State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Financial Audit
For the Year Ended June 30, 2012

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

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Agency Officials

Executive Director (through July 8, 2011)	Andrew Davis
Interim Executive Director (July 8, 2011 – February 21, 2012)	John Sinsheimer
Executive Director (February 21, 2012 - Current)	Eric Zarnikow
Chief Financial Officer	Shoba Nandhan
Chief Investment Officer (July 1, 2011 – December 27, 2011)	Vacant
Chief Investment Officer (December 27, 2011 - Current)	Kent Custer
General Counsel	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 unqualified opinion on the Program's financial statements.

Summary of Findings

The auditors identified a matter involving the Program's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying schedule of findings listed in the table of contents as finding 12-1 (Budget Not Properly Approved).

Exit Conference

In correspondence received from Shoba Nandhan, Chief Financial Officer, on November 29, 2012 the Commission elected to waive an exit conference. The responses to the recommendations were provided by Shoba Nandhan in a letter dated December 19, 2012.

McGladrey

Independent Auditors' Report

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 the accompanying financial statements of the Illinois Prepaid Tuition Program Fund of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Student Assistance Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Illinois Prepaid Tuition Program, a fund of the State of Illinois, Illinois Student Assistance Commission and do not purport to, and do not present fairly the financial position of the State of Illinois or the Illinois Student Assistance Commission as of June 30, 2012, and their changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Prepaid Tuition Program Fund of the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7, the Illinois Prepaid Tuition Program has adopted a change in its methodology for estimating contract receivables, tuition obligation and related revenues and expenses.

As further discussed in Note 10, the Illinois Prepaid Tuition Program has a deficit as of June 30, 2012 of $420 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 obligation.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 7, 2013 on our consideration of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting of the Illinois Prepaid Tuition Program Fund and on our tests of the State of Illinois, Illinois Student Assistance Commission's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

McGladrey LLP

Schaumburg, Illinois
February 7, 2013

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Net Assets
June 30, 2012

Assets	
Current	
Cash and cash equivalents	$ 7,417,280
Investments	115,453,768
Receivables:	
Contracts receivable	38,671,380
Accrued interest on investments	643
Total current assets	161,543,071
Noncurrent	
Investments	948,058,118
Contracts receivable	66,454,578
Total assets	1,176,055,767
Liabilities	
Current	
Accounts payable and accrued expenses	1,348,829
Due to other ISAC funds	175,000
Tuition obligation	145,582,848
Due to State of Illinois component units	198,391
Compensated absences	15,838
Total current liabilities	147,320,906
Noncurrent	
Tuition obligation	1,449,073,743
Compensated absences	49,383
Total noncurrent liabilities	1,449,123,126
Total liabilities	1,596,444,032
Net assets, unrestricted (deficit)	$ (420,388,265)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2012

Operating revenues:		
Income from investment securities (net of investment management fees of $3,472,199)	$	34,543,310
Interest revenue - other		140,816
Fees		609,563
Net operating revenues		35,293,689
Operating expenses:		
Salaries and employee benefits		2,835,963
Accreted tuition expense		184,399,605
Management and professional services		2,223,051
Investment management fees		1,493,065
Investment advisory fees		2,571,891
Total operating expenses		193,523,575
Operating loss		(158,229,886)
Transfer - out		(27,000)
Change in net assets		(158,256,886)
Net assets (deficit), July 1, 2011		(262,131,379)
Net assets (deficit), June 30, 2012	$	(420,388,265)

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows
Year Ended June 30, 2012

Cash flows from operating activities	
Cash receipts from prepaid tuition contracts	$ 45,376,505
Cash received from fees	609,563
Cash paid for refund of contracts	(39,618,005)
Cash paid for tuition	(92,956,659)
Cash payments to suppliers for goods and services	(2,487,812)
Cash payments to employees for services	(2,861,559)
Net cash used in operating activities	(91,937,967)
Cash flows from noncapital financing activities	
Transfer out	(27,000)
Cash flows from investing activities	
Purchase of investment securities	(348,336,613)
Sales and maturities of investment securities	419,608,361
Interest and dividends on investments	21,770,563
Cash paid to investment managers	(1,493,068)
Net cash provided by investing activities	91,549,243
Net decrease in cash and cash equivalents	(415,724)
Cash and cash equivalents, July 1, 2011	7,833,004
Cash and cash equivalents, June 30, 2012	$ 7,417,280

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows (Continued)
Year Ended June 30, 2012

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (158,229,886)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Investment income and other interest income	(34,684,126)
Investment management fees	1,493,065
Investment advisory fees	2,571,891
Accreted tuition expense	184,399,605
(Increase) decrease in assets:	
Contracts receivable	(105,125,958)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(523,523)
Due to other ISAC funds	175,000
Due to State of Illinois component units	83,763
Tuition payable	17,927,798
Compensated absences	(25,596)
Total adjustments	66,291,919
Net cash used in operating activities	$ (91,937,967)
Supplemental disclosure of noncash investing transactions:	
Net appreciation in fair value of investments	$ 10,468,548

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 first contracts were offered for sale in 1998. After fourteen enrollment periods, as of June 30, 2012, the Illinois Prepaid Tuition Program had 50,163 contracts in force with a purchased value of $1,348 million. As of June 30, 2012, the fund has received cash collections of $1,215 million.

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 institutional 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

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

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

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, 2012, 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 defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows have been presented for the Illinois Prepaid Tuition Program administered by ISAC.

Note 2. Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Due to the nature of the Illinois Prepaid Tuition Program activities, income from investments is considered an operating activity in the Statement of Revenues, Expenses, and Changes in Net Assets. Nonoperating revenues and expenses result from non-exchange transactions or ancillary activities.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Program’s operations.

D. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents include cash on hand, cash in banks, interest bearing deposits with banks, and investments in the Illinois Fund.

E. Investments

The Illinois Prepaid Tuition Program presents investments on its Statement of Net Assets 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 is included in investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

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 $105,125,958 as of June 30, 2012. The Program expects to receive contributions totaling $38,671,380 in fiscal year 2013. This amount has been classified as current contracts receivable on the Statement of Net Assets. The total contract receivable balance is expected to be received over the next thirteen years.

Note 2. Summary of Significant Accounting Policies - Continued

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.

H. Compensated Absences

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

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

I. Tuition Obligation

The tuition obligation in the Illinois Prepaid Tuition Program represents the net contract face value for the 50,163 contracts held by the fund as of June 30, 2012, plus the actuarially-determined present value of future benefits the Program expects to provide to contract holders for all contracts.

J. Net Assets (Deficit)

Net assets at year end (when positive) are 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.

Note 2. Summary of Significant Accounting Policies - Continued

K. Use of Estimates

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

L. 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. The assets of the Fund are to be preserved, invested and expended solely pursuant to and for the purposes of the Fund and may not be loaned or otherwise transferred or used by the State of Illinois for any other purpose.

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.

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 all contracts for investment services and approving contract terminations.
5. Monitoring and evaluating the investment performance of the Fund with an emphasis on 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.

Note 3. Deposits and Investments - Continued

A. Investment Authority and Legal Compliance - Continued

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.

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. They also assist the CIO, Investment Committee, Commission and the Investment Advisory Panel with the selection of investment managers and custodians.

Note 3. Deposits and Investments - Continued

A. Investment Authority and Legal Compliance - Continued

The qualified investment consultant retained by the Commission is required to exercise discretion 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, a fiduciary relationship with respect to the Illinois Prepaid Tuition Program. 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, 2012, the Fund will not make any new direct private investments or new co-investments that are tied to a single company or investment.

Note 3. Deposits and Investments - Continued

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Illinois Prepaid Tuition Program's deposits may not be returned to it. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. The Illinois Prepaid Tuition Program has no policy that would further limit the requirements under State law. As of June 30, 2012, the Illinois Prepaid Tuition Program's locally held deposits 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 most recent revision to the investment plan in June 2012, with minor revisions in September 2012.

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	**Interim**	**Long-term**	**Lower Limit**	**Upper Limit**
U.S. Equity	22.00%	26.00%	17.00%	29.00%
Non-U.S. Equity	12.00%	22.00%	10.00%	22.0%
Fixed Income	20.00%	25.00%	15.00%	25.00%
Real Estate	17.00%	10.00%	10.00%	21.00%
Infrastructure	5.00%	0.00%	0.00%	8.00%
Absolute Return	10.00%	10.00%	5.00%	15.00%
Private Equity	13.00%	7.00%	0.00%	16.00%
Cash	1.00%	0.00%	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	12.00%
Fixed Income	Barclays U.S. Aggregate	20.00%
Real Estate	NCREIF ODCE	17.00%
Infrastructure	90-day T Bills +4%	5.00%
Absolute Return	90-day T Bills +4%	10.00%
Private Equity	Russell 3000 + 3%	13.00%
Cash	90-day T-Bills	1.00%

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 Advisors, Pugh Capital, C.S. McKee Investment, LSV Asset Management, Piedmont Investment, Security Capital Research, Alinda Infrastructure, Portfolio Advisors, JP Morgan AIRRO, Morgan Stanley, Balestra Capital, Neuberger Berman, Pinnacle Natural Resource, Reynoso Asset, Ativo, Madison Square, Harris/Pyrford, Camelot Secondary, Kennedy Wilson, Lyrical-Antheus, Mesirow Value, and DDJ Distressed Fund as investment managers to assist with the investment of the Program assets for the Illinois Prepaid Tuition Program. 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.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

As of June 30, 2012, 20.0% of the funds were invested in Domestic Equities, 20.8% in Domestic Fixed Income, 9.4% in International Equities, 4.6% in Infrastructure Funds, 14.2% in Hedge Funds,11.4% in Private Equity Funds, 17.6% in Real Estate, .3% in illiquid securities and 1.7% in cash and equivalents. Investments of the Program, other than alternative investments and real estate, are recorded at fair value based on quoted market prices.

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) Alternative Investments (Private Equity, Hedge Funds and Infrastructure Funds) – fair values as determined by the Program in conjunction with its investment managers and investment advisors.

The Program's investment in real estate represents convertible debt, senior unsecured debt securities, and preferred and common equity securities. Investment strategies of private equity funds include, but are not limited to, foreign infrastructure and related resources investments, secondary funds of funds and distressed debt and special situations.

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 hedge funds include, but are not limited to, hedge funds of funds employing a broad range of arbitrage investments strategies, global commodities, and a market-neutral fund.

Investment Commitments

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 $8.7 million to private equity partnerships, $34 million to real estate and $37 million to infrastructure funds as of June 30, 2012.

