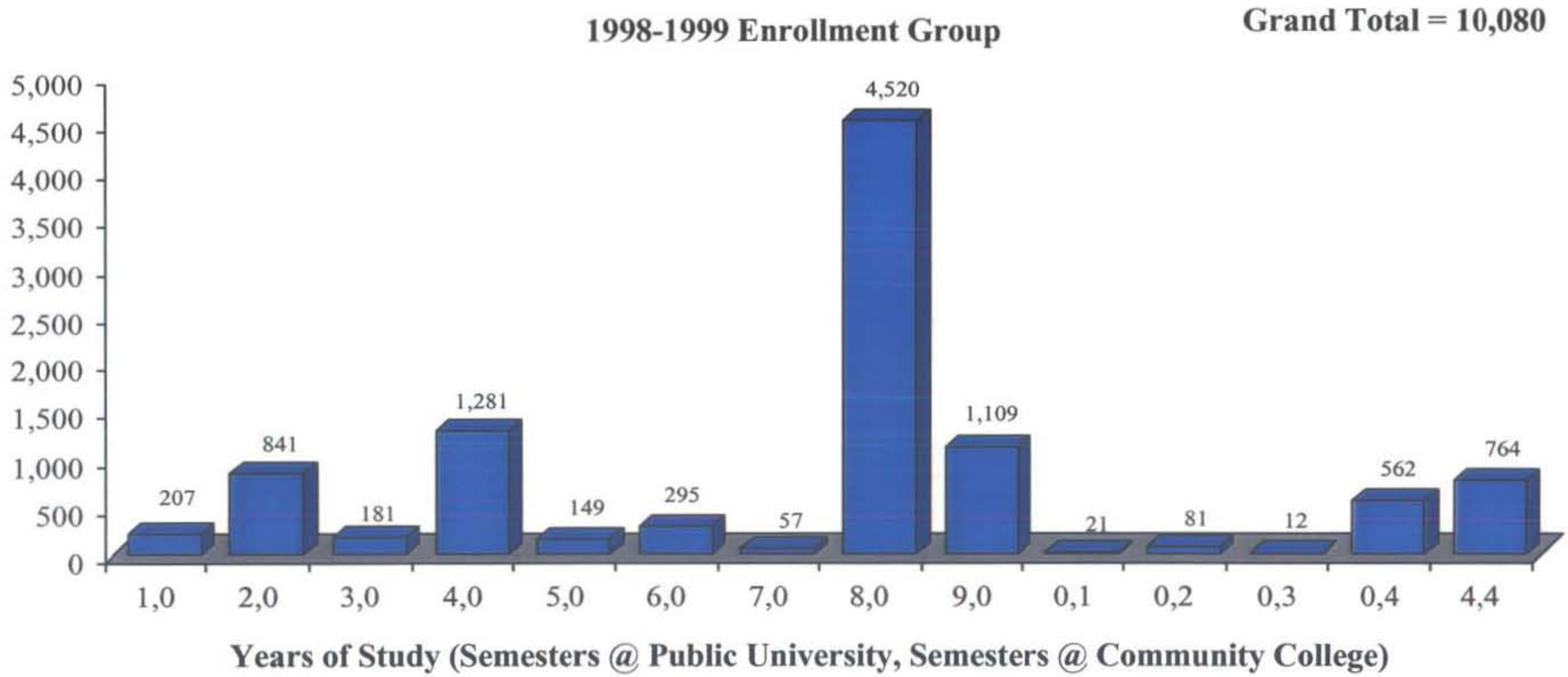
The chart below illustrates the total number of active contracts by expected year of community college or university matriculation for all enrollment groups combined.



COLLEGE ILLINOIS! PREPAID TUITION PROGRAM

Type of Contract Sold to the 1998-1999 Enrollment Group

Contracts can be purchased for a variety of plans. The chart below illustrates the total number of active contracts from the 1998-1999 enrollment period by type of plan.



