COLLEGE ILLINOIS!®
prepaid tuition program

Fiscal Year 2014

Annual Report

ISAC
Illinois Student Assistance Commission

College Illinois!®
529 Prepaid Tuition Program

1755 Lake Cook Road
Deerfield, IL 60015-5209

1-877-877-3724 www.collegeillinois.org

February 27, 2015

The Honorable Bruce Rauner, Governor of the State of Illinois
The Honorable John Cullerton, President of the Illinois Senate
The Honorable Michael J. Madigan, Speaker of the Illinois House of Representatives
The Honorable William Holland, Auditor General of the State of Illinois
Members of the Illinois Board of Higher Education
College Illinois! Contract Holders and Beneficiaries
Citizens of Illinois

The Illinois Student Assistance Commission (ISAC) is pleased to submit the Fiscal Year 2014 Annual Report for the College Illinois!® Prepaid Tuition Program required by the Illinois Prepaid Tuition Act 110 ILCS 979/30(d) to be submitted by March 1, 2015. In addition to this letter and summary, the complete report consists of the fiscal year 2014 audited financial statements including the actuarial soundness and valuation report.

Revenues from all contract sales are deposited into the Illinois Prepaid Tuition Trust Fund and are invested to provide funding to meet current and future program obligations. By Illinois statute, assets held by the Fund are required to remain segregated from state General Fund accounts. No amounts held in the Fund may be transferred to or allocated by the Commission, the State Treasurer, or the State Comptroller to any other fund, nor can the Governor authorize any transfer or allocation while contracts remain outstanding.

In addition, the program has the backing of the moral obligation of the State, requiring the Governor to request an appropriation from the General Assembly if the Commission and the Governor determine that the program does not have adequate assets to meet its contractual obligations in an upcoming fiscal year. While the General Assembly has fulfilled other moral obligations of the State of Illinois in the past, it is not obligated to appropriate, and no assurances can be made that the General Assembly will appropriate sufficient moneys to meet the program's contractual obligations, if the plan were ever to run short of funds at some future date.

As certified to the Governor on January 8, 2015, the College Illinois! Prepaid Tuition Program will not require any state financial support during Fiscal 2016. If the assumptions contained in the accompanying Actuarial Soundness Valuation Report are met, and even assuming no additional contracts are sold, the Fund has resources to make payments until 2024. Since inception, the program has never missed a tuition or fee payment, and continues to meet all of its financial obligations on time.

Audited Financial Statements and Audit Findings

ISAC continues to work diligently to maintain and strengthen our financial controls and reporting. The Illinois Office of Auditor General has expressed the opinion that the financial statements are a materially correct representation of the College Illinois! Prepaid Tuition Program and that the accounting is in conformity with United States generally accepted accounting principles.

In its Report on Internal Control Over Financial Reporting and on Compliance, the Office of Illinois Auditor General notes that it did not find any deficiencies in internal control over financial reporting that would be considered a material weakness.

Actuarial Valuation and Soundness Report

As required annually, an Actuarial Valuation and Soundness Report was prepared by Gabriel Roeder Smith & Company. The report notes that the College Illinois! Prepaid Tuition Program ended Fiscal 2014 with nearly $1.2 billion in assets, approximately $328 million in unfunded liabilities and a funded ratio of 78.1 percent. Compared to Fiscal 2013, this represents a reduction in the unfunded liabilities of $120 million and a 5.8% percentage point gain in the funded ratio (from 72.3%).

While the unfunded liability warrants continued vigilance, we are encouraged by the trend in moderating tuition inflation. Lower-than-expected tuition inflation provided a benefit to the funded status of $45 million in FY14, $66 million in FY13 and $87 million in FY12.

Information in the actuarial report necessarily represents a point in time and predicts the future as of June 30, 2014. Going forward, many circumstances, such as investment performance, tuition and fee inflation and contract purchases, can significantly change future actuarial results, either in a positive or negative way. It is to be expected that for any given fiscal year that actual plan performance will vary from assumptions and that the funded status of the plan will fluctuate.

Also, the funded ratio is based on a "closed-group business" model that assumes no future contract sales. Contract sales resumed on November 18, 2014 for the current enrollment period, which is scheduled to close April 30, 2015.

Investment Performance

The Illinois prepaid tuition program is administered by the Illinois Student Assistance Commission, with advice and counsel from the Investment Advisory Panel as stipulated in the Prepaid Tuition Act. Additional advice and monitoring is provided by the Investment Committee (subcommittee of the Commission) and professional investment consultant, Callan Associates. Program moneys are held in the segregated Illinois Prepaid Tuition Trust Fund (the Fund) and prudently invested with the objective of obtaining the best possible return on investments consistent with the actuarial soundness of the program. Fund assets are invested in accordance with a formal Investment Policy, which is adopted annually by the Commission. The investment program is implemented by internal investment staff, with all investments being professionally managed by external investment management firms.

Based on consultant reports, the Fund returned 11.35% for the fiscal year ended 6/30/14 and 7.48% for the trailing 3-year period. Returns exceeded our 7.00% actuarial assumption but lagged the public fund peer group. The Fund is well diversified across numerous asset classes, and, while this allocation should mitigate the risk of losses associated with declines in the equity markets, it attenuates participation in equity rallies. ISAC has been gradually increasing allocations to traditional stocks and bonds as liquidity and investment contract provisions allow.

The following table provides a summary of investment performance. Additional detail is provided in the appendix.

Investment Returns and Peer Group* Rankings

Periods Ending	1 year		3 years		5 years	
June 30, 2014	Return	Rank	Return	Rank	Return	Rank
College Illinois Overall	11.35%	96	7.48%	91	9.55%	93
Policy Benchmark	14.36%	79	10.36%	29	11.58%	70
Public Fund Peer Group	16.11%	50	9.70%	50	12.54%	50

Source: Program Investment Consultant, Callan Associates

*Public peer group represents public funds in the Consultant database, including pension plans.

Conclusion

The College Illinois! Prepaid Tuition Program is the fifth largest 529 prepaid program in the country with assets near $1.2 billion and approximately 46,000 active contract holders. Through June 30, 2014, the program has paid over $606 million in tuition and fees on behalf of over 28,000 beneficiaries. Administering a program of this size is a significant responsibility; a role ISAC takes seriously. ISAC has undertaken prudent measures necessary to help put the program on a sustainable, long-term trajectory.

The State, taxpayers and especially program participants, can be proud of the important role the College Illinois! Prepaid Tuition Program has in making postsecondary education more affordable for students and their families.

Sincerely,

Eric Zarnikow
Executive Director
Illinois Student Assistance Commission

Commissioners of the Illinois Student Assistant Commission

Kym M. Hubbard, Chair

Miguel del Valle, Vice Chairman

Mark Donovan

Kendall A. Griffin

Kevin B. Huber

Verett Ann Mims

Paul Roberts

Kim Savage

College Illinois!® Investment Advisory Panel

Jeanna Cullins

Paul Hagy

Karen Kissel

Louis Paster

Patrick E. Rea

Janice Reedus

Joy Winterfield

PROGRAM OVERVIEW

The College Illinois!® Prepaid Tuition Program is administered by the Illinois Student Assistance Commission, the state agency working to help make college accessible and affordable for Illinois students since 1957. As a qualified tuition program under Section 529 of the Internal Revenue Code, College Illinois! provides individuals with an opportunity to lock in contract rates for 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.

The College Illinois! Prepaid Tuition Program 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 installments. College Illinois! Prepaid Tuition Program benefits cover undergraduate tuition and mandatory fees, but not other expenses such as room and board, books and transportation.

Benefits provided by the College Illinois! Prepaid Tuition Program are entirely exempt from both federal and state income tax. In addition, annual contributions up to a maximum of $10,000 per individual or $20,000 per couple are deductible from Illinois taxable income.

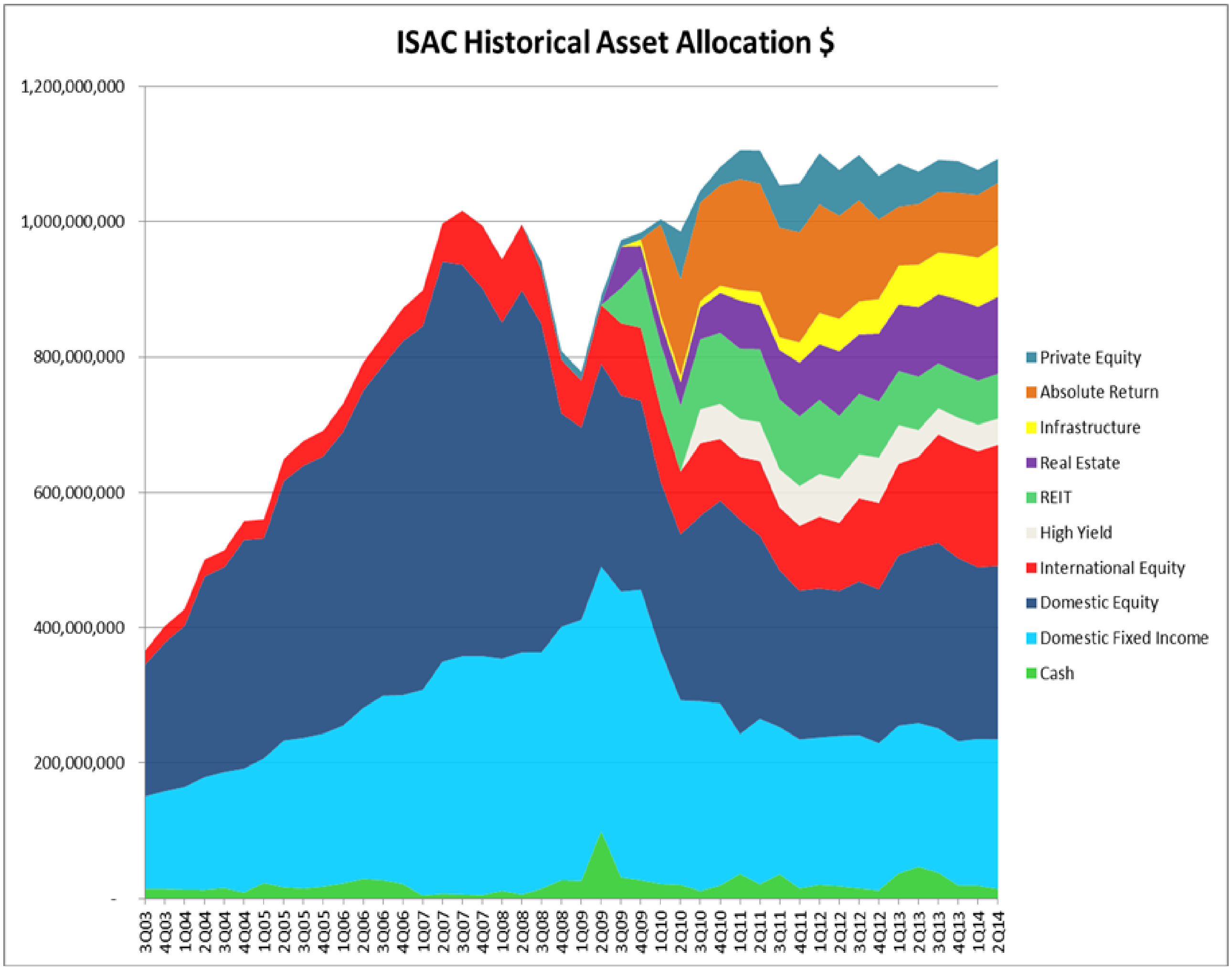
A College Illinois! Prepaid Tuition Program contract can protect purchasers against tuition and fee increases that have historically averaged approximately eight percent per year over the past 20 years at public universities in Illinois. Thousands of Illinois families have enjoyed the benefits of this affordable, flexible and tax-advantaged program, making it the cornerstone of their college funding plan.

Appendix A

ISAC Asset Class Performance and Peer Group* Ranking for periods ending on June 30, 2014								
	one year			**three years**			**five years**	
	Return	**Rank**		**Return**	**Rank**		**Return**	**Rank**
ISAC- Domestic Equity	24.51%	66		16.39%	35		18.66%	47
Russell 3000 index	25.22%	61		16.46%	33		19.33%	35
Median asset class returns	26.02%	50		15.64%	50		18.53%	50
ISAC- International Equity	22.32%	55		10.12%	20		12.69%	60
MSCI EAFE index	23.57%	42		8.10%	62		11.77%	76
Median asset class returns	22.88%	50		8.58%	50		13.07%	50
ISAC - Fixed Income	4.67%	69		4.81%	28		5.77%	52
Barclays US Aggregate Index	4.37%	85		3.66%	96		4.85%	96
Median asset class returns	5.09%	50		4.46%	50		5.87%	50
ISAC- Real Estate	6.75%	73		6.98%	72		-	-
Median asset class returns	11.12%	50		11.20%	50		7.45%	50
ISAC- Infrastructure	8.55%	69		6.26%	74		-	-
Median asset class returns	11.12%	50		11.20%	50		7.45%	50
ISAC- Absolute Return	2.26%	95		2.56%	91		-	-
Median asset class returns	8.77%	50		5.35%	50		6.84%	50
ISAC- Private Equity	-12.71%	100		-6.51%	96		-13.51%	100
Median asset class returns	9.99%	50		0.06%	50		5.51%	50
College Illinois Overall	11.35%	96		7.48%	91		9.55%	93
Policy Benchmark	14.36%	79		10.36%	29		11.58%	70
Public Fund Peer Group	16.11%	50		9.70%	50		12.54%	50

Source: Program Investment Consultant, Callan Associates
*Peer group represents public funds in the Consultant database, including pensions.

Appendix B



ISAC Historical Asset Allocation $
1,200,000,000
1,000,000,000
800,000,000
600,000,000
400,000,000
200,000,000
-
3Q03
4Q03
1Q04
2Q04
3Q04
4Q04
1Q05
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4Q13
1Q14
2Q14
Private Equity
Absolute Return
Infrastructure
Real Estate
REIT
High Yield
International Equity
Domestic Equity
Domestic Fixed Income
Cash

Appendix C
Utilization of Benefits
Fiscal Years 1998 through 2014

Illinois Public 4-Year Institutions	Tuition and Fees	Beneficiaries *
University of Illinois Urbana Champaign	$164,518,974	4,893
Illinois State University	$46,987,072	2,234
University of Illinois Chicago	$25,621,054	1,122
Northern Illinois University	$19,748,030	1,074
Southern Illinois University	$13,659,052	751
Eastern Illinois University	$10,492,637	616
Western Illinois University	$8,647,961	529
Southern Illinois University Edwardsville	$6,645,949	454
University of Illinois Springfield	$2,306,305	175
Northeastern Illinois University	$1,733,725	151
Governors State University	$356,985	41
Chicago State University	$248,218	18
	$300,965,960	12,058

*Students (beneficiaries) could be counted more than once if they attended more than one Illinois Public 4-year institution.