Note 3. Deposits and Investments - Continued

C. Investments – Continued

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2012 are presented below at fair value by investment type and by investment manager:

Investment Managers
Asset Allocation at June 30, 2012

Asset Class	Investment Manager		Fair Value	Actual Allocation
Fixed Income-Core	C.S. McKee	$	72,356,764	6.75%
Fixed Income-Core	Piedmont		36,053,489	3.37%
Fixed Income-Core	Pugh Capital		45,447,089	4.24%
Fixed Income-Intermediate	Income Research Management		68,593,159	6.41%
Total Fixed Income Portfolio			**222,450,501**	**20.77%**
Real Estate-Debt/Equity	SCM Capital Stable Income		40,860,260	3.81%
Real Estate-Preferred	SCM Capital Preferred Growth		52,264,883	4.88%
Real Estate-Value Added	Kennedy Wilson Property III		23,733,790	2.22%
Real Estate-Value Added	Kennedy Wilson Property IV		41,393,109	3.87%
Real Estate-Opportunistic	Lyrical-Antheus Realty III		20,692,037	1.93%
Real Estate-Value Added	Mesirow Value		9,952,119	0.93%
Total Real Estate			**188,896,198**	**17.64%**
Large-Cap Core Equity	Rhumbline Advisers		81,857,418	7.65%
All-Cap Core Equity	Rhumbline Advisers		132,275,466	12.35%
Total Domestic Equity			**214,132,884**	**20.00%**
International Large-Cap Equity	Ativo		27,660,879	2.58%
International Large-Cap Equity	Madison Square		28,478,514	2.66%
International Large-Cap Equity	Harris/Pyrford		30,805,165	2.88%
International Core Equity	SSgA MSCI EAFE		13,845,329	1.29%
International Core Equity	LSV Asset Management		5,537	0.00%
Total International Equity			**100,795,424**	**9.41%**
Infrastructure	Alinda Capital II		30,512,787	2.85%
Infrastructure	J.P. Morgan AIRRO Fund		18,704,219	1.75%
Total Infrastructure			**49,217,006**	**4.60%**
Hedge FoFs	Balestra Spectrum II		50,129,709	4.67%
Hedge FoFs	NB Diversified Arbitrage		26,516,270	2.48%
Hedge FoFs	Pinnacle Natural Resources		61,349,909	5.73%
Hedge Fund-Market Neutral	Reynoso		14,515,262	1.36%
Total Hedge Fund			**152,511,150**	**14.24%**
Private Equity FoFs Secondary	Camelot Secondary Fund		18,818,086	1.75%
Private Equity Co-Invst	CASO Co-Investment *		3,960,208	0.37%
Private Equity FoFs Secondary	Morgan Stanley Secondary Fund		17,324,320	1.62%
Private Equity FoFs Secondary	Portfolio Advisors Secondary Fund		17,418,543	1.63%
Private Equity Distressed	DDJ Distressed Fund		64,682,640	6.04%
Total Private Equity			**122,203,797**	**11.41%**
Illiquid Securities Liquidating Trust	U.S. Bank (Custodian)		2,871,858	0.27%
Total Illiquid Securities Liquidating Trust			**2,871,858**	**0.27%**
Cash and Equivalents	Northern Trust		10,433,068	0.97%
Investment Cash Equivalents			**10,433,068**	**0.97%**
Total Investments			**1,063,511,886**	**99.31%**
Cash and Equivalents	Illinois Treasury and lock box		7,417,280	0.69%
Total Cash Equivalents			**7,417,280**	**0.69%**
TOTAL PORTFOLIO		**$**	**1,070,929,166**	**100%**

* The CASO Co-invest fund was written down by $10.8 million to reflect the anticipated loss of value associated with a dilutive capital raise in September 2012 by a portfolio company.

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 $1,493,065 for the year ended June 30, 2012 and is accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets.

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 Assets. Investment advisory expense as reflected in the Statement of Revenues, Expenses, and Changes in Net Assets for FY 2012 amounts to $2,571,891.

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 Assets. 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 Assets.

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

- Kennedy Wilson
- Lyrical Antheus
- Mesirow
- Alinda
- JPM Asia Infrastructure
- Camelot,
- Portfolio Advisors
- Morgan Stanley Secondary fund

Approximately $3.5 million in investment advisory fees are included in the amount reported for income from investment securities for the fiscal year ending June 30, 2012 and is accounted for as a part of the income from investment securities in the Statement of Revenues, Expenses, and Changes in Net Assets. Additionally, these amounts are reflected in the carrying value on the Statement of Net Assets.

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 $6,054,452 at June 30, 2012. 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 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 ensure that the investment managers comply with investment policy guidelines.

Per the investment policy:

- No more than 20% of the portfolio may be invested in un-hedged non-dollar bonds.
- Obligations of national governments other than U.S. are limited to 10% per issuer.
- Private mortgage backed and asset backed securities are limited to 10% per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer.
- Obligations of other issuers are subject to a 5% per issuer limit excluding investments in commingled vehicles.

As of June 30, 2012, all portfolios are within the guidelines permitted by the investment policy.

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	BarCap Aggregate Index	BarCap Int. Government/ Credit Index
Income Research Management	3.8 Years	N/A	3.9 Years
C.S. McKee	4.7 Years	5.1 Years	N/A
Piedmont	4.6 Years	5.1 Years	N/A
Pugh Capital	4.7 Years	5.1 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)
Negotiable certificates of deposit	$ 1,220,508	4.5
U.S. treasury bills	608,633	0.2
U.S. treasury notes	28,064,799	5.6
U.S. treasury bonds	4,603,947	25.9
U.S. agency obligations	22,902,375	13.4
Index linked government bonds (U.S. Treasuries)	11,457,789	2.3
Municipal/provincial bonds	6,967,498	12.3
Canada government note	821,912	4.6
Corporate debt securities	102,406,160	5.8
U.S. agency asset-backed securities	4,038,903	15.9
Corporate convertible bonds	5,651,395	15.8
Corporate asset-backed securities	8,875,102	3.7
Mortgage backed securities (MBS):		
Government agencies	38,075,259	25.1
Commercial	20,400,847	30.5
Total Fair Value	**$ 256,095,127**	
Portfolio weighted average maturity		**12.0**

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, 2012, 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, 2012

	Total Fair Value	Standard & Poor's
Money market mutual funds	$ 12,164,725	AAA
Illinois Funds	1,171,642	AAA
Mortgage backed securities - government agencies	38,075,259	NR

*NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments – Continued

Credit Ratings (Multiple-Rated Securities), continued
June 30, 2012

Rating Agency	Investment Type	Credit Rating*	Fair Value
Standard & Poor's:	Corporate Debt Securities	AAA	$ 201,115
	Corporate Debt Securities	AA	12,381,674
	Corporate Debt Securities	A	37,540,277
	Corporate Debt Securities	BBB	47,828,704
	Corporate Debt Securities	BB	2,282,694
	Corporate Debt Securities	NR	2,171,696
			102,406,160
Standard & Poor's:	Corporate Asset Backed Securities	AAA	3,864,503
	Corporate Asset Backed Securities	AA	415,978
	Corporate Asset Backed Securities	A	202,802
	Corporate Asset Backed Securities	NR	4,391,819
			8,875,102
Standard & Poor's:	Municipal/Provincial Bonds	AAA	987,568
	Municipal/Provincial Bonds	AA	3,183,596
	Municipal/Provincial Bonds	A	2,796,334
			6,967,498
Standard & Poor's:	Commercial Mortgage-Backed	AAA	8,649,348
	Commercial Mortgage-Backed	AA	1,264,075
	Commercial Mortgage-Backed	A	2,815,050
	Commercial Mortgage-Backed	BBB	964,759
	Commercial Mortgage-Backed	NR	6,707,615
			20,400,847
Standard & Poor's:	Corporate Convertible Bonds	A	662,784
	Corporate Convertible Bonds	NR	4,988,611
			5,651,395
Standard & Poor's:	U.S. Agency obligations	AAA	592,298
	U.S. Agency obligations	AA	22,310,077
			22,902,375
Standard & Poor's:	U.S. Agency Asset Backed	AAA	3,401,565
	U.S. Agency Asset Backed	AA	517,024
	U.S. Agency Asset Backed	NR	120,314
			4,038,903
Standard & Poor's:	Canada Government Note	AAA	821,912

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Illiquid Trust

During fiscal year June 30, 2010, the Illinois Prepaid Tuition Program exited from its securities lending program. As of June 30, 2012, the value of the remaining Illiquid trust securities at U.S. Bank was $2,871,858.

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.

During fiscal year June 30, 2010, the Program exited its securities lending program. The counterparty continues to hold uninsured investments of $2,871,858 in the Program's name. These investments are subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of 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 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.

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, 2012, 9.41% 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

Investments in Foreign Currency
June 30, 2012

Deposit or Investment Type	Foreign Currency Denomination	Fair Value in U.S. Dollars
Equities, cash and cash equivalents	Australian dollar	$ 3,035,683
Equities, cash and cash equivalents	British pound sterling	17,081,998
Equities, cash and cash equivalents	Canadian dollar	3,992,113
Equities, cash and cash equivalents	Czech koruna	433,731
Equities, recoverable taxes, cash and cash equivalents	Danish krone	1,861,057
Equities, recoverable taxes, cash and cash equivalents	Euro	20,824,847
Equities, cash and cash equivalents	Hong Kong dollar	5,045,075
Equities	Indonesian rupiah	334,955
Equities, cash and cash equivalents	Japanese yen	7,675,313
Equities	Malaysian ringgit	1,178,043
Equities	New Israeli shekel	901,586
Equities	Norwegian krone	1,389,995
Equities, cash and cash equivalents	Singapore dollar	1,776,359
Equities, cash and cash equivalents	South African rand	411,068
Equities, cash and cash equivalents	Swedish krona	3,108,383
Equities, recoverable taxes, cash and cash equivalents	Swiss franc	6,557,710
Equities, cash and cash equivalents	Thai baht	467,418
Total		$ 76,075,334

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

As of June 30, 2012, the Illinois Prepaid Tuition Program owed $198,391 to Illinois Universities for payment of tuition and fee benefits. In addition the Illinois Prepaid Program owed $175,000 to the Illinois Designated Account Purchase Program for expense reimbursements. During the year, $27,000 was transferred to the ISAC COP Debt Service Fund for lease payments.

Note 5. Compensated Absences Payable

Changes in compensated absences for the year ended June 30, 2012, were as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
Compensated absences	$ 90,817	$ 66,587	$ 92,183	$ 65,221	$ 15,838

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, 2012. See actuarial assumptions and additional information in Note 11.

Tuition obligation activity for the year ended June 30, 2012 is as follows:

Balance July 1, 2011	$ 1,392,329,188
Add:	
Contributions received in FY2012	45,376,505
Contracts receivable, at present value*	105,125,958
Adjust tuition obligation based on actuarial valuation	184,399,604
Less:	
Return of contributions	(39,618,005)
Tuition payments	(92,956,659)
Balance June 30, 2012	$ 1,594,656,591
Reported as:	
Current	$ 145,582,848
Noncurrent	1,449,073,743
	$ 1,594,656,591

*See Note 7. Discount rate used in determining fair value was 7.25%.

The accreted tuition expense is calculated at least annually by the Commission's actuary. Accreted tuition expense is reflected as an expense in the Statement of Revenues, Expenses, and Changes in Net Assets and as an increase to the tuition obligation on the Statement of Net Assets.

Note 7. Change in Estimates

Effective July 1, 2011, Commission management changed its methodology for estimating contracts receivable, tuition obligation, contract revenues, and accreted tuition expense for the Program. The primary reason for the change in methodology was to address the significant difference between the estimated unfunded liability in the program as reflected in the financial statements and a market based actuarial unfunded liability at year end as determined based on an Actuarial Soundness Report which expanded the variables used in the determination of the liability related to tuition contracts and funded status.