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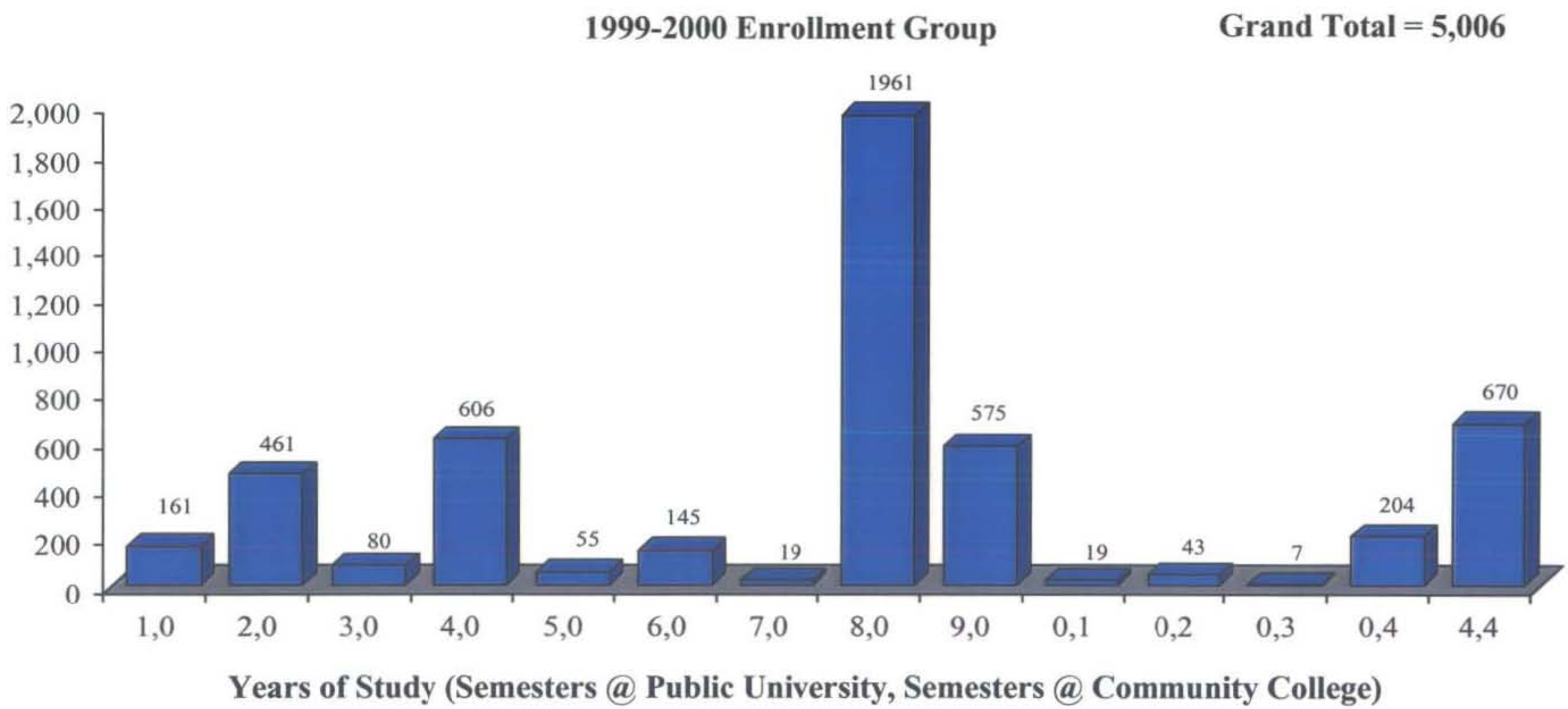