Top 10 Community Colleges	Tuition and Fees	Beneficiaries
College of DuPage	$2,322,899	551
Harper College	$1,360,454	345
Moraine Valley Community College	$1,112,331	257
Parkland College	$1,036,186	301
Joliet Junior College	$945,709	269
Lincoln Land Community College	$939,004	283
College of Lake County	$754,697	231
Illinois Central College	$583,250	163
Heartland Community College	$542,839	174
Oakton Community College	$488,280	172
	$10,085,650	2,746

Appendix C

Utilization of Benefits

Fiscal Years 1998 through 2014

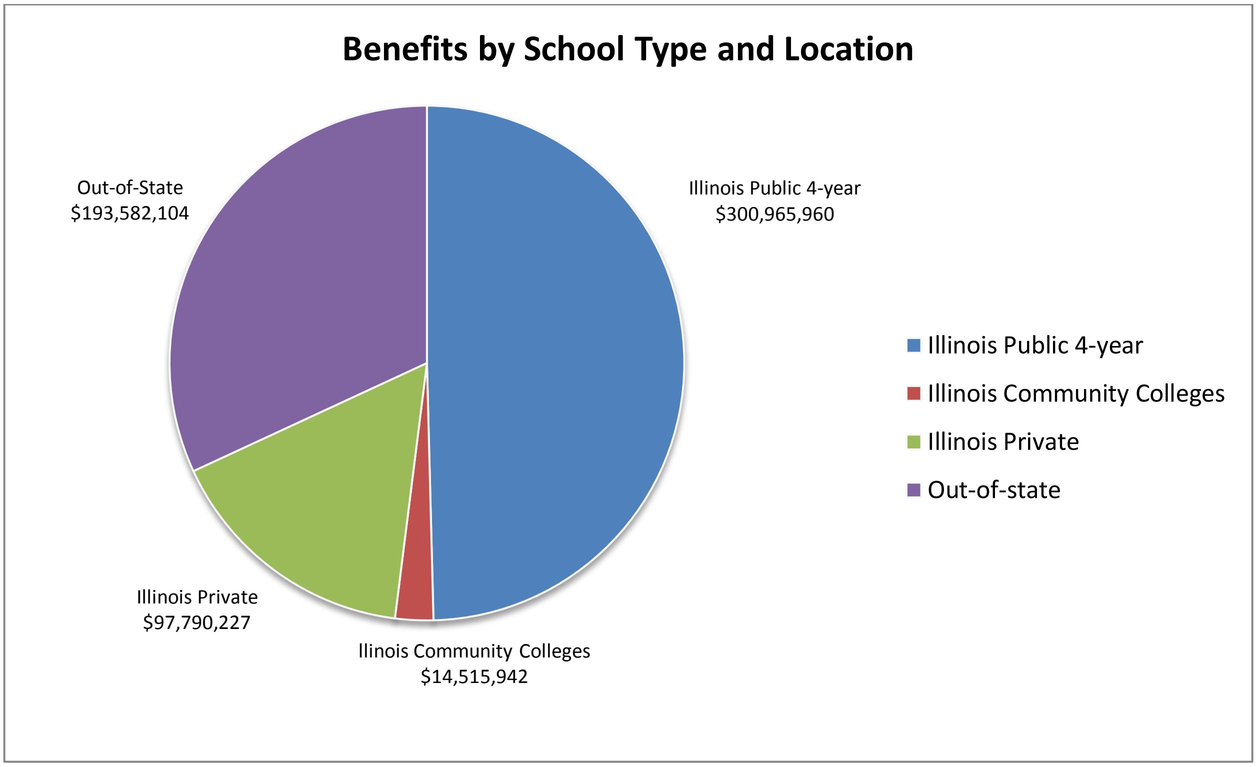
Top 10 Illinois Private Institutions	Tuition and Fees	Beneficiaries
DePaul University	$12,893,126	537
Loyola University – Chicago	$8,133,384	341
Bradley University	$8,031,125	332
Columbia College	$6,545,060	316
Illinois Wesleyan University	$6,124,286	237
Augustana College	$5,295,276	213
Northwestern University	$4,402,532	157
North Central College	$3,360,359	162
Elmhurst College	$2,782,048	131
Millikin University	$2,758,354	118
	$60,325,549	2,544

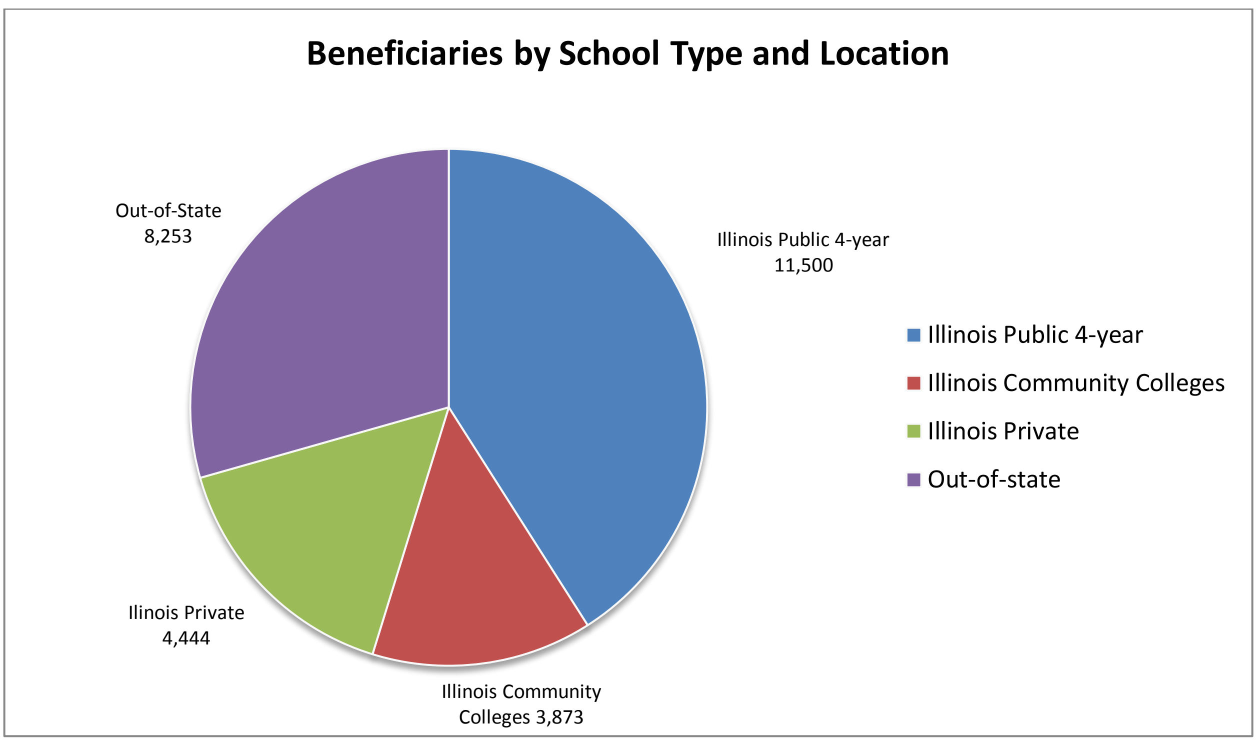
Top 10 Out-of-State Institutions	Tuition and Fees	Beneficiaries
University of Iowa	$15,945,427	606
Indiana University Bloomington	$12,078,694	462
Purdue University	$8,693,403	325
Marquette University	$6,622,449	251
University of Wisconsin Madison	$6,322,066	238
University of Missouri Columbia	$6,235,233	280
Saint Louis University	$5,744,421	211
Iowa State University	$3,651,336	169
University of Notre Dame	$3,569,955	123
Miami University	$2,830,780	110
	$71,693,764	2,775

Appendix D

Utilization of Benefits by Location

Fiscal Years 1998 through 2014





McGladrey

Assurance ▪ Tax ▪ Consulting

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program
Financial Audit
For the Year Ended June 30, 2014

Table of Contents

Agency Officials

Executive Director	Eric Zarnikow
Chief Financial Officer	Shoba Nandhan
Chief Investment Officer	Kent Custer
General Counsel (04/16/14 to present)	Karen Salas
Acting General Counsel (10/12/13 to 04/16/14)	Karen Salas
General Counsel (through 10/11/13)	Annie Pike

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015-5209

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Financial Statement Report

Summary

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

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

Exit Conference

In correspondence received from Wendy Funk, Director of Accounting and Finance, on January 12, 2015, the Commission elected to waive an exit conference.

McGladrey

Independent Auditor's Report

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

Ms. Kym Hubbard
Honorable Chair of the Governing Board
Illinois Student Assistance Commission

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of the RSM International network of independent accounting, tax and consulting firms.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2014, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2, the financial statements present only the Illinois Prepaid Tuition Program, and do not purport to, and do not present fairly the financial position of the State of Illinois or the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2014, and the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Also, as discussed in Notes 9 and 10, the Illinois Prepaid Tuition Program has a deficit as of June 30, 2014 of $276 million. The amount of the reported deficit is highly dependent on the actuarial assumptions used to calculate the actuarial present value of future tuition benefit obligations.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information:
Management has omitted management's discussion and analysis for the Illinois Prepaid Tuition Program that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not a required part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information:
Our audit was conducted for the purpose of forming an opinion on the financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission. The Other Information, consisting of the actuarial soundness report, is presented for purposes of additional analysis and is not a required part of the financial statements. The actuarial soundness report has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2015 on our consideration of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Prepaid Tuition Program and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Prepaid Tuition Program and its compliance.

McGladrey LLP

Schaumburg, Illinois
January 12, 2015

State of Illinois
Illinois Student Assistance Commission Illinois Prepaid Tuition Program

Statement of Net Position
June 30, 2014

Assets	
Current	
Cash and cash equivalents	$ 3,835,542
Investments	163,186,441
Receivables:	
Contracts receivable	22,078,048
Accrued interest on investments	68
Total current assets	189,100,099
Noncurrent	
Investments	929,285,533
Contracts receivable	53,967,637
Total non-current assets	983,253,170
Total assets	1,172,353,269
Liabilities	
Current	
Accounts payable and accrued expenses	773,045
Due to other ISAC fund	185,261
Tuition obligation	174,038,889
Due to other State funds	67,584
Due to State of Illinois component units	616,448
Total current liabilities	175,681,227
Noncurrent	
Tuition obligation	1,272,616,553
Total liabilities	1,448,297,780
Net position, unrestricted (deficit)	$ (275,944,511)

See Notes to Financial Statements.

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State of Illinois
Illinois Student Assistance Commission Illinois
Prepaid Tuition Program

Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2014

Operating revenues:	
Income from investment securities (net of closed end funds investment management fees of $3,901,625; see Note 3C)	$ 119,336,172
Interest revenue - other	90,552
Fees	551,004
Tuition contract revenue	18,725,354
Net operating revenues	138,703,082
Operating expenses:	
Salaries and employee benefits	2,185,513
Accreted tuition expense	16,058,315
Management and professional services	3,925,043
Investment management fees	1,465,807
Investment advisory fees	1,960,008
Total operating expenses	25,594,686
Change in net position	113,108,396
Net position (deficit), July 1, 2013	(389,052,907)
Net position (deficit), June 30, 2014	$ (275,944,511)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows
Year Ended June 30, 2014

Cash flows from operating activities	
Cash receipts from tuition contracts	$ 35,599,413
Cash received from fees	551,003
Cash paid for refund of contracts	(15,398,903)
Cash paid for tuition	(112,549,059)
Cash payments to suppliers for goods and services	(3,715,667)
Cash payments to employees for services	(2,185,513)
Net cash used in operating activities	(97,698,726)
Cash flows from investing activities	
Purchase of investment securities	(335,560,804)
Sales and maturities of investment securities	411,058,332
Interest and dividends on investments	20,504,189
Cash paid to investment managers	(1,465,807)
Net cash provided by investing activities	94,535,910
Net decrease in cash and cash equivalents	(3,162,816)
Cash and cash equivalents, July 1, 2013	6,998,358
Cash and cash equivalents, June 30, 2014	$ 3,835,542

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows (Continued)
Year Ended June 30, 2014

Reconciliation of operating income to net cash used in operating activities:	
Change in net position	$ 113,108,396
Adjustments to reconcile operating income to net cash used in operating activities:	
Investment income and other interest income	(119,337,851)
Investment management fees	1,465,807
Investment advisory fees	1,960,008
Accreted tuition expense	16,058,315
(Increase) decrease in assets:	
Contracts receivable	15,729,579
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(309,518)
Due to other ISAC fund	(118,872)
Due to other State funds	67,584
Due to State of Illinois component units	570,182
Tuition obligation	(126,892,355)
Total adjustments	(210,807,122)
Net cash used in operating activities	$ (97,698,726)
Supplemental disclosure of noncash investing transactions:	
Net appreciation in fair value of investments	$ 103,253,202

See Notes to Financial Statements.

Note 1. Description of Program

The Illinois Student Assistance Commission (ISAC or Commission) administers the nonshared proprietary fund, Illinois Prepaid Tuition Program (*College Illinois!*® or Program) 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 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. Benefits of the contracts can also be used at private and out-of-state colleges and universities. Contracts can be purchased in a lump sum payment or in installments.

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

A. Program Administration

Oversight of the Program is provided by the Illinois Student Assistance Commission, an agency of the State of Illinois, which was established more than 50 years ago with the mission of helping to make college accessible and affordable for Illinois students. The agency is governed by the Commission, a board of ten persons (barring temporary vacancies) appointed by the Governor. The Commission employs and provides direction to an Executive Director who is responsible for overseeing and implementing the Commission’s day-to-day operations. The Commission’s administrative powers include, but are not limited to: adopting a sound Investment Policy; approving any changes to the investment manager structure; and monitoring and evaluating the investment performance of the Fund.

The Investment Committee (or Committee) refers to a committee consisting of at least three members of the Commission with knowledge of investing. Investment Committee members shall be selected by the Chair of the Commission and approved by a vote of the Commission. The Investment Committee is generally responsible for monitoring Fund investments and performance to ensure compliance with the Investment Policy and making related recommendations to the Commission.

The Commission also appoints the members of the Investment Advisory Panel. The Panel consists of seven persons (barring temporary vacancies) with expertise in the areas of accounting, actuarial practice, risk management or investment management. It provides advice to the Commission on issues related to the Program’s financial policies and practices and its investment strategy and asset allocation with the objective of obtaining the best possible return on investments, consistent with the actuarial soundness of the Program. The Investment Advisory Panel may also advise on other aspects of the Program.

The Program has been designed to comply with all requirements relating to qualified tuition programs under Section 529 of the Internal Revenue Code of 1986 and Illinois law.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Illinois Prepaid Tuition Program administered by ISAC have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

A. Reporting Entity

The Illinois Prepaid Tuition Program does not have component units, nor is it a component unit of any other entity. The Illinois Prepaid Tuition Program is not legally separate from the State of Illinois, it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

The financial statements present only the Illinois Prepaid Tuition Program administered by the State of Illinois, Illinois Student Assistance Commission (ISAC) and do not purport to, and do not, present fairly the financial position of the State of Illinois or ISAC as of June 30, 2014, and changes in their financial positions and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 for any other purpose.

B. Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is a self-balancing set of accounts segregated for specific purposes/activities generally in accordance with laws and regulations or specific restrictions or limitations on resource use. As a proprietary fund, a statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows have been presented for the Illinois Prepaid Tuition Program administered by ISAC.

Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Due to the nature of the Illinois Prepaid Tuition Program activities, income from investments is considered an operating activity in the Statement of Revenues, Expenses, and Changes in Net Position. The fund has no nonoperating activities.

Note 2. Summary of Significant Accounting Policies - Continued

C. Basis of Accounting

The Illinois Prepaid Tuition Program is reported as an enterprise fund, 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 (prepaid tuition contracts) on a user-charge basis to the general public.

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 investments in the Illinois Fund.

E. Investments

The Illinois Prepaid Tuition Program presents investments on its Statement of Net Position at fair value – see Note 3 C for information on the determination of fair value. The net appreciation or depreciation in the fair value of investments since the prior fiscal year (or purchase date for fiscal year 2014 purchases) is included in investment income in the Statement of Revenues, Expenses, and Changes in Net Position. Dividend and interest income are recorded in the period earned.

F. Contracts Receivable

Contracts receivable represents the amount the Program expects to receive from contract holders for contracts purchased on an installment basis. The actuarially determined present value of future contributions was $76,045,685 as of June 30, 2014 using a 7% discount rate. The Program expects to receive contributions totaling $22,078,048 in fiscal year 2015. This amount has been classified as current contracts receivable on the Statement of Net Position. The total contract receivable balance is expected to be received over the next fifteen years.

G. Interfund Transactions

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

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

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

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

Note 2. Summary of Significant Accounting Policies - Continued

H. Tuition Obligation

The tuition obligation in the Illinois Prepaid Tuition Program represents the net contract amount for the 45,838 contracts held by the fund as of June 30, 2014, plus the actuarially-determined present value of future benefits the Program expects to provide to contract holders for all contracts.

I. Net Position (Deficit)

Net position at year-end (when positive) is restricted by the provisions of the tuition contracts, for tuition payments for beneficiaries of the contract owners. Net deficits however are categorized as unrestricted, and represent the unfunded liability of the Program.

J. Use of Estimates

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

K. Funding and Actuarial Assistance

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 measure the Fund's obligations.

Note 3. Deposits and Investments

A. Investment Authority and Legal Compliance

The State Treasury is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. The investment authority for the State Treasury is found in the State Treasurer Act (15 ILCS 505), which authorizes the State of Illinois primary government and its component units to engage in a wide variety of investment activities. For further details please refer to the State of Illinois Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from the Illinois Office of the Comptroller at 325 West Adams, Springfield, Illinois 62704.

The Illinois Prepaid Tuition Program independently manages cash and cash equivalents maintained outside the State Treasury.

Note 3. Deposits and Investments – Continued

A. Investment Authority and Legal Compliance (Continued)

The Commission board members have ultimate responsibility for the success and safety of the investment program. Specific responsibilities of the Commission include, but are not limited to, the following:

1. Adopting a sound investment policy. The Policy may be modified from time to time by action of the Commission and shall be adopted annually by the Commission in accordance with the Act.
2. Adopting a sound asset allocation policy. The asset allocation policy shall be reviewed and amended as necessary but at least every three years.
3. Approving any changes to the investment manager structure.
4. Approving the selection and termination of any investment service provider.
5. Monitoring and evaluating the investment performance of the Fund and ensuring the risk profile is consistent with Policy objectives.
6. Establishing the primary duties and responsibilities of those accountable for achieving and reviewing investment results.

The Commission may not delegate its oversight and management responsibilities but will be assisted in its functions by other sub committees, panels and agency staff.