Commission management believes that this change in methodology for estimating contracts receivable, tuition obligation, contract revenues and accreted tuition expense improves the consistency and clarity of financial information reported in the financial statements and more accurately represents the net financial position of the Program, as well as its annual revenues and expenses.

The change in accounting estimate is accounted for prospectively in the current year ended June 30, 2012. The tuition obligation in the Statement of Net Assets and the accreted tuition expense in the Statement of Revenues, Expenses, and Changes in Net Assets were increased by approximately $100 million in fiscal year 2012 compared to the increase that would have been recorded under the previous methodology. In addition, contracts receivable of $105 million were recorded on the Statement of Net Assets, with a corresponding increase to the tuition obligation as of June 30, 2012. There were no new contract sales in fiscal year 2012 so an adjustment to revenues was not necessary.

Note 8. 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 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. 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.

Note 8. Pension Plan (Continued)

The Commission pays employer retirement contributions for the Illinois Prepaid Tuition Program based upon an actuarially determined percentage of its payroll. For fiscal years 2012, 2011 and 2010, the employer contribution rate was 34.2%, 28.0% and 28.4%, respectively. The required and actual contribution for fiscal years 2012, 2011 and 2010 was $593,329, $584,767 and $614,330, respectively.

Note 9. Post-employment Benefits

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

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

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

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

Note 10. Fund Deficits

As of June 30, 2012, the Illinois Prepaid Tuition Program has a deficit in net assets of $420,388,265. 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, 2012.

Reconciliation of Fund Deficit with Unfunded Liability in the Actuarial Report

Unfunded liability per actuarial soundness report	$ (467,404,585)
Present value of accrued future administrative expense	48,803,761
Other accrued liabilities	(1,787,441)
Fund deficit per Statement of Net Assets	$ (420,388,265)

Note 11. 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, 2012 to evaluate the financial viability of the program as of June 30, 2012. The complete Actuarial Soundness Report as of June 30, 2012 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 11. 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*	$ 1,594,656,591
Funded ratio	71.6 %
Actuarial assumptions:	
Actuarial valuation date	June 30, 2012
Assumed net investment return	7.25 %
Rates of cancellations	12.5 %
Tuition increases by contract type:	
Legacy:	
Through June 30, 2017	7.25 %
June 30, 2018 through June 30, 2022	6.75
June 30, 2023 and beyond	5.00
University Plus:	
Through June 30, 2017	7.50 %
June 30, 2018 through June 30, 2022	7.25
June 30, 2023 and beyond	5.00
University:	
Through June 30, 2017	7.00 %
June 30, 2018 through June 30, 2022	6.50
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, 2012

Note 12. 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, 2012.

Note 13. New Governmental Accounting Standards

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

Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance contained in pre-November 1989 FASB and AICPA Pronouncements*, was established to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Commission is required to implement this Statement for the year ending June 30, 2013.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was established to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The Commission is required to implement this Statement for the year ending June 30, 2013.

Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The Commission is required to implement this Statement for the year ending June 30, 2014.

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was established to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees

Note 13. New Governmental Accounting Standards - Continued

related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The Commission is required to implement this Statement for the year ending June 30, 2014.

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

OTHER INFORMATION

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

COLLEGE ILLINOIS!® PREPAID TUITION PROGRAM
ACTUARIAL SOUNDNESS VALUATION REPORT
AS OF JUNE 30, 2012

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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November 16, 2012

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

Re: College Illinois!® Prepaid Tuition Program Actuarial Valuation as of June 30, 2012

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 College Illinois!® Prepaid Tuition Program ("CIPTP") as of June 30, 2012. The purpose of this actuarial valuation is to evaluate the financial status of the program as of June 30, 2012.

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, 2012 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 the Illinois Student Assistance Commission and is intended for use by the Commission and those designated or approved by the Commission. This report may be provided to parties other than the Commission only in its entirety and only with the permission of the Commission. 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, 2012, and do not reflect subsequent market volatility.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The valuation results reflect changes to the investment return assumption and the tuition and fee increase assumption. 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 7.25 percent, appears to be consistent with applicable Actuarial Standards of Practice.

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, 2012. All calculations have been made in conformity with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements.

The undersigned 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 the ISAC.