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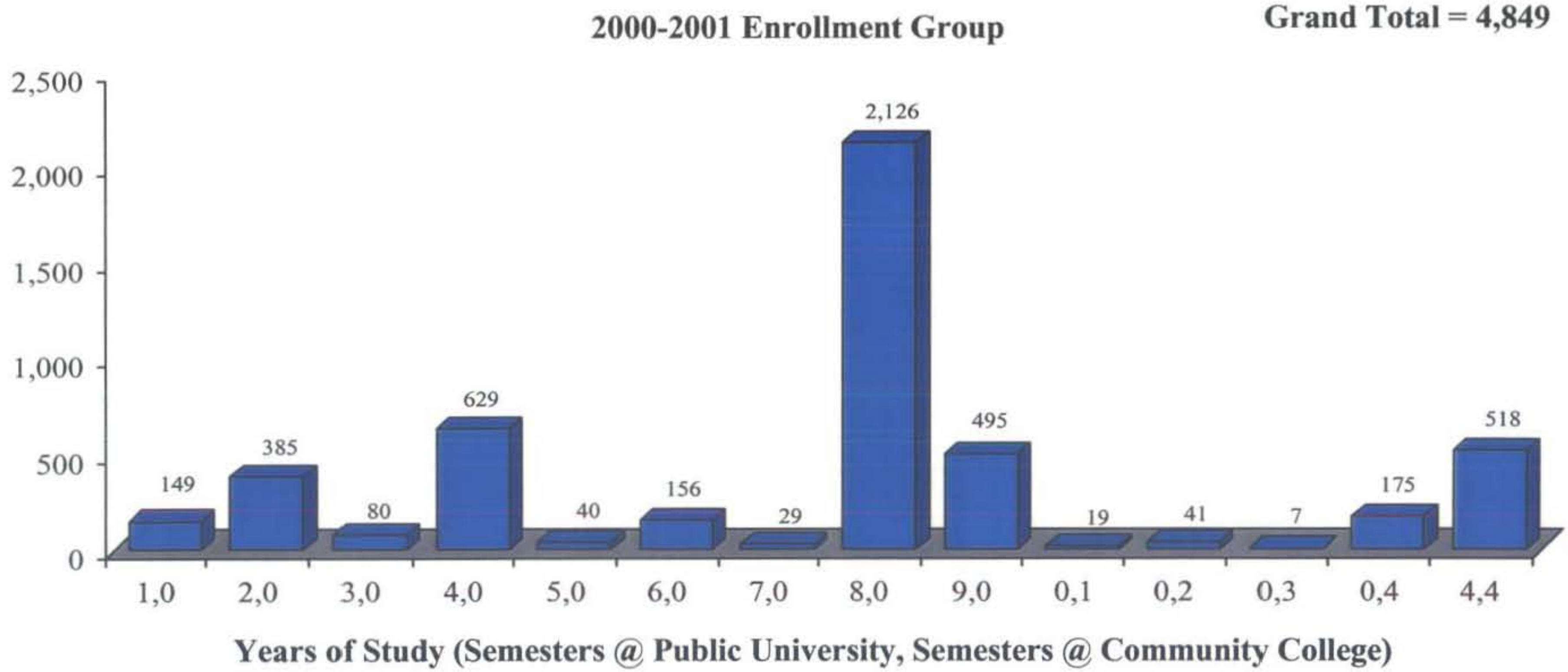
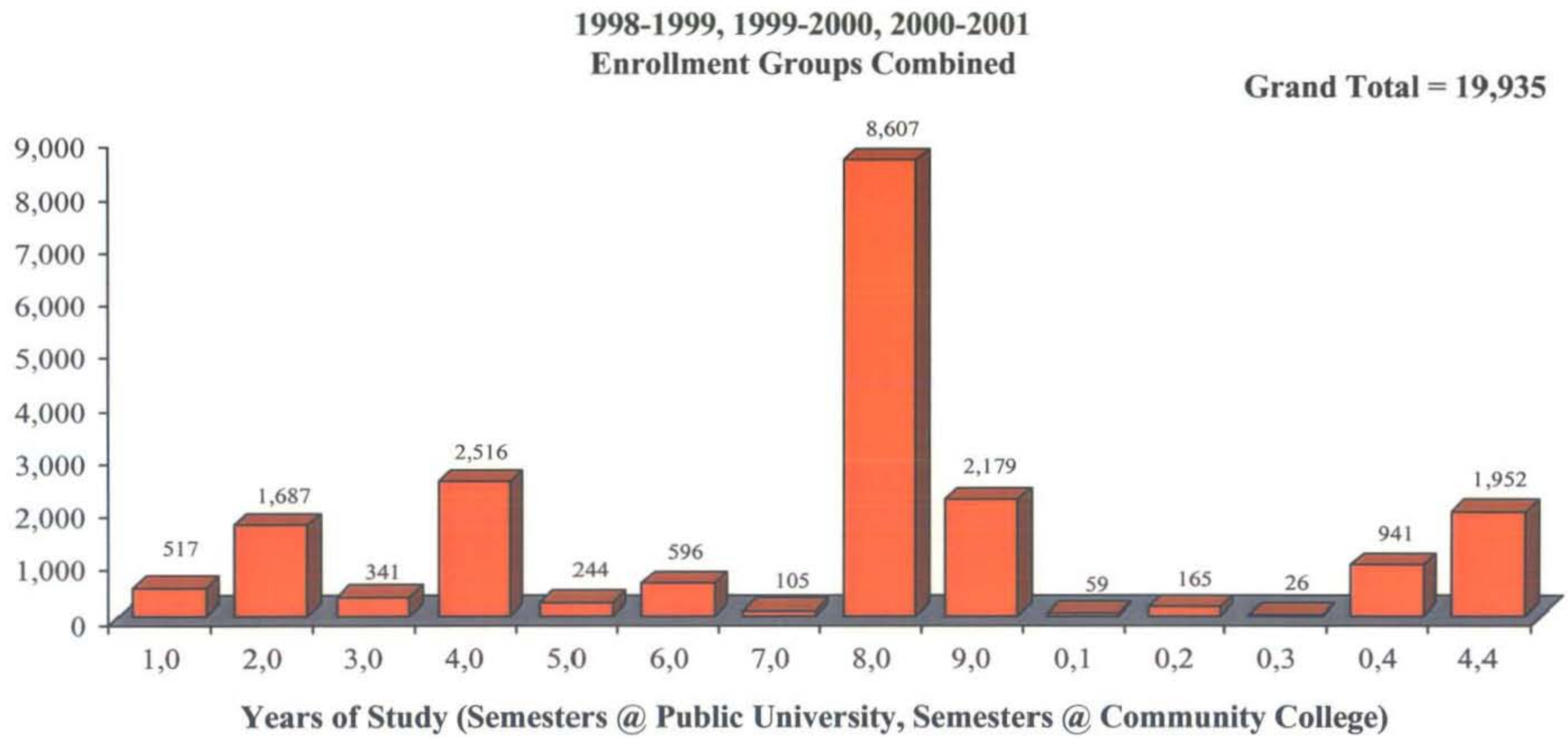