The Commission by statute (Illinois Prepaid Tuition Act, 110 ILCS 979) is required to appoint an investment advisory panel to offer advice and counseling regarding the investments of the Illinois Prepaid Tuition Program.

The Commission appoints members to the Panel in a manner consistent with the representation prescribed in the Act. The panel is required to annually review and advise the Commission on provisions of the strategic comprehensive investment plan.

The Investment Policy (Policy) represents the comprehensive investment plan as referred to in the Act. The Policy is reviewed by the Commission annually and identifies a set of investment objectives, guidelines, and performance standards for the investment of the assets of the Fund.

The Commission also appoints an Investment Committee consisting of at least three (3) members of the Commission with knowledge of institutional investing. Investment Committee members are selected by the Chair of the Commission and approved by a vote of the Commission. The Investment Committee meets at least quarterly with the Chief Investment Officer and the Investment Consultant.

The Investment Committee is generally responsible for monitoring Fund investments and performance to ensure compliance with the Investment Policy and for considering investment initiatives for potential recommendation to the full Commission.

The Chief Investment Officer (CIO) is responsible for the day to day operation and oversight of the Fund and for coordinating the activities of the Investment Committee, the Investment Advisory Panel, and investment related activities of the Commission. The CIO reports directly to the Executive Director and has a “dotted- line” reporting relationship to the Commission. The CIO has the authority and responsibility to ensure that the Commission is adequately informed on matters and concerns relating to Fund investments. The CIO will work closely with the Executive Director, Investment Consultant and Investment Staff to carry out the duties and responsibilities of this role.

Note 3. Deposits and Investments – Continued

A. Investment Authority and Legal Compliance - Continued

In accordance with the Prepaid Tuition Act, the Commission may arrange to compensate for personalized investment advisory services rendered with respect to any or all of the investments under its control to an investment advisor registered under Section 8 of the Illinois Securities Law of 1953 or any bank or other entity authorized by law to provide those services.

A qualified investment consultant, on an ongoing basis, evaluates the Illinois Prepaid Tuition Program. The primary role of the Investment Consultant is to provide the information, analysis, and advice required by the Investment Staff, Investment Advisory Panel, Investment Committee, and Commission to carry out their duties and to assist them in developing and implementing a prudent process for monitoring and evaluating Fund investments. The Investment Consultant will work closely with the CIO, but is expected to provide an independent perspective to the Investment Committee and Commission.

Written reports are provided to the Commission by the investment consultant no later than 45 days after the end of each calendar quarter. The CIO and investment consultant meet with the various investment managers on a regular basis to review the investment guidelines and the asset/liability structure of the Program. The investment consultant also assists the CIO, Investment Committee, Commission and the Investment Advisory Panel with the selection of investment managers and custodians.

The qualified investment consultant retained by the Commission is expected to provide an independent prospective within the parameters set forth in the investment policy guidelines. Effective December 2011, the Program has contracted with Callan Associates to evaluate the investment performance of the Illinois Prepaid Tuition Program on an ongoing basis.

The investment policy authorizes the Commission to utilize a third party custodian to safe-keep the assets of the Fund and to provide reports on a monthly basis to all relevant parties. The custodian retained by the Commission is required to exercise discretion within the parameters set forth in the investment policy guidelines for the portfolio(s) they manage on behalf of the Fund.

The Custodian has three primary responsibilities, namely: (1) Safekeeping of Assets – custody, pricing and accounting and reporting of assets owned by the Fund; (2) Trade Processing – track and reconcile assets that are acquired and disposed; and, (3) Asset Servicing – maintain all economic benefits of ownership such as income collection, corporate actions, and proxy notification issues.

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

The Commission also authorizes the hiring of professional investment managers to manage the assets of the Fund. Investment managers are hired who, by their record and experience have demonstrated their fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment managers retained for the Illinois Prepaid Tuition Program acknowledge in writing that they are a fiduciary with respect to the Fund or that they are a fiduciary to a limited partnership or commingled fund in which the College Illinois Prepaid Tuition Trust Fund is an investor.

Note 3. Deposits and Investments – Continued

A. Investment Authority and Legal Compliance - Continued

Unless otherwise exempt from registration, investment managers need to be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis.

The Commission has established strict guidelines to ensure that hiring decisions are made in a full- disclosure environment characterized by competitive selection, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of participants and beneficiaries of the Fund.

The Illinois Prepaid Tuition Program investment policy dictates certain guidelines and restrictions that apply to each approved asset class. Such restrictions may include certain prohibited transactions, as well as restrictions on portfolio composition. In accordance with the investment policy approved on June 25, 2013, the Fund will not make any new direct private investments or new co-investments that are tied to a single company or investment.

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Illinois Prepaid Tuition Program's deposits may not be returned to it. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. The Illinois Prepaid Tuition Program has no policy that would further limit the requirements under State law. As of June 30, 2014, the Illinois Prepaid Tuition Program's deposits held outside the State Treasury were not exposed to custodial credit risk.

C. Investments

ISAC is required annually to adopt a comprehensive investment policy to invest the funds received through contract payments. The Commission approved the Illinois Prepaid Tuition Program's FY14 revision to the investment policy in June 2013; the most recent policy update was done in July 2014.

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 the Program be invested in a manner that will provide the investment return and risk level consistent with the actuarial return requirements and cash flow demands of the Program. The investments should be in compliance with all applicable federal and state laws and other statutes governing the investment of Illinois Prepaid Tuition Program resources.

The Commission is required to adopt a sound asset allocation that is reviewed at least once every three years. The asset allocation establishes target weights for each asset class and is designed to maximize the long-term expected return of the Program within an acceptable risk tolerance while providing liquidity to meet Program liabilities.

Note 3. Deposits and Investments - Continued

C. Investments (Continued)

The table below establishes the interim and long-term asset allocation targets. In order to minimize trading costs and market risk associated with transitioning to the long-term targets, Program cash flows will be used to move gradually toward the long-term target weights. Interim target weights are established for purposes of calculating the policy benchmark and for rebalancing controls.

	Targets		Rebalancing Range	
Asset Allocation	**Long-term**	**Interim**	**Lower Limit**	**Upper Limit**
U.S. Equity	22.00%	22.00%	19.00%	25.00%
Non-U.S. Equity	20.00%	15.00%	12.00%	18.00%
Fixed Income	25.00%	21.00%	18.00%	24.00%
High Yield	3.00%	4.00%	3.00%	5.00%
REIT	5.00%	6.00%	4.00%	8.00%
Absolute Return	9.00%	9.00%	7.00%	11.00%
Real Estate	5.00%	10.00%	N/A	N/A
Infrastructure	5.00%	6.00%	N/A	N/A
Private Equity	5.00%	5.00%	N/A	N/A
Cash	1.00%	2.00%	0.00%	4.00%

The primary benchmark (the Policy Benchmark) for evaluating the performance of the Program is a Target Index consisting of a market index or equivalent for each asset class, weighted in accordance with the target allocation (or interim target allocation if applicable). Over a three to five year period the Program is expected to generate returns, after payment of all fees and expenses, which exceed the returns of the Target Index.

The Target Index components are as follows.

Asset Class	Index	Weight
U.S. Equity	Russell 3000	22.00%
Non-U.S. Equity	MSCI EAFE	15.00%
Fixed Income	BC U.S. Aggregate	21.00%
High Yield	BofA MLHY	4.00%
REIT	MSCI US REIT	6.00%
Absolute Return	90-day T Bills +4%	9.00%
Real Estate	NCREIF ODCE	10.00%
Infrastructure	90-day T Bills +4%	6.00%
Private Equity	Russell 3000 + 3%	5.00%
Cash	90-day T-Bills	2.00%

ISAC has established investment guidelines for the investment managers and conducts thorough due diligence before the appointment of all investment managers. ISAC has retained State Street Global Advisors, Income Research Management, RhumbLine Advisers, Security Capital Research, Alinda Infrastructure, Portfolio Advisors, JP Morgan AIRRO, Morgan Stanley, Balestra Capital, Neuberger Berman, Pinnacle Natural Resource, Ativo, Cornerstone Capital Management, Harris/Pyrford, CM Growth/Camelot Secondary, Kennedy Wilson, Lyrical-Antheus, Mesirow Value, T. Rowe Price and DDJ Strategic Income Plus Fund as investment managers to assist with the investment of the Program assets for the Illinois Prepaid Tuition Program.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Use of funds invested on behalf of the Illinois Prepaid Tuition Program by the investment managers is restricted to the payout of tuition and fee benefits for Program beneficiaries and the administrative costs of running the program.

As of June 30, 2014, 23.29% of the funds were invested in Domestic Equities, 20.25% in Fixed Income, 16.32% in International Equities, 6.86% in Infrastructure Funds, 8.42% in Absolute Return Funds, 3.38% in Private Equity Funds,10.47% in Real Estate, 6.12% in Real Estate Investment Trust, 3.65% in High Yield, and 1.24% in cash and equivalents.

Investments owned are reported at fair value as follows:

(1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities;

(2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities - (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices;

(3) Money Market Instruments – average cost which approximates fair values;

(4) Real Estate Investments – fair values as determined by the Program in conjunction with its investment managers and investment advisors;

(5) Private Equity, Absolute Return, and Infrastructure Funds – fair values as determined by the Program in conjunction with its investment managers and investment advisors. Valuations generally are based on the investee’s last audited financial statements (generally December 31) and differences attributed to cash flows and subsequent events through June 30.

The Program's investment in REITs represents convertible debt, senior unsecured debt securities, and preferred and common equity securities. Investment strategies of private equity funds include secondary funds.

The Program's investments in infrastructure represent investments used to seek capital appreciation and current income by acquiring, holding, financing, refinancing and disposing of infrastructure investment and related assets. Infrastructure assets include various public works such as water utility, toll roads, inland barge terminals and a gas pipeline system.

The Program's investments in absolute return funds (funds of hedge funds) employ a broad range of diversifying investment strategies including arbitrage, global commodities, and global macro.

Private equity, real estate and infrastructure investment portfolios consist of passive interests in non-publicly traded companies. The Program had outstanding unfunded commitments of approximately $6 million to private equity partnerships, $11 million to real estate and $11 million to infrastructure funds as of June 30, 2014. These commitments are to be paid through July 2018.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2014 are presented below at fair value by investment type and by investment manager:

Investment Managers
Asset Allocation at June 30, 2014

Asset Class	Investment Manager		Fair Value	Actual Allocation
Fixed Income-Core Plus	T. Rowe Price		81,021,099	7.39%
Fixed Income-Core	State Street Global Advisors		69,164,657	6.31%
Fixed Income-Intermediate	Income Research Management		71,842,988	6.55%
Total Fixed Income Portfolio			**222,028,744**	**20.25%**
High Yield	DDJ Strategic Income Plus		39,972,520	3.65%
Total High Yield			**39,972,520**	**3.65%**
REIT Stable Income	Security Capital Research		10,968,935	1.00%
REIT Preferred Growth	Security Capital Research		56,164,147	5.12%
Total REIT			**67,133,082**	**6.12%**
Real Estate-Value Added	Kennedy Wilson		22,755,835	2.08%
Real Estate-Value Added	Kennedy Wilson		43,947,379	4.01%
Real Estate-Opportunistic	Lyrical-Antheus		23,066,462	2.10%
Real Estate-Value Added	Mesirow Value		24,966,115	2.28%
Total Real Estate			**114,735,791**	**10.47%**
Large-Cap Core Equity	Rhumbline Advisers		101,096,392	9.22%
All-Cap Core Equity	Rhumbline Advisers		154,283,935	14.07%
Total Domestic Equity			**255,380,327**	**23.29%**
International Equity	Ativo		53,008,761	4.84%
International Equity	Cornerstone Capital Management		54,267,288	4.95%
International Equity	Harris/Pyrford		71,551,634	6.53%
Total International Equity			**178,827,683**	**16.32%**
Infrastructure	Alinda Infrastructure		42,637,154	3.89%
Infrastructure	JP Morgan AIRRO		32,584,289	2.97%
Total Infrastructure			**75,221,443**	**6.86%**
Absolute Return Fund	Balestra Capital		31,259,356	2.85%
Absolute Return Fund	Neuberger Berman		31,052,584	2.83%
Absolute Return Fund	Pinnacle Natural Resource		30,028,222	2.74%
Total Absolute Return Funds*			**92,340,162**	**8.42%**
Private Equity Secondary FoFs	CM Growth Capital Partners LP		6,191,120	0.56%
Private Equity Secondary FoFs	Morgan Stanley		14,328,783	1.31%
Private Equity Secondary FoFs	Portfolio Advisors		16,547,523	1.51%
Total Private Equity			**37,067,426**	**3.38%**
Cash and Equivalents	Northern Trust		9,764,796	0.89%
Investment Cash Equivalents			**9,764,796**	**0.89%**
Total Investments			**1,092,471,974**	**99.65%**
Cash and Equivalents	Illinois Treasury and lock box		3,835,542	0.35%
Total Cash Equivalents			**3,835,542**	**0.35%**
TOTAL PORTFOLIO		**$**	**1,096,307,516**	**100%**

Note 3. Deposits and Investments - Continued

C. Investments – Continued Investment Management Fees

The Program has contracted with Commission-approved investment managers to manage the assets of the Program. The investment managers serve as investors and investment advisors to the Program.

For investment managers who invest moneys in publicly held securities the Program pays an investment management fee for investment management services. The investment management fee is based upon contractually agreed upon conditions and provisions. Investment management fees expense for investments in publicly held securities amounted to $1,465,807 for the year ended June 30, 2014 and is accounted for in the Statement of Revenues, Expenses, and Changes in Net Position.

For investment managers of alternative investments (not publicly held securities) the Program pays an investment advisory fee. The investment advisory fees are calculated based upon the terms and conditions agreed upon with each individual contractual agreement and are recognized as investment advisory fees expense in the Statement of Revenues, Expenses, and Changes in Net Position. Investment advisory expense as reflected in the Statement of Revenues, Expenses, and Changes in Net Position for FY 2014 amounts to $1,960,008.

For certain alternative investment managers of private equity, infrastructure and real estate which are closed end funds and ISAC is a limited partner, the investment advisory fee is reflected in a slightly different way. If the investment management fees are outside of the Limited Partner’s capital account then the fees are included as part of the investment advisory fees expense in the Statement of Revenues, Expenses, and Changes in Net Position. If the closed-end fund accounts for management fees within the Limited Partner's capital account, then management fee expense is included in the Net Asset Value calculation and would therefore be included in the income from investment securities on the Statement of Revenues, Expenses and Changes in Net Position.

Investment managers who fall into the last category are listed below:

- Kennedy Wilson
- Lyrical-Antheus
- Mesirow Value
- Alinda Infrastructure
- JP Morgan AIRRO
- CM Growth/Camelot Secondary
- Portfolio Advisors
- Morgan Stanley

Approximately $3.9 million in investment advisory fees are included in the amount reported for income from investment securities for the fiscal year ending June 30, 2014 and is accounted for as a part of the income from investment securities in the Statement of Revenues, Expenses, and Changes in Net Position. Additionally, these amounts are reflected in the carrying value on the Statement of Net Position.

Note 3. Deposits and Investments - Continued

C. Investments – Continued

The State Treasurer is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. Amounts on deposits in the custody of the State Treasurer totaled $3,453,261 at June 30, 2014. These deposits are pooled and invested with other State funds in accordance with the Deposits of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been addressed as to custodial credit risk because the Illinois Prepaid Tuition Program does not own individual securities. Funds held by the State Treasurer are not rated for credit risk and the interest rate risk cannot be determined because the weighted average maturity information for these amounts is not available for individual funds. Details on the nature of these deposits and investments, along with risk disclosures, are available within the State of Illinois' Comprehensive Annual Financial Report.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Illinois Prepaid Tuition Program's policy for managing interest rate risk is to monitor duration against an appropriate benchmark index.