Respectfully submitted,

Gabriel, Roeder, Smith and Company

Alex Rivera

Alex Rivera, FSA, EA, MAAA
Senior Consultant

Lance J. Weiss

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

Table of Contents

SECTION A
EXECUTIVE SUMMARY

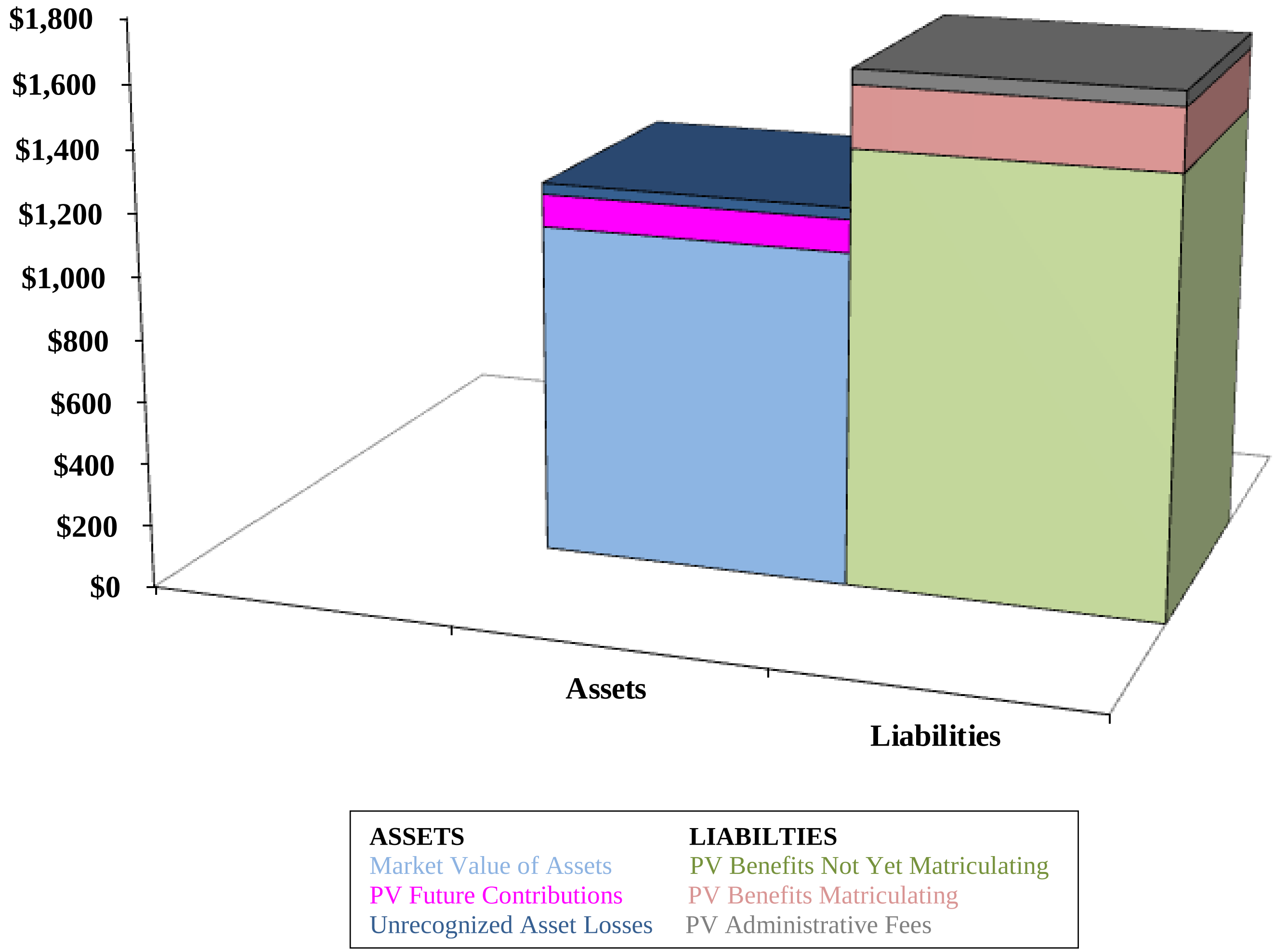
SUMMARY OF RESULTS

Principal Valuation Results

Valuation Date:	June 30, 2012	June 30, 2011
Membership Summary:		
Counts		
Not yet Matriculating	40,229	44,778
Matriculating	9,934	8,866
Total	50,163	53,644
Average years until Enrollment if Not yet Matriculating	5.8	6.3
Assets [1]		
· Market Value of Assets (MVA)	$1,176,055,767	$1,282,010,412
· Actuarial Value of Assets (AVA)	$1,211,920,275	$1,339,658,873
· Estimated Return on MVA	2.82%	16.88%
· Estimated Return on AVA	0.78%	2.81%
· Ratio – AVA to MVA	103.0%	104.5%
Actuarial Liabilities (Present Value of Future Tuition Payments, Fees, and Administrative Expenses)	$1,643,460,352	$1,818,347,534
Unfunded Liabilities (Based on Actuarial Value of Assets)	$431,540,077	$478,688,662
Unfunded Liabilities (Based on Market Value of Assets)	$467,404,585	$536,337,123
Funded Ratio		
· Based on Actuarial Value	73.7%	73.7%
· Based on Market Value	71.6%	70.5%

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

SUMMARY OF ASSETS AND LIABILITIES AS OF JUNE 30, 2012
$ IN MILLIONS



Funded Status as of June 30, 2012 (Based on Market Value of Assets)

	June 30, 2012
Actuarial Present Value of Future Tuition Payments, Fees and Expenses	$1,643,460,352
Market Value of Assets (Including the Present Value of Installment Contract Receivables)	$1,176,055,767
Deficit/(Surplus) as of June 30, 2012	$467,404,585

Funded Status as of June 30, 2012 (Based on Actuarial Value of Assets)

	June 30, 2012
Actuarial Present Value of Future Tuition Payments, Fees and Expenses	$1,643,460,352
Actuarial Value of Assets (Including the Present Value of Installment Contract Receivables)	$1,211,920,275
Deficit/(Surplus) as of June 30, 2012	$431,540,077

Gain/Loss Summary

	Unfunded Liability (Market Value of Assets)
Values at June 30, 2011	$ 536,337,122
Projected Values at June 30, 2012	$ 585,357,342
(Gain)/Loss Due to:	
Investment Experience	$ 50,941,188
Change in Tuition Increase Assumption	(110,864,607)
Change in Discount Rate	29,429,444
Tuition/Fee Inflation and Other	(87,458,782)
Total	$ (117,952,757)
Actual Values at June 30, 2012	$ 467,404,585

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, 2012.

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, 2012 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 also presents the results of a continuing 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 discount rate and the tuition and fees increase assumptions used for this June 30, 2012, actuarial soundness valuation are consistent with the assumptions and methods used for the June 30, 2011, actuarial soundness valuation. The changes in assumptions are 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 100 percent exempt from state and federal income taxes.