Type of Contract Sold to All Enrollment Groups

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.



Valuation Assumptions and Methods

Actuarial Assumptions

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

Tuition and Fee Increases. The Weighted Average Tuition (WAT) for universities and community colleges is projected to increase 7.0% per annum for tuition and fees based on historical data as selected by the CIPTP management.

Investment Return. The actuarial valuation of the Trust Fund was determined using an assumed 8.0% rate of return on investments as recommended by the Commission and their investment advisors. We further assume the Trust Fund is exempt from federal income tax. It is important to highlight the sensitivity of this analysis to this assumption. As pointed out subsequently, a quarter point shortfall in such a goal would place the fund in a notable deficient position. Additionally, the nature of this type of program involves payment of benefits at fixed future points in time, subjecting the fund to greater than average investment risk due to short-term fluctuations and in matching investment maturities with expected outlays.

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

Enrollment of CIPTP Beneficiaries. It is assumed that beneficiaries will attend college full time commencing with their expected matriculation date (the Fall following high school graduation). Contract beneficiaries are assumed to attend the various colleges and universities in the same proportion as the headcount information that was used to determine 2001-2002 WAT with a bias load added to allow for a bias toward enrollment at more expensive schools.

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

Future Contract Sales. It is assumed that 6,000 contracts will be sold during the 2001-2002 enrollment period and all subsequent enrollment periods. These assumptions are based on CIPTP management recommendations. This is another area that has a notable impact on the actuarial reserve as described subsequently in the Sensitivity Testing section.

Actuarial Assumptions (continued)

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

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

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

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

Actuarial Methods

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

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

Weighted Average Tuition: Four Year Universities. The Weighted Average Tuition (WAT) for four year public universities in Illinois is the average of tuition and mandatory fees at each of the four year universities weighted by resident enrollment headcount at each university. The WAT for public universities is $4,842 for 2001-2002.

Weighted Average Tuition: Community Colleges. The WAT for community colleges is $1,731 for 2001-2002.

Sensitivity Testing

Sensitivity Testing

The Trust Fund operates with risk and uncertainty. For example, while it is assumed that the assets of the fund will earn 8.0% each year through the life of the contracts, we also expect actual returns to vary from year to year. To accept the reasonableness of the basis for the measurement of the soundness, it is useful to know how the status of the fund may be affected by the vagaries of the markets and other factors. Accordingly, we have rerun the valuation under alternative scenarios for future investment income, tuition increases and new entrants and present results under the following alternative scenarios:

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

The actuarial reserve that would exist as of June 30, 2001 under each of these scenarios is presented in the following table:

Scenario	Indicated Actuarial Reserve as of 6/30/2001	Scenario	Indicated Actuarial Reserve as of 6/30/2001
1	**$6,074,510**	6	**($17,655,803)**
2	**($5,911,682)**	7	**($19,302,265)**
3	**$4,095,438**	8	**($16,683,641)**
4	**($44,455,132)**	9	**$5,325,383**
5	**$5,070,248**	10	**($19,640,423)**

Plan Provisions

Plan Provisions

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

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

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

Scholarship: When a qualified beneficiary is awarded a grant or scholarship that duplicates the benefits covered by a prepaid tuition contract, the moneys paid for the purchase of the contract will be returned to the the purchaser upon request in semester installments. If the qualified beneficiary is enrolled at an Illinois Public University or Community College, the installments will be in an amount equal to the current cost of in-state or in-district registration fees at that institution, less any benefits used to pay registration fees not covered by the scholarship and any applicable fees. If the qualified beneficiary is enrolled at an Illinois Private Institution or an eligible Out-of-State Institution, the installments will be in an amount equal to the current average mean-weighted credit hour value of registration fees at Illinois Public Universities or Illinois Community Colleges, depending on the plan purchased under the contract, less any benefits used to pay registration fees not covered by the scholarship and any applicable fees.

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

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

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

Appendices

Funded Status

Appendix A

a. Market Value of Assets	$154,093,388
b. Actuarial present value of future payments expected to be made to the fund by contract purchasers	$111,489,040
c. Subtotal (a + b)	$265,582,428
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*	$284,130,627
e. Reserve as of June 30, 2001 (c - d)	$(18,548,199)

* Includes $300,000 for the guaranteed minimum benefit proposal.

Trust Assets

Appendix B

Summary of Assets	Market Value
a) Cash deposited with banks	$946,759
b) Cash deposited with Treasurer	$3,525,414
c) SSgA S&P 500 Index Fund and Value Index Fund	$69,368,507
d) Brinson Partners Core Fixed Income	$61,209,223
e) William Blair	$19,888,269
f) Accrued Interest - State Treasurer	$18,012
g) Fixed Assets - Net of Accumulated Depreciation	$10,436
h) Accounts Payable and Accrued Liabilities	$156,162
i) Due to GRF	$500,000
j) Loans and Notes Payable	$217,070
Total Assets as of June 30, 2001 (a)+(b)+(c)+(d)+(e)+(f)+(g)-(h)-(i)-(j)	**$ 154,093,388**