The duration of the portfolios, by Manager, for the fixed income securities (excluding real estate portfolio), compared to the benchmark index(s) is as follows:

Fixed Income Portfolio Manager	Portfolio Average Duration	Barclays U.S. Aggregate Bond Index	Barclays Capital Int. Government/ Credit Index
Income Research Management	3.8 Years	N/A	3.9 Years
SSGA U.S. Aggregate Bond (Common collective trust)	5.6 Years	5.6 Years	N/A
T. Rowe Price	5.3 Years	5.6 Years	N/A

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Portfolio Weighted Average Maturity

Portfolio Weighted Average

Investment Type	Fair Value	Weighted Average Maturity (in Years)
U.S. treasury bills	$ 823,896	0.30
U.S. treasury notes	23,147,865	4.08
U.S. treasury bonds	3,559,254	26.16
U.S. agency obligations	2,318,947	2.76
Index linked government bonds (U.S. Treasuries)	2,325,404	9.75
Bond common collective trust	69,164,657	7.68
Municipal/provincial bonds	5,381,313	8.52
Non U.S. government bonds denominated in U.S. dollars	491,650	7.76
Non U.S. government bonds denominated in foreign dollars	2,043,478	8.04
Multi-sector funds	49,890,639	7.59
Corporate debt securities	37,113,060	4.84
U.S. agency asset-backed securities	5,735,104	16.73
Corporate asset-backed securities	8,680,936	4.68
Mortgage backed securities (MBS):		
Government agencies	6,112,358	14.78
Non-government backed	2,131,274	22.87
Commercial	12,526,334	31.07
Total Fair Value	**$ 231,446,169**	
Portfolio weighted average maturity		**8.8**

Note 3. Deposits and Investments - Continued

C. Investments – Continued Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The operational guidelines for actively-managed bond managers set forth in the Illinois Prepaid Tuition Program investment policy are:

- The weighted average credit quality of portfolio holding will not fall below A- or equivalent.
- No more than 20% of the portfolio will be invested in issues rated below Baa3 or BBB-, A2 or P2.
- No more than 10% in non-U.S. securities (dollar and non-dollar) rated below investment grade.
- Should a security be downgraded to a rating of "B" or below, the investment manager will determine the appropriate action (sell or hold) based on the perceived risk and expected return of the position and will inform the CIO and the Investment Consultant in writing of the action taken.

The following tables indicate credit ratings, as of June 30, 2014, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

Credit Ratings (Excludes Multiple-Rated Securities)
June 30, 2014

	Total Fair Value	Moody's *
Money market mutual funds	$ 13,406,264	NR
Illinois Funds	93,972	NR
Mortgage backed securities - government agencies	6,112,358	NR
U.S. agency obligations	2,318,947	Aaa
Bond common collective trust	69,164,657	NR
U.S. agency asset backed	5,735,104	Aaa
Multi-sector funds	49,890,639	NR

*NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments – Continued

Credit Ratings (Multiple-Rated Securities), continued
June 30, 2014

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Commercial Mortgage-Backed	Aaa	$ 4,595,888
	Commercial Mortgage-Backed	Aa	1,700,925
	Commercial Mortgage-Backed	A	1,662,029
	Commercial Mortgage-Backed	Baa	826,512
	Commercial Mortgage-Backed	Ba	907,986
	Commercial Mortgage-Backed	NR	2,832,994
			12,526,334
Moody's:	Corporate Asset Backed Securities	Aaa	4,457,806
	Corporate Asset Backed Securities	Aa	413,635
	Corporate Asset Backed Securities	A	300,298
	Corporate Asset Backed Securities	Baa	230,962
	Corporate Asset Backed Securities	B	164,867
	Corporate Asset Backed Securities	NR	3,113,368
			8,680,936
Moody's:	Corporate Bonds	Aa	744,312
	Corporate Bonds	A	8,666,635
	Corporate Bonds	Baa	18,397,032
	Corporate Bonds	Ba	9,305,081
			37,113,060
Moody's:	Municipal/Provincial Bonds	Aaa	1,078,078
	Municipal/Provincial Bonds	Aa	1,754,466
	Municipal/Provincial Bonds	A	1,407,013
	Municipal/Provincial Bonds	NR	953,312
	Municipal/Provincial Bonds	WR	188,443
			5,381,313
Moody's:	Non-Government Backed C.M.O.s	Caa	1,908,800
	Non-Government Backed C.M.O.s	NR	222,474
			2,131,274
Moody's:	Non-U.S. Government Bonds	Aa	698,394
	Non-U.S. Government Bonds	A	457,216
	Non-U.S. Government Bonds	Baa	1,211,954
	Non-U.S. Government Bonds	NR	167,564
			2,535,128

* NR - not rated, WR - withdrawn

Note 3. Deposits and Investments - Continued

C. Investments - Continued Custodial Credit Risk

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

The Illinois Prepaid Tuition Program is not exposed to custodial credit risk at June 30, 2014.

Concentration of Credit Risk

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

The operational guidelines as set forth in the Illinois Prepaid Tuition Program's investment policy indicate:

- For fixed income managers no more than 5% of the fixed income portfolio at time of purchase may be invested in any one company, except for U.S. government or agency issues.
- For investments in international equity, investment in any one issuer shall not exceed five percent of the market value of the portfolio at the time of purchase. No more than ten percent of the market value of the portfolio may be held in any one issuer at any time. Investment in any one company in the portfolio may be no more than ten percent of the total market value of that company.
- For investments in domestic equity, investment in any one issuer shall not exceed five percent of the market value of the portfolio at the time of purchase. No more than ten percent of the market value of the portfolio may be held in any one issuer at any time. Investment in any one company in the portfolio may be no more than ten percent of the total market value of that company.

As of June 30, 2014, there were no investments subject to concentration of credit risk.

Foreign Currency Risk

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

The Illinois Prepaid Tuition Program's investments in international equity are in compliance with the guidelines of the investment policy. As of June 30, 2014, 16.32% is invested in international equities. Certain alternative investments also hold investments located outside of the United States. Fluctuations in foreign exchange rates between the U.S. dollar and other currencies could have an effect on the amounts realized in U.S. dollars involving these investments. The Program has the following investments denominated in foreign currency.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Foreign Currency Denomination	Equity	Cash and cash equivalents - equity investments	Fixed income	Cash and cash equivalents - fixed income investments	Totals
Australian dollar	$ 9,572,910	$ $(6,994,816)	$ -	$ (455,213)	$ 2,122,881
Brazilian real	1,275,822	-	-	-	1,275,822
British pound sterling	35,076,994	155,904	698,394	(1,316,149)	34,615,143
Canadian dollar	5,457,286	13,380	-	(309,583)	5,161,083
Czech koruna	3,547	-	-	-	3,547
Danish krone	3,096,610	435,930	-	-	3,532,540
Euro	49,184,163	209,557	-	(1,670,570)	47,723,150
Hong Kong dollar	10,065,117	(46,673)	-	1,920,060	11,938,504
Indonesian rupiah	1,174,135	-	197,029	-	1,371,164
Japanese yen	12,681,472	178,233	-	(910,799)	11,948,906
Malaysian ringgit	4,314,162	-	301,879	-	4,616,041
Mexican peso	548,973	(9)	155,337	1,058,611	1,762,912
New Israeli shekel	1,784,403	-	167,564	(161,077)	1,790,890
New Zealand dollar	-	-	-	(622,924)	(622,924)
Norwegian krone	2,255,310	5	-	-	2,255,315
Polish zloty	-	-	-	604,843	604,843
Singapore dollar	3,602,435	-	-	-	3,602,435
South African rand	2,655,732	88	523,275	(518,723)	2,660,372
Swedish krona	6,136,224	-	-	291,567	6,427,791
Swiss franc	13,999,523	243,424	-	-	14,242,947
Thai baht	867,247	937	-	-	` 868,184
Total	**$ 163,752,065**	**$ (5,804,040)**	**$ 2,043,478**	**$ (2,089,957)**	**$ 157,901,546**

Note 4. Balances Due to Other State of Illinois Component Units and Transfers

As of June 30, 2014, the Illinois Prepaid Tuition Program owed $616,448 to Illinois Universities for payment of tuition and fee benefits. In addition the Illinois Prepaid Tuition Program owed $185,261 to the Student Loan Operating Fund for expense reimbursements and $67,584 to the Office of the Auditor General for audit costs.

Note 5. Personnel Cost Allocation

Based on a revised cost allocation policy, beginning in FY13, all payroll-related costs are paid out of the Student Loan Operating Fund. This includes salary, benefits, and any vacation or sick payout should they be incurred. On a monthly basis, College Illinois is charged back for the related hours worked and costs incurred.

Note 6. Tuition Obligation

The tuition obligation is management's estimate of the present value of the estimated tuition payments to be made and is expected to be financed from investments of prepaid tuition contracts. The estimate for the future tuition obligation is based on a closed group projection for existing contracts assuming no new contract sales after June 30, 2014. See actuarial assumptions and additional information in Note 10.

Tuition obligation activity for the year ended June 30, 2014 is as follows:

Balance July 1, 2013	$	1,557,489,483
Add:		
Contributions received in FY2014		35,510,540
Change in contracts receivable, at present value*		(15,729,579)
Adjust tuition obligation based on actuarial valuation		(2,667,040)
Less:		
Return of contributions		(15,398,903)
Tuition payments		(112,549,059)
Balance June 30, 2014**	$	1,446,655,442
Reported as:		
Current	$	174,038,889
Noncurrent		1,272,616,553
$		1,446,655,442

*See Note 10. Discount rate used in determining present value was 7.0%.

**The accreted tuition expense is calculated at least annually by the Commission's actuary and is an estimate based on the average increase in tuition for Illinois colleges. The reduction in the average increase in tuition assumption contributed to the decrease in the tuition obligation compared to the balance at June 30, 2013. Accreted tuition expense is reflected as an expense in the Statement of Revenues, Expenses, and Changes in Net Position and as an increase (or decrease) to the tuition obligation on the Statement of Net Position.

Note 7. Pension Plan

A majority 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 2014 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

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

The Commission pays employer retirement contributions for the Illinois Prepaid Tuition Program based upon an actuarially determined percentage of its payroll. For fiscal years 2014, 2013 and 2012, the employer contribution rate was 40.3%, 38.0%, and 34.2%, respectively. The required and actual contribution for fiscal years 2014, 2013 and 2012 was $498,458, $451,140, and $593,329, respectively. Liabilities related to the SERS pension plan are recorded by the State of Illinois; however, these amounts are not separated by department, fund or component unit.

Note 8. Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits in accordance with Public Act 97-0695.

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

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

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

Note 9. Fund Deficits

As of June 30, 2014, the Illinois Prepaid Tuition Program has a deficit in net position of $275,944,511. The table below details a reconciliation of the fund deficit in the financial statements to the fund deficit in the Actuarial Soundness Report as of June 30, 2014.

Reconciliation of Fund Deficit with Unfunded Liability in the Actuarial Report

Unfunded liability per actuarial soundness report	$ (328,182,173)
Present value of accrued future administrative expense	53,879,932
Other accrued liabilities	(1,642,270)
Fund deficit per Statement of Net Position	$ (275,944,511)

Note 10. Program Risks and Actuarial Data

The Program's ability to honor existing and future contracts depends primarily upon three factors: (i) continued contract sales within projections; (ii) achieving a projected annual net return on Program investments; and (iii) actual tuition/fee increases being within projected amounts.

Gabriel, Roeder, Smith and Company, the independent actuarial firm retained by *College Illinois!* ®, has performed an actuarial soundness valuation of *College Illinois!*®, the State's section 529 prepaid tuition program, as of June 30, 2014 to evaluate the financial viability of the Program as of June 30, 2014. The complete Actuarial Soundness Report as of June 30, 2014 is included in the Other Information Section.

The Program is not supported by the full faith and credit of the State of Illinois, nor is it guaranteed by the State's general fund. The Program is a moral obligation of the State of Illinois requiring the Governor to request an appropriation from the State General Assembly in case the Commission and the Governor determine that the Program does not have adequate assets to meet its contractual obligations in an upcoming fiscal year. While the General Assembly has fulfilled other moral obligations of the State of Illinois in the past, it is not obligated to appropriate, and no assurances can be made that the General Assembly will appropriate sufficient moneys to meet the Program's contractual obligations.

If it is determined by the Commission, with the concurrence of the Governor, that the Program is financially infeasible, the Commission may prospectively discontinue the Program. Pursuant to the prepaid tuition statute, if the Program is discontinued, beneficiaries who are or will enroll within five years at an eligible institution shall be entitled to exercise the complete benefits specified in the 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 10. Program Risks and Actuarial Data - Continued

The following is a summary of the actuarial present value (APV) of the future benefits obligation, funded ratio, and significant assumptions used.

APV of future benefits obligation*	$ 1,446,655,442
Funded ratio	
Actuarial assumptions:	78.50 %
Actuarial valuation date	June 30, 2014
Assumed net investment return	7.00 %
Rates of cancellations	12.5 %
Tuition increases by contract type:	
Legacy	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00
University Plus:	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00
University	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00
Community College	
Through June 30, 2017	6.50 %
June 30, 2018 through June 30, 2022	5.75
June 30, 2023 and beyond	5.00

*For all existing contracts as of June 30, 2014

The actuarial present value of the future benefits obligation decreased by approximately $111 million compared to the balance reported at June 30, 2013. Contributing to the overall decrease was the change in the tuition increase assumption which accounted for approximately $54 million of the decrease.

Note 11. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two years. The Commission's risk management activities for workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and, accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2014.

Note 12. Subsequent Event

On October 16, 2014, the Commission approved new pricing and fees for the College Illinois! Prepaid Tuition Program 2014-2015 enrollment period.

The June 30, 2014, actuarial soundness report compiled by Gabriel, Roeder, Smith and Company (GRS), indicates that the funded status of the Program has improved from 72.3% at June 30, 2013 to 78.1% at June 30, 2014 as a result of investment results exceeding assumptions, actual 2014-15 tuition rates below assumptions, modestly reduced expectations for future tuition increases, and modest contract sales. ISAC management recognized that moderation of tuition increases and the expectation for continued moderation provided an opportunity to reduce pricing, making contracts more appealing to and affordable for Illinois families.

The 2014-15 enrollment period pricing that was approved includes a price reduction for all plan options. Developed in consultation with the program's actuary, the new reduced pricing reflects the moderation in tuition inflation seen for the past several years and that is expected to continue in the future.

However, there will be a near-term negative actuarial impact as current contract holders, who purchased a contract at a higher price than the 2014-15 enrollment period prices would receive a price adjustment in 2015. Preliminary estimates indicate that price reductions for eligible current contract holders are expected to be approximately $8 million to $10 million.

Note 13. New Governmental Accounting Standards

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

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Commission is required to implement this Statement for the year ending June 30, 2015.

Management has not yet completed its assessment of the impact this Statement may have on the financial statements.

OTHER INFORMATION

Gabriel Roeder Smith & Company
Consultants & Actuaries

COLLEGE ILLINOIS!® PREPAID TUITION PROGRAM
ACTUARIAL SOUNDNESS VALUATION REPORT
AS OF JUNE 30, 2014

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
20 North Clark Street
Suite 2400
Chicago, IL 60602-5111
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November 13, 2014

Mr. Eric Zarnikow
Executive Director
Illinois Student Assistance Commission
James R. Thompson Center
100 West Randolph, Suite 3-200
Chicago, IL 60601-3293

Re: College Illinois!® Prepaid Tuition Program Actuarial Valuation as of June 30, 2014

Dear Mr. Zarnikow:

In accordance with the request of the Illinois Student Assistance Commission ("ISAC"), Gabriel, Roeder, Smith & Company ("GRS") has performed an actuarial soundness valuation of the College Illinois!® Prepaid Tuition Program ("CIPTP") as of June 30, 2014. Although the term "actuarial soundness" is not specifically defined, the primary purpose of this actuarial valuation is to evaluate the financial status of the program as of June 30, 2014.

This report presents the principal results of the actuarial valuation of the CIPTP including the following:

- A comparison of the actuarial present value of the obligations for prepaid tuition contracts purchased through June 30, 2014, with the value of the assets associated with the program as of that same date;
- An analysis of the factors which caused the deficit/surplus to change since the prior actuarial valuation; and
- A summary of the actuarial assumptions and methods utilized in the actuarial calculations.

This report was prepared at the request of ISAC and is intended for use by ISAC and those designated or approved by ISAC. This report may be provided to parties other than ISAC only in its entirety and only with the permission of ISAC. This report should not be relied on for any purpose other than the purpose described above.

The valuation results set forth in this report are based upon data and information, furnished by ISAC, concerning program benefits, financial transactions and beneficiaries of the CIPTP. We reviewed this information for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the Illinois Student Assistance Commission. Further, the data and information provided is through June 30, 2014, and do not reflect subsequent market volatility.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The major actuarial assumptions used in this analysis were provided by and are the responsibility of ISAC. We are unable to judge the reasonableness of some of these assumptions without performing a substantial amount of additional work beyond the scope of the assignment.

Given the current asset allocation and liquidity requirements, the net investment rate of return assumption of 7.00 percent, appears to be consistent with applicable Actuarial Standards of Practice. The valuation results reflect changes to the tuition and fee increase assumption.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law. We have performed an analysis of the sensitivity of certain changes in future assumptions.

We believe that the actuarial methods used in this report are reasonable and appropriate for the purpose for which they have been used. In addition, because it is not possible or practical to consider every possible contingency, we may use summary information, estimates or simplifications of calculations to facilitate the modeling of future events. We may also exclude factors or data that are deemed to be immaterial.

To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the College Illinois!® Prepaid Tuition Program as of June 30, 2014. All calculations have been made in conformity with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements.