The first CIPTP contracts were offered for sale in 1998. As of June 30, 2012, the CIPTP had 50,163 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

The net investment return assumption of 7.25 percent was provided to us by ISAC. This represents a decrease from the 7.50 percent rate used in the June 30, 2011, valuation. Given the current asset allocation and expected liquidity requirements, the net investment rate of return assumption of 7.25 percent appears to be a reasonable assumption consistent with applicable Actuarial Standards of Practice.

The tuition increase assumption was changed from a flat percent for all years in perpetuity to a select and ultimate arrangement. Under the select and ultimate arrangement, tuition increases are expected to be high initially, and then grade down until an ultimate rate of 5.0% per year is reached in the year 2023.

The prior assumption for increases in tuition and fees assumed a flat rate of increase for all years into the future. In the process of setting the tuition and fee increase assumption for this year, we compared the growth in general inflation, wages, tuition costs, and other goods and services. If tuition increases are assumed to continue to increase by the flat rates assumed in the prior year, while the costs for other goods and services increase at a lower rate, then in the long run the general economy would include a disproportionate share of expenditures allocated to tuition payments. In other words, the flat rates of tuition increases assumed in the prior year are not sustainable in the long term. Therefore we changed to a select and ultimate arrangement.

Tuition and Fee Increase Assumption - June 30, 2011, Actuarial Valuation				
Effective date	**Legacy**	**University**	**University Plus**	**Community College**
6/30/2013 and Beyond	8.00%	7.50%	8.50%	6.50%
Tuition and Fee Increase Assumption - June 30, 2012, Actuarial Valuation				
Effective date	**Legacy**	**University**	**University Plus**	**Community College**
6/30/2013 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%

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.

Financial Status of Program as of June 30, 2012

As of June 30, 2012, the present value of all future tuition obligations under contracts outstanding (and including future administrative expenses) at that date is $1,643,460,352. Fund assets as of June 30, 2012, including the actuarial value of program assets and the present value of installment contract receivables, is $1,211,920,275. Fund assets, including the market value of program assets and the present value of installment contract receivables, is $1,176,055,767.

The difference between the present value of future tuition obligations and the value of assets as of June 30, 2012, represents a program deficit of $431,540,077 on an actuarial value of assets basis, and $467,404,585 on a market value of assets basis. The comparable program deficit as of the last valuation as of June 30, 2011, was $478,688,662 on an actuarial value of assets basis, and $536,337,123 on a market value of assets basis.

The following table summarizes the deficit of the CIPTP as of June 30, 2012, with comparable figures from the prior actuarial valuations as of June 30, 2011.

CIPTP Deficit (Unfunded Liabilities)

Deficit based on:	June 30, 2012	June 30, 2011
Actuarial Value of Assets	$431,540,077	$478,688,662
Market Value of Assets	$467,404,585	$536,337,123

Gain/Loss Analysis

As described above, the program deficit decreased from $536.3 million as of June 30, 2011 to $467.4 million as of June 30, 2012, based on the market value of assets. Based on the actuarial assumptions, the deficit was expected to increase to $585.3 million. The primary factors which caused the expected deficit to decrease by $117.9 million include the change in the tuition increase assumption, tuition and fee increases less than expected, and other demographic gains. These gains were partially offset by the change in the net investment return assumption and investment losses.

The funded ratio on a market value of assets basis increased from 70.5 percent as of June 30, 2011, to 71.6 percent as of June 30, 2012.

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, 2011.

Sales of new contracts were suspended between September of 2011 and September of 2012. The CIPTP started selling new contracts on October 1, 2012.

Assets

CIPTP assets are held in trust. ISAC provided the asset information used in the June 30, 2012 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 was 2.82 percent.

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 market value. The smoothing method used phases in differences between the actual and expected market returns over five years.

The actuarial value is currently 103.0 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, 2012, the plan has $35,864,508 in deferred asset losses (the difference between the market and actuarial values) that will be recognized over the next four valuations.

Open Group Ongoing Business Scenario

Exhibits III, IV, V, and VI present the results of an open group scenario assuming the sale of additional new contracts.

Exhibit III illustrates the program results based on an investment return assumption of 7.25 percent and an assumption of 3,500 new contract sales each year. Under this new contract sales assumption, the CIPTP is projected to have a funded status of 100 percent in 16 years by 2028.

Exhibit IV illustrates the program results based on an investment return assumption of 7.25 percent and an assumption of 2,500 new contract sales each year. Under this moderate new contract sales assumption, the CIPTP funded status is projected to stay fairly level at about 70 to 80 percent for a number of years before gradually improving to 100 percent in 2035.

Finally, Exhibits V and VI illustrate the program results based on an investment return assumption of 7.25 percent and an assumption of 1,000 and 500 new contract sales each year. Under these more conservative new contract sales assumptions, member payments, fund principal and investment income are projected to be insufficient to make the required tuition payments and additional funds will be required for a period of time.

The level of contribution premium over the expected costs can significantly impact the future sales assumption. The projection scenarios are for illustrative purposes only and do not consider how increases in the member's required contribution can impact future sales.[a]

Closed Group (Run-Off) Scenario

While the closing of the program has not occurred, in Exhibit VII, we have provided a closed group projection for illustration purposes (i.e., run off scenario) assuming no new contract sales after June 30, 2012. Under this scenario, member payments, fund principal and investment income are projected to be insufficient to make the required tuition payments by the year 2022 and additional funds will be required to maintain solvency ($1.2 billion for the period 2022 to 2037). Under this scenario, the shortfall is expected to grow from the current level of $467 million until it reaches a high of $903 million in 2022.