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

Cash Flow Projection

Appendix C

Year Beginning 7/1/XXXX	Assets at Beginning of Year	Payments Out Of Trust Fund	Payments Into Trust Fund	Investment Income at End of Year
2001	154,093,388	2,343,175	27,077,671	13,258,459
2002	192,086,343	5,259,804	25,507,420	16,072,883
2003	228,406,842	9,019,235	23,950,652	18,706,819
2004	262,045,079	15,092,363	17,765,240	20,814,960
2005	285,532,916	20,584,439	12,388,064	22,175,332
2006	299,511,873	25,879,713	9,373,118	22,878,690
2007	305,883,968	30,260,559	9,348,099	23,142,029
2008	308,113,538	33,964,387	8,448,804	23,077,600
2009	305,675,554	36,089,310	4,655,916	22,614,710
2010	296,856,870	38,833,846	1,943,650	21,649,043
2011	281,615,717	41,525,936	0	20,202,670
2012	260,292,451	45,762,794	0	18,259,429
2013	232,789,086	49,317,474	0	15,860,000
2014	199,331,612	50,922,176	0	13,093,495
2015	161,502,931	50,685,182	0	10,080,479
2016	120,898,228	49,164,487	0	6,917,303
2017	78,651,044	45,433,896	0	3,746,543
2018	36,963,692	39,934,949	0	719,647
2019	(2,251,610)	30,995,550	0	(1,736,598)
2020	(34,983,758)	22,157,267	0	(1,241,413)
2021	(58,382,437)	14,009,680	0	(784,925)
2022	(73,177,042)	7,820,870	0	(438,183)
2023	(81,436,095)	4,102,478	0	(229,851)
2024	(85,768,424)	2,221,847	0	(124,484)
2025	(88,114,755)	1,071,976	0	(60,060)
2026	(89,246,791)	408,943	0	(22,912)

CIPTP Beneficiaries (All Enrollment Groups)

Appendix D

Projected Enrollment Year	Plan Type (Semesters @ Public University, @ Community College)														Total Enrollment by 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	
2002	20	88	18	172	23	78	23	153	42	0	12	2	23	42	696
2003	27	97	26	178	24	73	9	325	90	1	16	2	44	74	986
2004	37	150	30	272	24	88	13	519	119	3	15	4	54	128	1,456
2005	25	137	27	211	24	58	9	600	110	5	11	1	65	130	1,413
2006	48	143	26	217	24	32	7	582	134	7	13	3	78	152	1,466
2007	31	151	26	212	18	47	3	588	142	3	7	1	92	137	1,458
2008	36	131	27	172	20	37	8	657	117	4	15	3	69	164	1,460
2009	38	100	16	154	15	36	4	584	145	2	13	0	80	139	1,326
2010	30	103	22	141	12	28	6	590	167	5	11	0	64	150	1,329
2011	28	84	17	154	9	16	3	631	149	3	6	1	58	165	1,324
2012	28	98	34	138	11	27	4	714	182	3	7	2	70	142	1,460
2013	46	78	20	136	10	24	6	628	175	2	11	2	69	146	1,353
2014	35	91	20	109	9	17	3	538	155	5	9	2	51	110	1,154
2015	27	78	9	76	6	13	2	483	134	6	7	1	48	77	967
2016	25	73	13	85	7	11	4	409	124	5	6	1	34	82	879
2017	18	60	4	47	3	6	1	339	110	2	4	0	26	54	674
2018	16	22	4	37	4	5	0	211	64	3	0	1	13	50	430
2019	2	3	2	5	1	0	0	56	20	0	2	0	3	10	104
Total	**517**	**1,687**	**341**	**2,516**	**244**	**596**	**105**	**8,607**	**2,179**	**59**	**165**	**26**	**941**	**1,952**	**19,935**
Percent	**2.6%**	**8.5%**	**1.7%**	**12.6%**	**1.2%**	**3.0%**	**0.5%**	**43.2%**	**10.9%**	**0.3%**	**0.8%**	**0.1%**	**4.7%**	**9.8%**	