There are currently no Actuarial Standards of Practice which specifically relate to prepaid tuition plans. We have looked to the Actuarial Standards of Practice related to pensions for guidance due to their similar nature.

Lance Weiss, Paul Wood and Alex Rivera are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

The signing actuaries are independent of ISAC.

Respectfully submitted,

Gabriel, Roeder, Smith and Company

Lance J. Weiss, EA, MAAA, FCA
Senior Consultant

Paul T. Wood, ASA, MAAA, FCA
Consultant

Alex Rivera, FSA, EA, MAAA
Senior Consultant

Table of Contents

SECTION A

EXECUTIVE SUMMARY

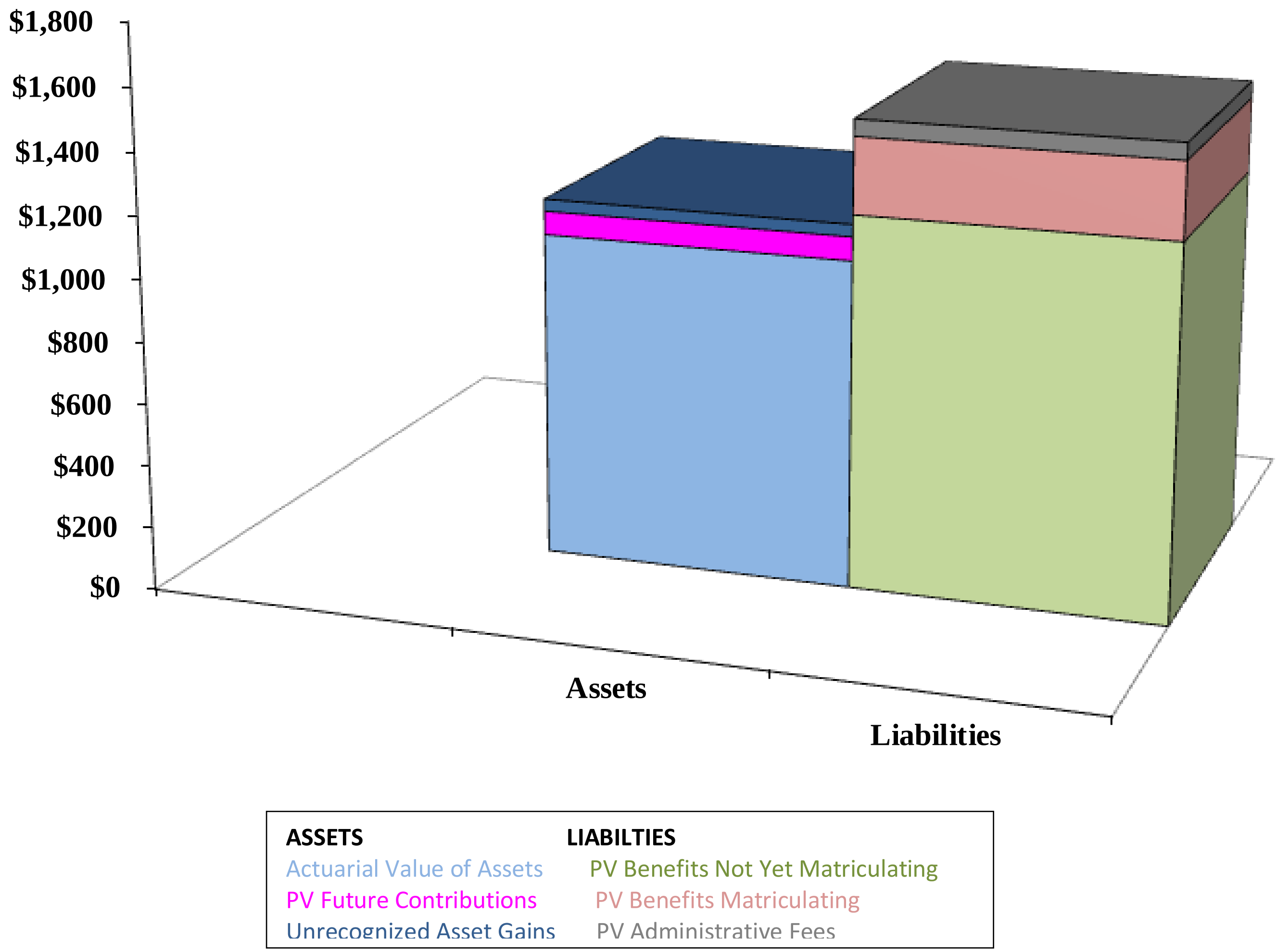
SUMMARY OF RESULTS

Principal Valuation Results

Valuation Date:	June 30, 2014	June 30, 2013
Membership Summary:		
Counts		
Not yet Matriculating	34,125	37,316
Matriculating	11,713	10,873
Total	45,838	48,189
Average years until Enrollment if Not yet Matriculating	5.0	5.4
Assets [1]		
· Market Value of Assets (MVA)	$1,172,353,201	$1,169,869,538
· Actuarial Value of Assets (AVA)	$1,133,409,021	$1,155,965,846
· Estimated Return on MVA	11.28%	8.47%
· Estimated Return on AVA	8.80%	3.50%
· Ratio – AVA to MVA	96.7%	98.8%
Actuarial Liabilities (Present Value of Future Tuition Payments, Fees, and Administrative Expenses)	$1,500,535,374	$1,618,375,861
Unfunded Liabilities (Based on Market Value of Assets)	$328,182,173	$448,506,323
Unfunded Liabilities (Based on Actuarial Value of Assets)	$367,126,353	$462,410,015
Funded Ratio		
· Based on Market Value	78.1%	72.3%
· Based on Actuarial Value	75.5%	71.4%

[1] *Asset values include present value of expected future contributions from current members.*

SUMMARY OF ASSETS AND LIABILITIES AS OF JUNE 30, 2014
$ IN MILLIONS



Funded Status as of June 30, 2014 (Based on Market Value of Assets)

	June 30, 2014
Actuarial Present Value of Future Tuition Payments, Fees and Expenses	$1,500,535,374
Market Value of Assets (Including the Present Value of Installment Contract Receivables)	$1,172,353,201
Deficit/(Surplus) as of June 30, 2014	$328,182,173

Funded Status as of June 30, 2014 (Based on Actuarial Value of Assets)

	June 30, 2014
Actuarial Present Value of Future Tuition Payments, Fees and Expenses	$1,500,535,374
Actuarial Value of Assets (Including the Present Value of Installment Contract Receivables)	$1,133,409,021
Deficit/(Surplus) as of June 30, 2014	$367,126,353

Gain/Loss Summary

		Unfunded Liability (Market Value of Assets)
Value at June 30, 2013	$	448,506,323
Expected Value at June 30, 2014	$	474,596,839
(Gain)/Loss Due to:		
Investment Experience	$	(44,221,698)
Change in Tuition Increase Assumption		(53,755,927)
Tuition/Fee Inflation		(45,359,154)
Other Demographic Experience*		(3,077,887)
Total	$	(146,414,666)
Actual Value at June 30, 2014	$	328,182,173

**Other Demographic Experience includes deviations in actual participant experience from our assumptions related to rates of participant deaths and disabilities, rates of separation from active membership, rates of enrollment and utilization of benefits.*

Additional Details on the development of the Expected Value at June 30, 2014, can be found on Page 10.

DISCUSSION

Actuarial Valuation

Gabriel, Roeder, Smith & Company ("GRS") has performed an actuarial soundness valuation of the College Illinois!® Prepaid Tuition Program ("CIPTP") as of June 30, 2014.

The primary purposes of the actuarial soundness valuation are to:

- Determine the actuarial present value of the obligations for prepaid tuition contracts purchased through June 30, 2014, and compare such liabilities with the value of the assets associated with the program as of that same date; and
- Analyze the factors which caused the deficit/surplus to change since the prior actuarial valuation.

This report summarizes those results and, for illustrative purposes, also presents the results of a closed group business model. Finally, the report also presents the impact of variances in the rate of tuition and fee increases as well as the rate of investment return on assets.

In addition, the report provides summaries of the member data, financial data, plan provisions and actuarial assumptions and methods.

The actuarial assumptions and methods, with the exception of the tuition and fee increase assumption used for this June 30, 2014, actuarial soundness valuation are consistent with the assumptions and methods used for the June 30, 2013, actuarial soundness valuation. The change in the tuition and fee increase assumption is discussed below.

Background

Legislation authorizing ISAC to administer an Illinois Prepaid Tuition Program was passed in November 1997. The purpose of the program is to provide Illinois families with an affordable tax-advantaged method to pay for college. CIPTP is open to all Illinois residents and non-Illinois residents purchasing for Illinois-resident beneficiaries. CIPTP contracts may allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at expected projected costs, which may be more stable than actual future costs.

Benefits of the program can also be used at private and out-of-state colleges and universities. Contracts can be purchased in a lump sum or in installments. As a Section 529 plan, CIPTP earnings are exempt from state and federal income taxes.

The first CIPTP contracts were offered for sale in 1998. As of June 30, 2014, the CIPTP had 45,838 contracts in force.

Actuarial Assumptions

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The actuarial assumptions used in this analysis were provided by and are the responsibility of ISAC.

Key Actuarial Assumptions – Changes Since Prior Valuation

For "Legacy," "University" and "University Plus" contracts, the select rates under the tuition and fee increase assumption were reduced to 6.50 percent per year in fiscal years 2015 through 2017 and 5.75 percent per year in fiscal years 2018 through 2022. The ultimate rate remained at 5.00 percent per year beginning in year 2023. Select rates for Community College contracts remain unchanged at 6.50 percent per year in fiscal years 2015 through 2017, 5.75 percent per year in fiscal years 2018 through 2022 and 5.00 percent per year beginning in year 2023. These assumptions were provided to us by ISAC.

The following tables illustrate the tuition and fee increase assumptions used in last year's actuarial soundness valuation and the updated assumptions used in this year's actuarial soundness valuation.

Tuition and Fee Increase Assumption - June 30, 2013, Actuarial Valuation				
Effective Date	Legacy	University	University Plus	Community College
6/30/2014 through 6/30/2017	7.25%	7.00%	7.50%	6.50%
6/30/2018 through 6/30/2022	6.75%	6.50%	7.25%	5.75%
6/30/2023 and Beyond	5.00%	5.00%	5.00%	5.00%

Tuition and Fee Increase Assumption - June 30, 2014, Actuarial Valuation				
Effective Date	Community College	University	University Plus	Legacy
6/30/2015 through 6/30/2017	6.50%	6.50%	6.50%	6.50%
6/30/2018 through 6/30/2022	5.75%	5.75%	5.75%	5.75%
6/30/2023 and Beyond	5.00%	5.00%	5.00%	5.00%

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law. We have performed an analysis of the sensitivity of certain changes in assumptions.

Financial Status of Program as of June 30, 2014

As of June 30, 2014, the present value of all future tuition obligations under contracts outstanding (and including future administrative expenses) at that date is $1,500,535,374. Fund assets as of June 30, 2014, including the actuarial value of program assets and the present value of installment contract receivables, is $1,133,409,021. Fund assets, including the market value of program assets and the present value of installment contract receivables, is $1,172,353,201.

The difference between the present value of future tuition obligations and the value of assets as of June 30, 2014, represents a program deficit of $367,126,353 on an actuarial value of assets basis, and $328,182,173 on a market value of assets basis. The comparable program deficit as of the last valuation as of June 30, 2013, was $462,410,015 on an actuarial value of assets basis, and $448,506,323 on a market value of assets basis.

The following table summarizes the deficit of the CIPTP as of June 30, 2014, with comparable figures from the prior actuarial valuation as of June 30, 2013.

CIPTP Deficit (Unfunded Liabilities)

Deficit based on:	June 30, 2014	June 30, 2013
Actuarial Value of Assets	$367,126,353	$462,410,015
Market Value of Assets	$328,182,173	$448,506,323

Gain/Loss Analysis

As described above, the program deficit decreased from $448.5 million as of June 30, 2013, to $328.2 million as of June 30, 2014, based on the market value of assets. Based on the actuarial assumptions, the deficit was expected to increase to $474.6 million. The primary factors which caused the expected deficit to decrease by $146.4 million include investment returns that were higher than expected, tuition and fee increases less than expected and the change in the tuition and fee increase assumption. There was a small gain due to other demographic experience which includes deviations in actual participant experience from our assumptions related to rates of participant deaths and disabilities, rates of separation from active membership, rates of enrollment and utilization of benefits.

The funded ratio on a market value of assets basis increased from 72.3 percent as of June 30, 2013, to 78.1 percent as of June 30, 2014.

Benefit Provisions

The basic terms and conditions of the College Illinois!® Prepaid Tuition Program (the "Program") are included in the Illinois Prepaid Tuition Act, 110 ILCS 979 (the "Act") and ISAC Administrative Rules (23 Ill. Adm. Code 2775, et. seq.) ("ISAC Rules").

We understand there were no changes in the program provisions since the last actuarial valuation as of June 30, 2013.

Assets

CIPTP assets are held in trust. ISAC provided the asset information used in the June 30, 2014, actuarial valuation.

This report contains several exhibits summarizing the plan's assets, including a summary of the market value of assets broken down by asset category, a reconciliation of the assets from the last valuation date to the current valuation date and a development of the actuarial value of assets. The approximate return on market value of assets was 11.28 percent for the year ended June 30, 2014.

The actuarial value of assets is a smoothed market value. A smoothed value is used in order to dampen some of the year-to-year fluctuations in the deficit/surplus which occurs due to year-to-year fluctuations in the market value of assets. The smoothing method used phases in differences between the actual and expected market returns over five years.

The actuarial value is currently 96.7 percent of the market value. Over any short time period, a disparity between actuarial value and market value may appear, but in the long-run, we would expect the actuarial value and the market value to continue to track each other fairly closely. As of June 30, 2014, there is $38,944,180 in deferred asset gains (the difference between the market and actuarial values) that will be recognized over the next four valuations.

Closed Group Business Model (Run-Off Scenario)

While the closing of the program has not occurred, in Exhibit III, we have provided a closed group projection (i.e., run off scenario) for illustration purposes assuming no new contract sales after June 30, 2014. Under this scenario, member payments, fund principal and investment income are projected to be insufficient to make the required tuition payments by the year 2024 and additional funds will be required to maintain solvency ($808.4 million for the period 2024 to 2051). Under this scenario, the shortfall is expected to grow from the current level of $328 million until it reaches a high of $604 million in 2023.

Contract Prices

Contract prices are determined for each enrollment period based upon a variety of factors and include a built-in stabilization factor. The stabilization factor is intended to help insulate the Program from unexpected market volatility and unforeseen changes in actuarial projections and improve the funded status of the Program over time. Each year, ISAC reviews the actuarial soundness report, the Mean Weighted Average Tuition and Fees and the stabilization factor amount to establish contract pricing. In effect, contract prices are reviewed in order to reflect tuition and fee increases at Illinois public institutions, as well as other actuarial criteria.

Contracts Sold by Enrollment Year

The chart on Page 18 in Section D illustrates the number of contracts sold by enrollment year.

As this chart indicates, the number of contracts sold has decreased significantly during the last four enrollment years from the number sold per year in previous years. The average annual number of contracts sold during the period 1999 to 2010 was 5,236; whereas the average annual number of contracts sold during the last four year period 2010 to 2014 was 584 including 2011/2012 when the plan was not open for new contract sales, or 779 excluding 2011/2012 when the plan was not open for new contract sales.

This report is not a recommendation to anyone to participate or not participate in the CIPTP. GRS makes no representations or warranties to any person participating in or considering participation in the CIPTP.

SECTION B

VALUATION RESULTS

Exhibit I
Principal Valuation Results

	Valuation Date:	June 30, 2014	June 30, 2013
1	Number of Members		
	a. Not yet Matriculating:	34,125	37,316
	b. Matriculating:	11,713	10,873
	c. Total	45,838	48,189
	Average Years until Enrollment if Not Yet Matriculating	5.0	5.4
2	Assets		
	a. Market Value of Assets (in Trust)	$ 1,096,307,516	$ 1,078,094,274
	b. PV Future Member Contributions	76,045,685	91,775,264
	c. Unrecognized Gains and (Losses)	38,944,180	13,903,692
	d. Total Actuarial Value of Assets (AVA) (2a + 2b - 2c)	$ 1,133,409,021	$ 1,155,965,846
3	Actuarial Results		
	Liabilities		
	a. Not yet Matriculating - Tuition and Fees	$ 1,202,693,448	$ 1,334,944,523
	b. Matriculating - Tuition and Fees	243,961,994	222,544,960
	c. Present Value of Future Administrative Expenses	53,879,932	60,886,378
	d. Total	$ 1,500,535,374	$ 1,618,375,861
	Unfunded Liability (Based on MVA)	$ 328,182,173	$ 448,506,323
	Unfunded Liability (Based on AVA)	$ 367,126,353	$ 462,410,015
	Funded Ratio		
	Market Value of Assets	78.1%	72.3%
	Actuarial Value of Assets	75.5%	71.4%

Exhibit II
Gain/Loss Summary

	Present Value of Benefits	Market Value of Assets	Unfunded Liability
1. Values at June 30, 2013	$ 1,618,375,861	$ 1,169,869,538	$ 448,506,323
2. Actual Tuition Payments, Refunds, and Administrative Expenses	$ (133,978,303)	$ (133,978,303)	$ -
3. Interest on 1. and 2. at 7.00%	$ 108,676,379	$ 77,280,936	$ 31,395,443
4. New Contracts	$ 9,727,537	$ 15,032,464	$ (5,304,927)
5. Projected Values at June 30, 2014 (1. + 2. + 3. + 4.)	$ 1,602,801,474	$ 1,128,204,635	$ 474,596,839
6. (Gain)/Loss Due to:			
Investment Experience	$ -	$ (44,221,698)	$ (44,221,698)
Change in Tuition Increase Assumption	(53,755,927)	-	(53,755,927)
Tuition/Fee Inflation	(45,359,154)	-	(45,359,154)
Other Demographic Experience*	(3,151,019)	73,132	(3,077,887)
Total	$ (102,266,100)	$ (44,148,566)	$ (146,414,666)
7. Actual Values at June 30, 2014 (5. + 6.)	$ 1,500,535,374	$ 1,172,353,201	$ 328,182,173

**Other Demographic Experience includes deviations in actual participant experience from our assumptions related to rates of participant deaths and disabilities, rates of separation from active membership, rates of enrollment and utilization of benefits.*

Exhibit III
Closed Group Business Model (Run Off Scenario) – Current Year Assumptions

Closed Group Projections (No New Contracts)
Projection Based on Data as of June 30, 2014
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2014
7.00% Assumed Net Investment Return
0 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions[1]	Tuition Payments, Refunds, and Fees	Administrative Expenses	Net Investment Return	Market Value of Assets (EOY)	Total Present Value of Future Contributions	Total Fund Assets (MVA + PVFC)	Total Present Value of Future Benefits	Present Value of Future Admin Expenses	Total Present Value of Future Benefits, Fees, and Expenses	Unfunded Liability	Funded Ratio
2014			36,061,544	0	127,795,259	6,183,044	116,130,106	1,096,307,516	76,045,685	1,172,353,201	1,446,655,442	53,879,932	1,500,535,374	328,182,173	78.1%
2015	7.00%	0	22,078,048	0	174,038,889	5,441,079	71,232,459	1,010,138,056	58,531,172	1,068,669,228	1,367,894,111	52,023,231	1,419,917,342	351,248,114	75.3%
2016	7.00%	0	15,518,982	0	162,605,724	5,617,914	65,365,001	922,798,401	46,575,394	969,373,795	1,295,446,057	49,853,642	1,345,299,699	375,925,905	72.1%
2017	7.00%	0	13,218,350	0	157,020,568	5,750,564	59,361,541	832,607,160	36,162,504	868,769,664	1,223,703,978	47,394,967	1,271,098,945	402,329,281	68.3%
2018	7.00%	0	10,655,876	0	148,384,601	5,835,236	53,257,763	742,300,962	27,671,356	769,972,318	1,155,873,076	44,676,600	1,200,549,676	430,577,358	64.1%
2019	7.00%	0	8,214,456	0	153,060,359	5,869,292	46,686,036	638,271,803	21,111,252	659,383,055	1,078,457,375	41,732,719	1,120,190,094	460,807,039	58.9%
2020	7.00%	0	6,218,468	0	157,925,937	5,851,380	39,164,466	519,877,420	16,156,605	536,034,025	990,589,583	38,601,294	1,029,190,877	493,156,852	52.1%
2021	7.00%	0	5,258,657	0	161,058,792	5,781,517	30,736,062	389,031,830	11,847,970	400,879,800	893,330,396	35,322,938	928,653,334	527,773,533	43.2%
2022	7.00%	0	4,769,316	0	158,670,392	5,661,102	21,647,552	251,117,204	7,743,909	258,861,113	791,733,646	31,939,654	823,673,300	564,812,187	31.4%
2023	7.00%	0	3,468,695	0	155,341,933	5,492,879	12,070,390	105,821,477	4,697,937	110,519,414	686,468,107	28,493,552	714,961,659	604,442,245	15.5%
2024	7.00%	0	2,234,233	41,121,282	147,474,662	5,280,835	3,578,504	-1	2,715,684	2,715,683	581,971,946	25,025,563	606,997,509	604,281,826	0.4%
2025	7.00%	0	1,173,872	140,213,320	136,404,087	4,983,104	0	0	1,691,519	1,691,519	481,612,542	21,622,789	503,235,331	501,543,812	0.3%
2026	7.00%	0	748,920	126,418,968	122,554,307	4,613,581	0	0	1,035,237	1,035,237	388,554,298	18,364,059	406,918,357	405,883,120	0.3%
2027	7.00%	0	621,042	109,930,517	106,362,109	4,189,450	0	0	465,292	465,292	305,731,313	15,315,943	321,047,256	320,581,963	0.1%
2028	7.00%	0	358,724	93,352,780	89,981,666	3,729,838	0	0	126,796	126,796	234,054,775	12,529,884	246,584,659	246,457,863	0.1%
2029	7.00%	0	131,159	76,458,316	73,335,128	3,254,347	0	0	0	0	174,580,187	10,040,653	184,620,840	184,620,840	0.0%
2030	7.00%	0	0	59,806,658	57,025,033	2,781,625	0	0	0	0	127,813,665	7,866,164	135,679,829	135,679,829	0.0%
2031	7.00%	0	0	45,566,139	43,238,015	2,328,124	0	0	0	0	92,034,885	6,008,565	98,043,450	98,043,450	0.0%
2032	7.00%	0	0	34,366,928	32,459,753	1,907,175	0	0	0	0	64,900,708	4,456,367	69,357,075	69,357,075	0.0%
2033	7.00%	0	0	25,230,313	23,718,828	1,511,485	0	0	0	0	44,908,819	3,204,821	48,113,640	48,113,640	0.0%
2034	7.00%	0	0	18,138,623	16,981,034	1,157,589	0	0	0	0	30,487,123	2,231,739	32,718,862	32,718,862	0.0%
2035	7.00%	0	0	12,803,634	11,947,946	855,688	0	0	0	0	20,262,174	1,502,831	21,765,005	21,765,005	0.0%
2036	7.00%	0	0	8,780,580	8,170,873	609,707	0	0	0	0	13,228,512	977,343	14,205,855	14,205,855	0.0%
2037	7.00%	0	0	5,920,837	5,502,657	418,180	0	0	0	0	8,462,517	613,189	9,075,706	9,075,706	0.0%
2038	7.00%	0	0	3,925,739	3,650,072	275,667	0	0	0	0	5,279,230	370,960	5,650,190	5,650,190	0.0%
2039	7.00%	0	0	2,543,071	2,368,700	174,371	0	0	0	0	3,198,575	216,556	3,415,131	3,415,131	0.0%
2040	7.00%	0	0	1,598,352	1,492,704	105,648	0	0	0	0	1,878,411	122,432	2,000,843	2,000,843	0.0%
2041	7.00%	0	0	972,482	910,439	62,043	0	0	0	0	1,068,134	66,824	1,134,958	1,134,958	0.0%
2042	7.00%	0	0	574,910	539,630	35,280	0	0	0	0	584,706	35,008	619,714	619,714	0.0%
2043	7.00%	0	0	328,470	309,157	19,313	0	0	0	0	305,841	17,481	323,322	323,322	0.0%
2044	7.00%	0	0	180,378	170,276	10,102	0	0	0	0	151,115	8,256	159,371	159,371	0.0%
2045	7.00%	0	0	93,634	88,643	4,991	0	0	0	0	69,999	3,670	73,669	73,669	0.0%
2046	7.00%	0	0	45,023	42,711	2,312	0	0	0	0	30,719	1,536	32,255	32,255	0.0%
2047	7.00%	0	0	20,486	19,471	1,015	0	0	0	0	12,729	594	13,323	13,323	0.0%
2048	7.00%	0	0	8,946	8,526	420	0	0	0	0	4,801	200	5,001	5,001	0.0%
2049	7.00%	0	0	3,788	3,629	159	0	0	0	0	1,383	50	1,433	1,433	0.0%
2050	7.00%	0	0	1,276	1,230	46	0	0	0	0	207	7	214	214	0.0%
2051	7.00%	0	0	221	214	7	0	0	0	0	0	0	0	0	0.0%

[1] *Additional contributions in the amount of $808,405,671 are needed over the years 2024 through 2051 to pay all benefits due.*

Exhibit IV
Sensitivity Testing Results

The actuarial assumptions regarding future increases in tuition costs and fees and the future rate of investment return were provided to us by ISAC. In our opinion, the assumptions provided to us are reasonable for the purpose of the measurement. However, no one really knows what the future holds with respect to economic and other contingencies. For example, while it is assumed that the assets of the fund will earn 7.00 percent each year throughout the life of the contracts, actual returns are expected to vary from year to year. Therefore, we have projected CIPTP results under alternative assumptions for future investment income, tuition increases, and fee increases.

1. Tuition increases are 100 basis points higher/lower in each future year than assumed in the baseline valuation (measurement of soundness).
2. Fee increases are 100 basis points higher/lower in each future year than assumed in the baseline valuation (measurement of soundness).
3. The investment return is 50 basis points higher/lower in each future year than assumed in the baseline valuation (measurement of soundness).

The impact of each of these scenarios on the principal valuation results is presented on the following page.

Exhibit IV
Sensitivity Testing Results (Continued)

$ in Millions

	Current Valuation Assumptions	Assumed Tuition Increases +100 Basis Points	Assumed Tuition Increases -100 Basis Points	Assumed Fee Increases +100 Basis Points	Assumed Fee Increases -100 Basis Points	Assumed Investment Return +50 Basis Points	Assumed Investment Return -50 Basis Points
1 Assets							
a. Market Value of Assets (in Trust)	$1,096.4	$1,096.4	$1,096.4	$1,096.4	$1,096.4	$1,096.4	$1,096.4
b. PV Future Member Contributions	76.0	76.0	76.0	76.0	76.0	75.0	77.1
c. Unrecognized Gains and (Losses)	38.9	38.9	38.9	38.9	38.9	38.9	38.9
d. Total Actuarial Value of Assets (AVA) (2a + 2b - 2c)	$1,133.5	$1,133.5	$1,133.5	$1,133.5	$1,133.5	$1,132.5	$1,134.6
2 Actuarial Results							
Liabilities							
a. Not yet Matriculating - Tuition and Fees	$1,202.7	$1,253.6	$1,155.6	$1,221.6	$1,185.3	$1,163.5	$1,243.9
b. Matriculating - Tuition and Fees	243.9	244.1	243.8	244.4	243.5	242.6	245.3
c. Present Value of Future Administrative Expenses	53.9	53.9	53.9	53.9	53.9	52.3	55.6
d. Total	$1,500.5	$1,551.6	$1,453.3	$1,519.9	$1,482.7	$1,458.4	$1,544.8
Unfunded Liability (Based on MVA)	$328.1	$379.2	$280.9	$347.5	$310.3	$287.0	$371.3
Unfunded Liability (Based on AVA)	$367.0	$418.1	$319.8	$386.4	$349.2	$325.9	$410.2
Funded Ratio							
Market Value of Assets	78.1%	75.6%	80.7%	77.1%	79.1%	80.3%	76.0%
Actuarial Value of Assets	75.5%	73.1%	78.0%	74.6%	76.4%	77.7%	73.4%
Difference From Current Assumptions							
Unfunded Liability (Based on MVA)	$0.0	$51.1	-$47.2	$19.4	-$17.8	-$41.1	$43.2
Funded Ratio (Based on MVA)	0.0%	-2.5%	2.6%	-1.0%	1.0%	2.2%	-2.1%
Unfunded Liability (Based on AVA)	$0.0	$51.1	-$47.2	$19.4	-$17.8	-$41.1	$43.2
Funded Ratio (Based on AVA)	0.0%	-2.4%	2.5%	-0.9%	0.9%	2.2%	-2.1%

SECTION C

FUND ASSETS

STATEMENT OF PLAN ASSETS
(ASSETS AT MARKET OR FAIR VALUE)

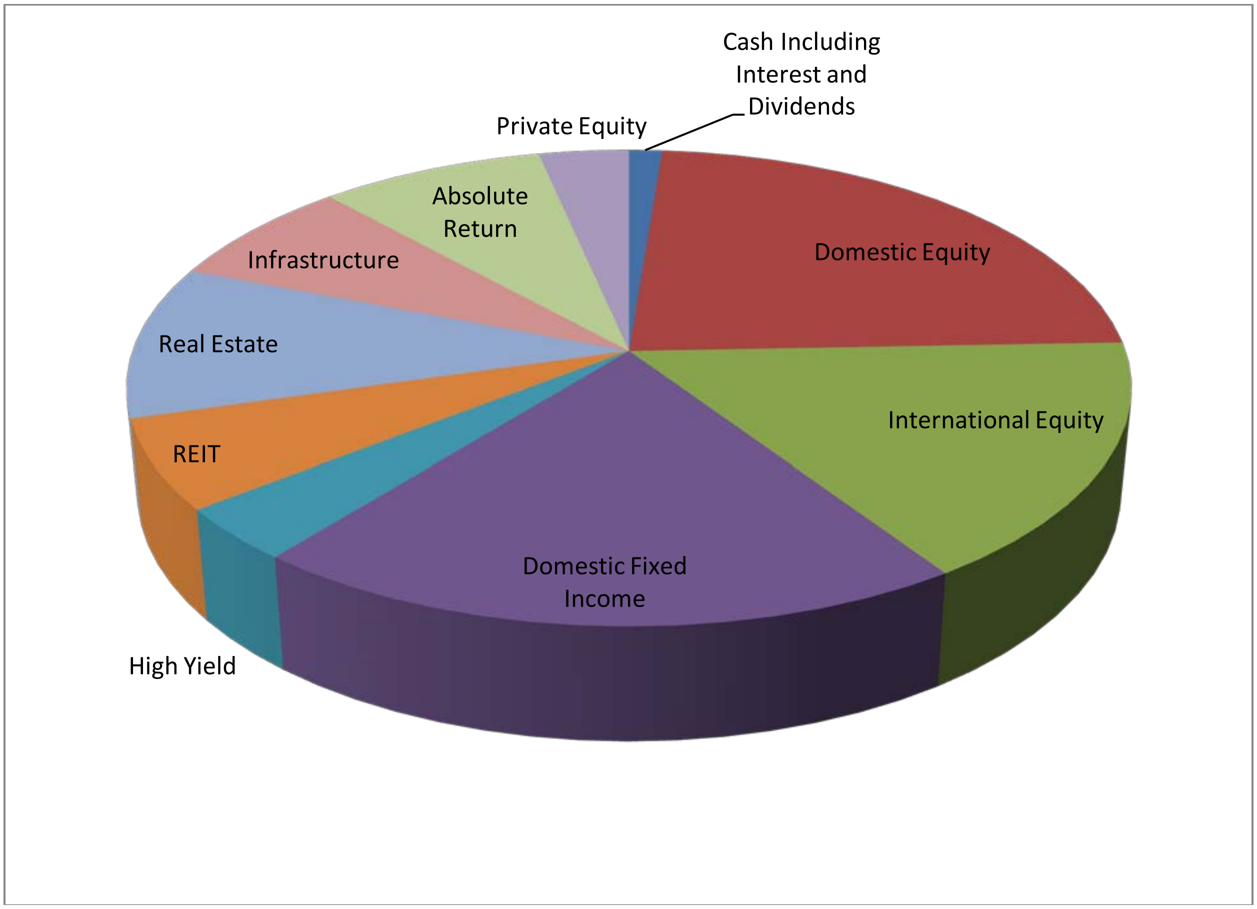
College Illinois!® Prepaid Tuition Program

Statement of Plan Net Assets

Year ended June 30, 2014

Cash Including Interest and Dividends	$	13,600,338
Investments		
Domestic Equity	$	255,380,327
International Equity		178,827,683
Domestic Fixed Income		222,028,744
High Yield		39,972,520
REIT		67,133,082
Real Estate		114,735,791
Infrastructure		75,221,443
Absolute Return		92,340,162
Private Equity		37,067,426
Total Investments	$	1,082,707,178
Other		0
Total Assets	$	1,096,307,516

ALLOCATION OF ASSETS AT JUNE 30, 2014



RECONCILIATION OF MARKET VALUE OF PLAN ASSETS

College Illinois!® Prepaid Tuition Program
Statement of Changes in Plan Net Assets
Twelve Month Period ended June 30, 2014

Beginning of Period		7/1/2013
End of Period		6/30/2014
Additions:		
Contributions received	$	36,061,544
Gross investment income		19,869,136
Realized/Unrealized investment gains/(losses)		99,557,625
Total Additions	$	155,488,305
Deductions:		
Tuition payments	$	112,056,333
Refunds to Purchasers		15,738,926
Investment expenses & advisory fees		3,296,655
Administrative expenses		6,183,044
Total Deductions	$	137,274,958
Net increase	$	18,213,347
Market Value of Assets:		
Beginning of period	$	1,078,094,169
End of period (6/30/2014)	$	1,096,307,516
Present Value of Future Contributions by Current Contract Holders		76,045,685
Market Value of Total Fund Assets as of June 30, 2014	$	1,172,353,201

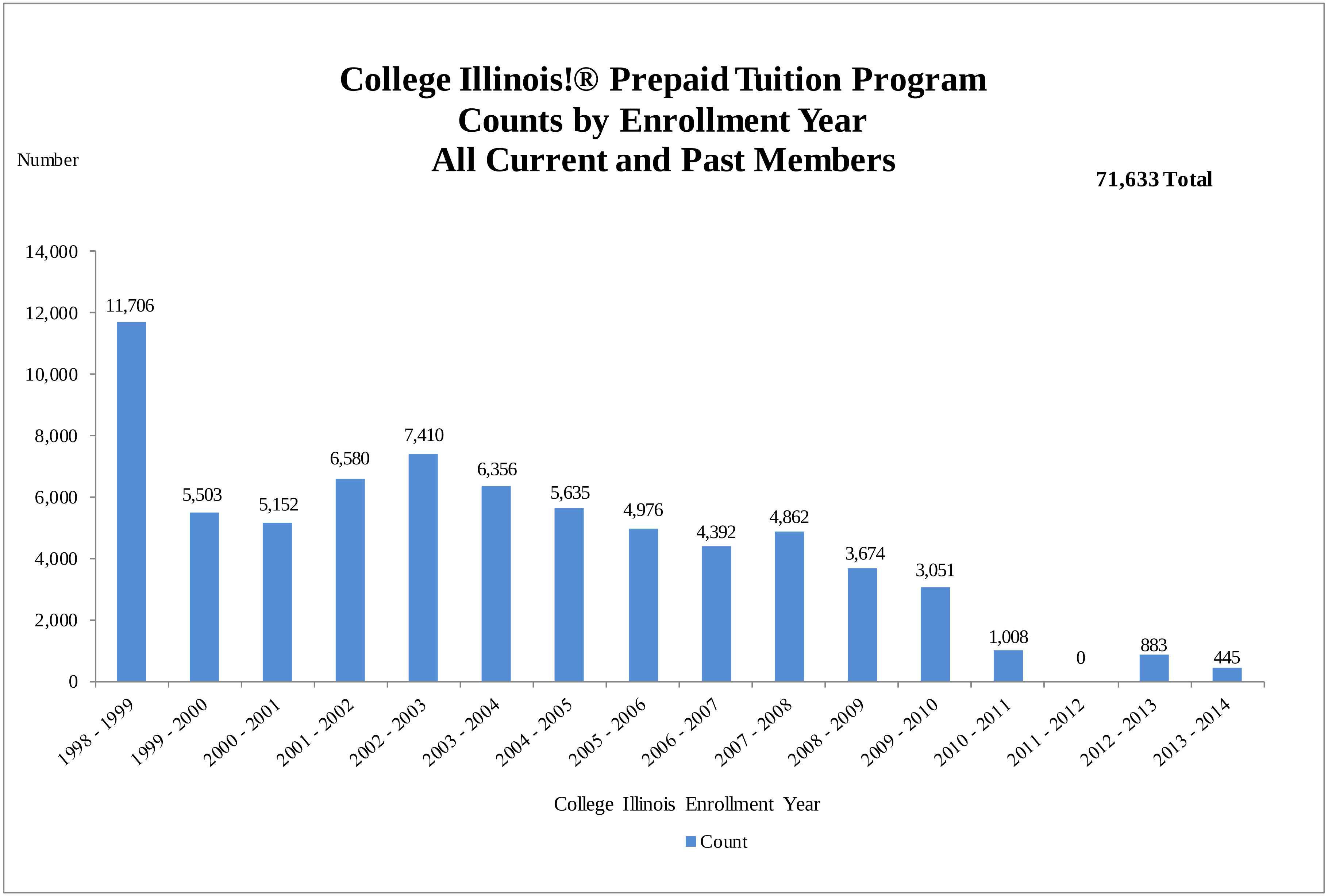
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

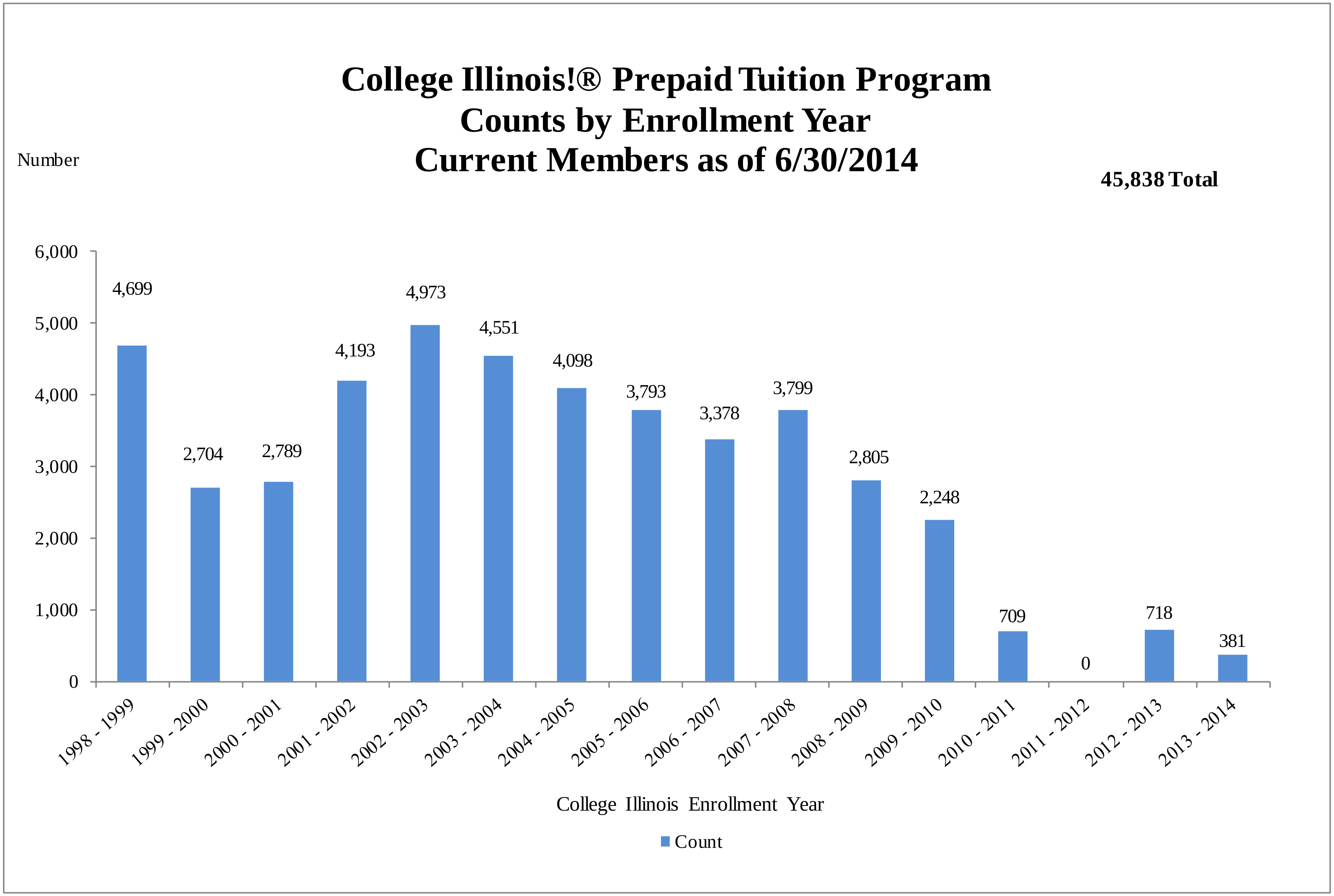
Year Ending June 30	2014	2015	2016	2017	2018
Beginning of Year:					
(1) Market Value of Assets	$ 1,078,094,274				
(2) Adjustment to the Market Value of Assets	(105)				
(3) Revised Market Value of Assets	1,078,094,169				
(4) Actuarial Value of Assets	1,064,190,582				
End of Year:					
(5) Market Value of Assets	1,096,307,516				
(6) Contributions and Disbursements					
(6a) Actual Contributions	36,061,544				
(6b) Tuition Payments and Refunds	(127,795,259)				
(6c) Administrative Expenses	(6,183,044)				
(6d) Net of Contributions and Disbursements	(97,916,759)				
(7) Total Investment Income =(5)-(3)-(6d)	116,130,106				
(8) Projected Rate of Return	7.00%				
(9) Projected Investment Income =(3)x([1+(8)]^1.00-1)+([1+(8)]^.50-1)x(6d)	72,097,468				
(10) Investment Income in Excess of Projected Income	44,032,638				
(11) Excess Investment Income Recognized This Year (5-year recognition)					
(11a) From This Year	8,806,528				
(11b) From One Year Ago	2,510,765	$ 8,806,528			
(11c) From Two Years Ago	(10,188,238)	2,510,765	$ 8,806,528		
(11d) From Three Years Ago	16,562,252	(10,188,238)	2,510,765	$ 8,806,528	
(11e) From Four Years Ago	1,300,843	16,562,252	(10,188,238)	2,510,765	$ 8,806,525
(11f) Total Recognized Investment Gain	18,992,150	17,691,307	1,129,055	11,317,293	8,806,525
(12) Change in Actuarial Value of Assets =(2)+(6d)+(9)+(11f)	(6,827,246)				
End of Year:					
(5) Market Value of Assets	**1,096,307,516**				
(13) Actuarial Value of Assets =(4)+(12)	**1,057,363,336**				
(14) Present Value of Future Expected Contributio	76,045,685				
(15) Final Actuarial Value of Assets = (13) + (14)	**1,133,409,021**				

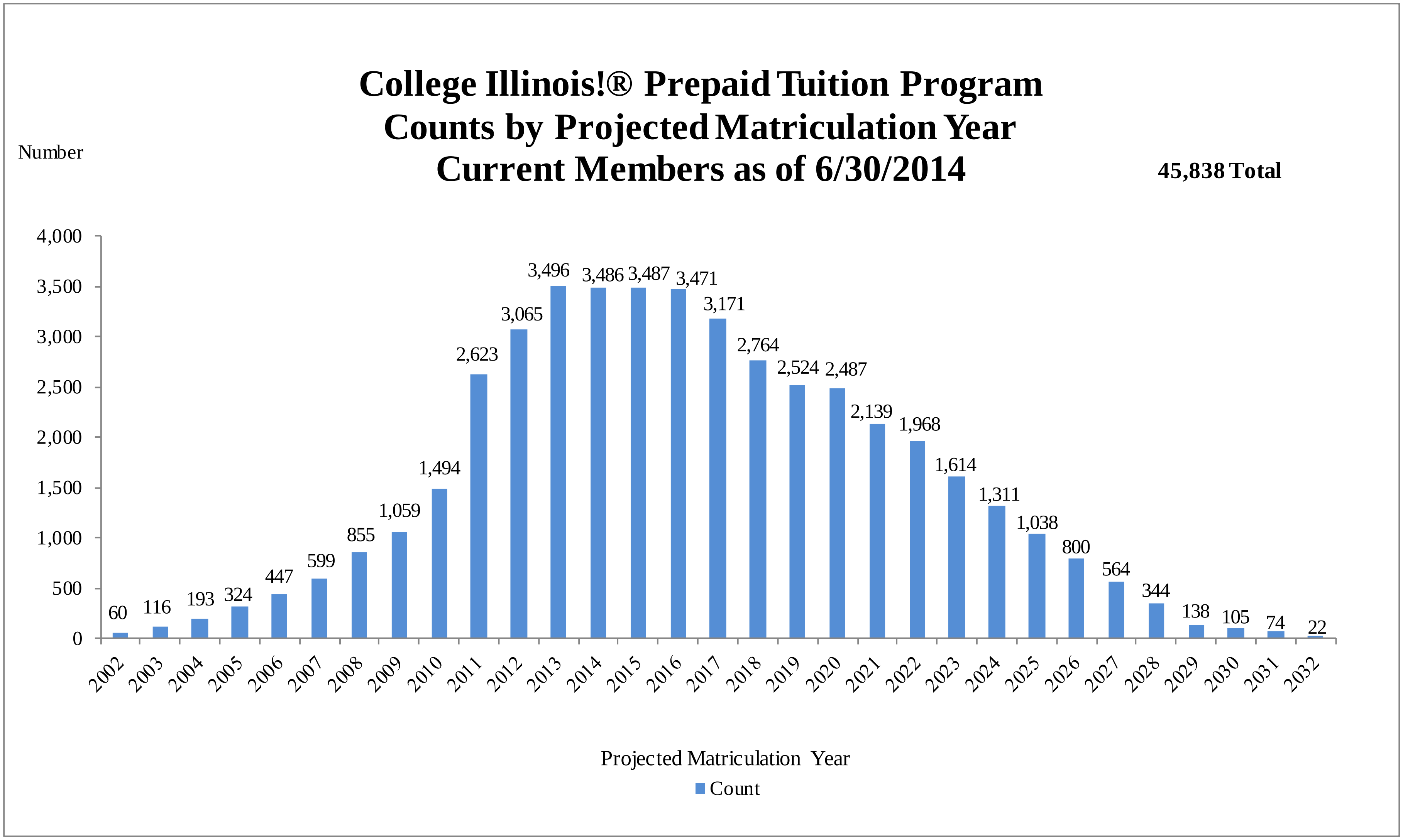
The Actuarial Value of Assets recognizes assumed investment return (line 9) fully each year. Differences between actual and assumed investment income (Line 10) are phased-in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than Market Value. If assumed rates are exactly realized for 4 consecutive years, Actuarial Value of Assets will equal Market Value.

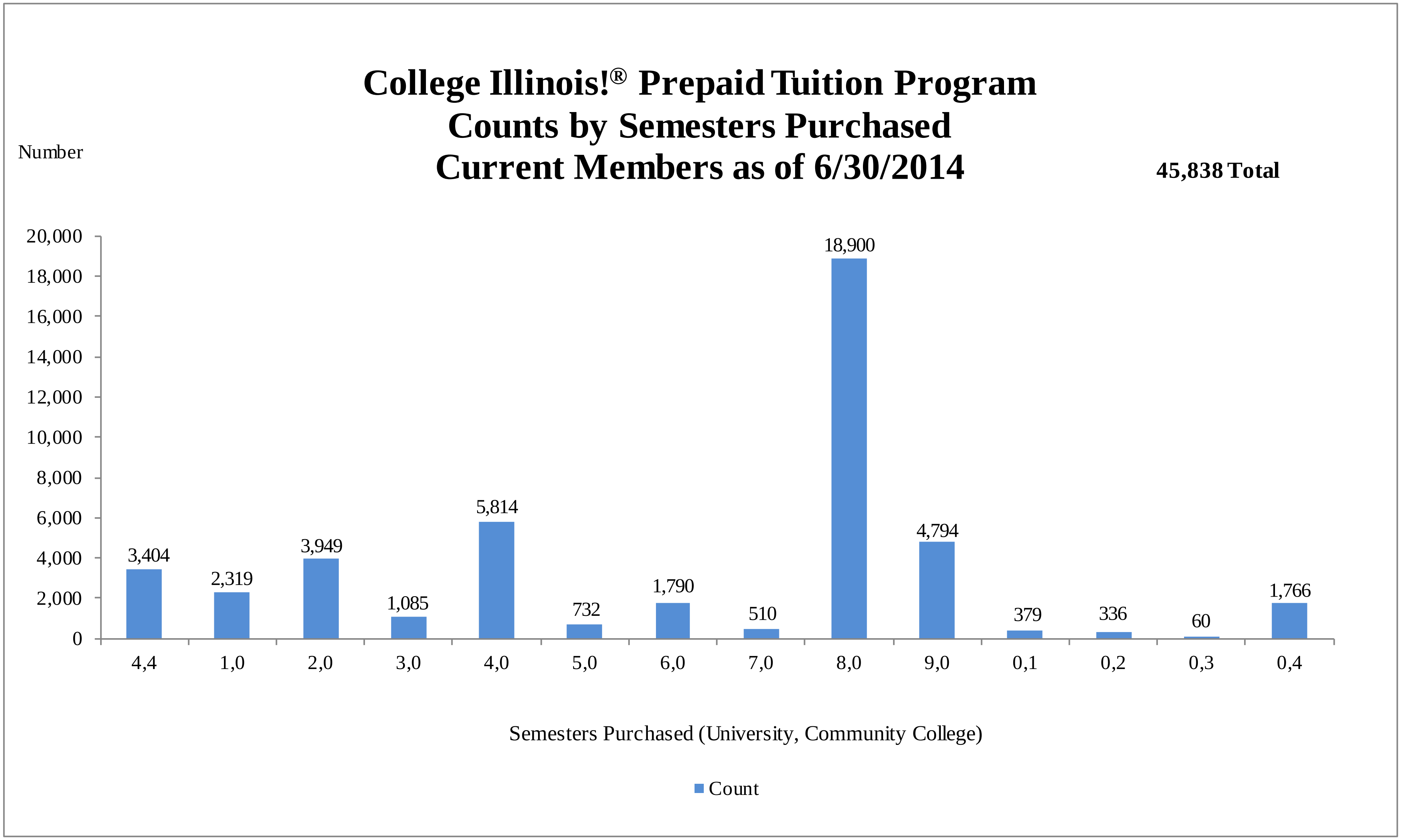
SECTION D

PARTICIPANT DATA

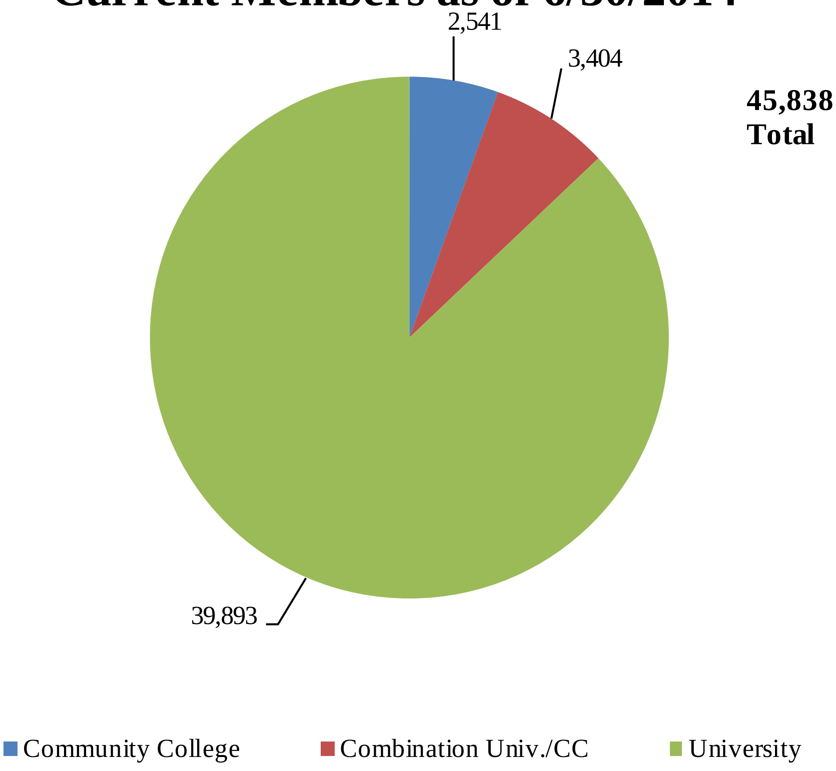

College Illinois!® Prepaid Tuition Program
Counts by Enrollment Year
All Current and Past Members
Number
71,633 Total
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
11,706
5,503
5,152
6,580
7,410
6,356
5,635
4,976
4,392
4,862
3,674
3,051
1,008
0
883
445
1998 - 1999
1999 - 2000
2000 - 2001
2001 - 2002
2002 - 2003
2003 - 2004
2004 - 2005
2005 - 2006
2006 - 2007
2007 - 2008
2008 - 2009
2009 - 2010
2010 - 2011
2011 - 2012
2012 - 2013
2013 - 2014
College Illinois Enrollment Year
Count

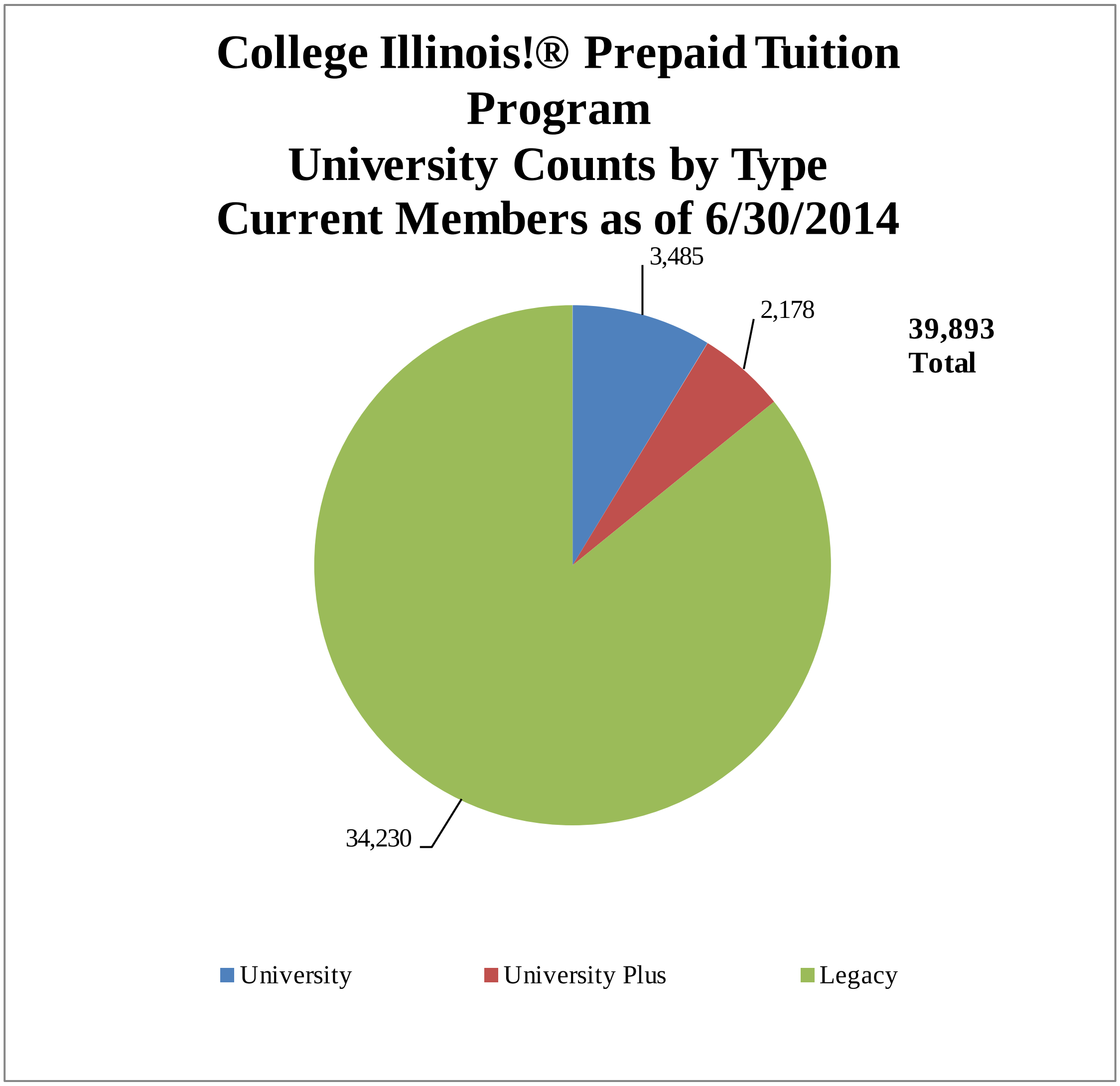

College Illinois!® Prepaid Tuition Program
Counts by Enrollment Year
Current Members as of 6/30/2014
Number
45,838 Total
6,000
5,000
4,000
3,000
2,000
1,000
0
4,699
2,704
2,789
4,193
4,973
4,551
4,098
3,793
3,378
3,799
2,805
2,248
709
0
718
381
1998 - 1999
1999 - 2000
2000 - 2001
2001 - 2002
2002 - 2003
2003 - 2004
2004 - 2005
2005 - 2006
2006 - 2007
2007 - 2008
2008 - 2009
2009 - 2010
2010 - 2011
2011 - 2012
2012 - 2013
2013 - 2014
College Illinois Enrollment Year
Count


College Illinois!® Prepaid Tuition Program
Counts by Projected Matriculation Year
Current Members as of 6/30/2014
Number
45,838 Total
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
60
116
193
324
447
599
855
1,059
1,494
2,623
3,065
3,496
3,486
3,487
3,471
3,171
2,764
2,524
2,487
2,139
1,968
1,614
1,311
1,038
800
564
344
138
105
74
22
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
Projected Matriculation Year
Count


College Illinois!® Prepaid Tuition Program
Counts by Semesters Purchased
Current Members as of 6/30/2014
Number
45,838 Total
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
3,404
2,319
3,949
1,085
5,814
732
1,790
510
18,900
4,794
379
336
60
1,766
4,4
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
Semesters Purchased (University, Community College)
Count

College Illinois!® Prepaid Tuition Program
Counts by Contract Type
Current Members as of 6/30/2014




College Illinois!® Prepaid Tuition Program
University Counts by Type
Current Members as of 6/30/2014
3,485
2,178
39,893
Total
34,230
University
University Plus
Legacy

SECTION E

METHODS & ASSUMPTIONS

VALUATION METHODS

Actuarial Value of Assets – The Actuarial Value of Assets recognizes assumed investment income fully each year. Differences between actual and assumed investment return are phased in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than Market Value.

VALUATION ASSUMPTIONS

The actuarial assumptions used in the valuation are shown in this Section.

Measurement Date June 30, 2014

The net investment return rate 7.00 percent per annum, compounded annually

Weighted Average Tuition and Fees (WATF) Based on the Freshman Blended Tuition Rate and Increases by Contract Type

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy†
2014-2015 Weighted Tuition	$3,331	$9,903	$14,145	$10,871
2014-2015 Weighted Fees	$478	$3,459	$3,566	$3,483
2014-2015 Total WATF	$3,809	$13,362	$17,711	$14,354

†"Legacy" contracts refer to contracts sold prior to 2010. These contracts can be used for full tuition and fees at any public University in the State of Illinois, including the UIUC.

For continuing students at public universities and students attending community colleges, fees are combined with tuition in our projections and follow their respective tuition inflation assumptions.

These assumptions were chosen by ISAC and consider historical Illinois public tuition and fee inflation, typically over a 20-year horizon, as well as current economic and political conditions.

	Contract Type			
	Choice 1	Choice 2	Choice 3	
	Community College	University	University Plus	Legacy†
2014-2015 WATF	$3,809	$13,362	$17,711	$14,354
2013-2014 WATF	$3,626	$12,895	$17,265	$13,854
WATF Increase	5.05%	3.62%	2.58%	3.61%

Tuition and Fee Increase Assumption - June 30, 2014, Actuarial Valuation				
Effective Date	Community College	University	University Plus	Legacy
6/30/2015 through 6/30/2017	6.50%	6.50%	6.50%	6.50%
6/30/2018 through 6/30/2022	5.75%	5.75%	5.75%	5.75%
6/30/2023 and Beyond	5.00%	5.00%	5.00%	5.00%

Truth in Tuition

We have segregated the beneficiaries into two categories, those beneficiaries that fall under the Truth in Tuition law and those that do not. The Truth in Tuition law does not apply to community colleges.

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

Administrative Expenses

Administrative expenses of the Program are assumed to be paid through a combination of investment earnings and fees assessed on purchasers. For purposes of the closed group projections, marketing expenses were excluded as it is assumed those costs should be applicable only to future contracts. The present value of future administrative expenses was determined to be equal to approximately 3.6 percent of the total liabilities.

Bias Load

“Legacy” contract beneficiaries were assumed on average to attend more expensive schools than indicated by the headcount information that was used to determine the 2014-2015 WATF. A load of 4.6 percent was added to the tuition assumption to recognize this bias toward enrollment at more expensive schools. No bias load was applied to the “University” and “University Plus” beneficiaries due to the separation of UIUC which historically has been the significant driver behind the need for the bias load.

Mortality and Disability

No assumption is made for death or disability. Valuing the rate of incidence is expected to be immaterial.

Future Beneficiary Profile

The characteristics of future beneficiaries are assumed to be the same as the characteristics of 2013 new beneficiaries.

The Rates of Enrollment

These rates are used to measure the probability of eligible members matriculating during the next year.

Matriculating Probability Rates for Qualified Beneficiaries											
Actual Matriculation	Years Past Expected Matriculation										
(Expected Mat Yr Plus Below)	0	1	2	3	4	5	6	7	8	9	10+
0	69.5%										
1	11.5%	37.7%									
2	8.0%	26.2%	42.1%								
3	3.8%	12.3%	19.7%	34.1%							
4	1.8%	5.7%	9.2%	15.9%	24.1%						
5	1.1%	3.6%	5.8%	10.0%	15.2%	20.0%					
6	1.0%	3.3%	5.3%	9.1%	13.8%	18.2%	22.7%				
7	0.9%	2.8%	4.5%	7.7%	11.7%	15.5%	19.3%	25.0%			
8	0.9%	2.8%	4.5%	7.7%	11.7%	15.5%	19.3%	25.0%	33.3%		
9	0.9%	2.8%	4.5%	7.7%	11.7%	15.5%	19.3%	25.0%	33.3%	50.0%	
10	0.9%	2.8%	4.5%	7.7%	11.7%	15.5%	19.3%	25.0%	33.3%	50.0%	100.0%

Rates of Separation from Active Membership

It was assumed that 12.5 percent of contracts sold will not be utilized. This assumption was based on the historical experience of the Program. In the event of a cancellation, it was assumed that a refund will be paid equal to the amount of contributions paid by the contract holder, increased by 2 percent for each subsequent year after purchase for contracts sold prior to October 1, 2013.

Utilization of Benefits

Once they start matriculating, beneficiaries are assumed to use the benefits as described by the CIPTP Master Agreement according to the schedule below.

Distribution of Benefit Utilization					
Number of Years	Number of Semesters Purchased				
Since Matriculation	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%

Once a member has matriculated, it is assumed that beneficiaries will utilize 30 credits per year until benefits are fully depleted.

SECTION F

PLAN PROVISIONS

PLAN PROVISIONS

A. Type of Contract

Three types of contracts are available for purchase: Choice 1 - Community College, Choice 2 - University and Choice 3 - University Plus.

In the event that a university or university plus 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.

B. Benefit

Covered benefits include tuition and mandatory fees at an Illinois public university or community college based on the in-state or in-district undergraduate rate for a full-time student.

Mandatory fees are fees that are required upon enrollment for all students attending the particular institution.

The benefit does not include any optional fees, expenses or cost of supplies.

Benefit shall never be less than payment amount.

C. Member Contributions

Optional forms of payment which were historically available include the following:

- Lump Sum;
- Monthly installments with terms of 60 months/ 120 months/ 180 months;
- Annual installments with terms of 5 years/ 10 years/ 15 years; and
- Down payment options are available for installment plans.

D. Private or Out-of-State Institutions

For beneficiaries attending private or out-of-state institution, the plan 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.

E. Scholarship

If a qualified beneficiary is awarded a grant or scholarship that duplicates the benefits covered by a prepaid tuition contract, the purchaser may request a refund in semester installments.

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.

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 type of the purchased contract, less any benefits used to pay registration fees not covered by the scholarship and any applicable fees.

F. Not Attending an Institution of Higher Education

Benefits can be transferred to a member of the "family" as defined in Section 529 of the Internal Revenue Code.

Purchasers can also choose to postpone the beneficiary's use of contract benefits to a later time or receive a refund payment equal to all contributions, plus two percent interest, less applicable cancellation fees.

G. Death/Disability of Qualified Beneficiary

Refunds equal to amount paid with all accrued earnings will be made to purchaser.

H. Changes from Previous Valuation

None.

I. Other Ancillary Benefits

There are no ancillary benefits.

McGladrey

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

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

Ms. Kym Hubbard
Honorable Chair of the Governing Board
Illinois Student Assistance Commission

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 12, 2015. That report contains an emphasis of matter paragraph which states "as discussed in Note 9, the Illinois Prepaid Tuition Program has a deficit as of June 30, 2014 of $276 million. The amount of the reported deficit is highly dependent on the actuarial assumptions used to calculate the actuarial present value of future tuition benefits obligations."

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting (internal control) of the Illinois Prepaid Tuition Program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control of the Illinois Prepaid Tuition Program that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Student Assistance Commission, Illinois Prepaid Tuition Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Student Assistance Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Schaumburg, Illinois January 12, 2015