[a]*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

		June 30, 2012	June 30, 2011
1	Number of Members		
	a. Not yet Matriculating:	40,229	44,778
	b. Matriculating:	9,934	8,866
	c. Total	50,163	53,644
	Average Years until Enrollment if Not Yet Matriculating	5.8	6.3
2	Assets		
	a. Market Value of Assets (in Trust)	$ 1,070,929,809	$ 1,132,275,368
	b. PV Future Member Contributions	105,125,958	149,735,044
	c. Unrecognized Gains and (Losses)	(35,864,508)	(57,648,461)
	d. Total Actuarial Value of Assets (AVA) (2a + 2b - 2c)	$ 1,211,920,275	$ 1,339,658,873
3	Actuarial Results		
	Liabilities		
	a. Not yet Matriculating - Tuition and Fees	$ 1,396,422,771	$ 1,578,458,389
	b. Matriculating - Tuition and Fees	198,233,820	168,061,383
	c. Present Value of Future Administrative Expenses	48,803,761	71,827,762
	d. Total	$ 1,643,460,352	$ 1,818,347,534
	Unfunded Liability (Based on AVA)	$ 431,540,077	$ 478,688,662
	Unfunded Liability (Based on MVA)	$ 467,404,585	$ 536,337,123
	Funded Ratio		
	Actuarial Value of Assets	73.7%	73.7%
	Market Value of Assets	71.6%	70.5%

Exhibit II
Gain/Loss Summary

	Present Value of Benefits	Market Value of Assets	Unfunded Liability (Market Value of Assets)
Values at June 30, 2011	$1,818,347,534	$1,282,010,412	$ 536,337,122
Projected Values at June 30, 2012	$1,811,719,205	$1,226,361,863	$ 585,357,342
(Gain)/Loss Due to:			
Investment Experience	$ -	$ 50,941,188	$ 50,941,188
Change in Tuition Increase Assumption	($110,864,607)	-	(110,864,607)
Change in Discount Rate	30,064,536	635,092	29,429,444
Tuition/Fee Inflation and Other	(87,458,782)	-	(87,458,782)
Total	$ (168,258,853)	$ 51,576,280	$ (117,952,757)
Actual Values at June 30, 2012	$1,643,460,352	$1,176,055,767	$ 467,404,585

Exhibit III
Continuing Business Model – Current Year Assumptions – New Contract Sales of 3,500 Per Year

Open Group Projections (Continuing Business Scenario)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
3,500 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions	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
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	3,500	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	193,382,576	1,226,628,337	1,639,771,896	50,184,495	1,689,956,391	463,328,054	72.6%
2014	7.25%	3,500	95,911,230	0	143,828,039	4,504,587	73,010,042	1,053,834,407	234,634,882	1,288,469,289	1,693,926,510	51,841,873	1,745,768,383	457,299,094	73.8%
2015	7.25%	3,500	104,688,245	0	146,286,126	4,653,354	74,726,387	1,082,309,559	276,160,601	1,358,470,160	1,753,667,009	53,670,204	1,807,337,213	448,867,053	75.2%
2016	7.25%	3,500	115,736,545	0	146,176,206	4,817,466	77,189,372	1,124,241,804	315,873,529	1,440,115,333	1,822,222,490	55,768,315	1,877,990,805	437,875,472	76.7%
2017	7.25%	3,500	128,564,643	0	164,032,046	5,005,793	80,040,377	1,163,808,985	352,172,334	1,515,981,319	1,881,875,991	57,593,984	1,939,469,975	423,488,656	78.2%
2018	7.25%	3,500	142,789,056	0	181,266,248	5,169,667	82,793,953	1,202,956,079	383,681,225	1,586,637,304	1,932,846,702	59,153,920	1,992,000,622	405,363,318	79.7%
2019	7.25%	3,500	151,993,144	0	193,163,845	5,309,687	85,529,402	1,242,005,093	415,643,805	1,657,648,898	1,980,296,637	60,606,104	2,040,902,741	383,253,843	81.2%
2020	7.25%	3,500	161,716,659	0	201,492,595	5,440,036	88,406,290	1,285,195,411	447,969,187	1,733,164,598	2,027,943,260	62,064,308	2,090,007,568	356,842,970	82.9%
2021	7.25%	3,500	172,817,012	0	210,514,024	5,570,925	91,608,205	1,333,535,679	479,592,716	1,813,128,395	2,075,302,793	63,513,725	2,138,816,518	325,688,123	84.8%
2022	7.25%	3,500	184,917,925	0	215,608,752	5,701,026	95,362,132	1,392,505,958	509,843,509	1,902,349,467	2,126,699,806	65,086,708	2,191,786,514	289,437,047	86.8%
2023	7.25%	3,500	197,573,989	0	219,931,282	5,842,217	99,934,450	1,464,240,898	538,608,899	2,002,849,797	2,183,600,737	66,828,136	2,250,428,873	247,579,077	89.0%
2024	7.25%	3,500	207,888,210	0	222,250,341	5,998,529	105,419,391	1,549,299,629	568,522,852	2,117,822,481	2,248,686,598	68,820,060	2,317,506,658	199,684,177	91.4%
2025	7.25%	3,500	218,640,743	0	222,756,735	6,177,325	111,951,090	1,650,957,402	599,853,728	2,250,811,130	2,324,850,687	71,151,029	2,396,001,716	145,190,586	93.9%
2026	7.25%	3,500	230,409,951	0	221,685,631	6,386,554	119,779,156	1,773,074,324	632,052,542	2,405,126,866	2,414,794,311	73,903,713	2,488,698,024	83,571,158	96.6%
2027	7.25%	3,500	243,040,799	0	218,487,609	6,633,637	129,197,472	1,920,191,349	664,863,475	2,585,054,824	2,522,101,862	77,187,814	2,599,289,676	14,234,852	99.5%
2028	7.25%	3,500	256,450,635	0	216,445,506	6,928,419	140,412,904	2,093,680,963	698,103,581	2,791,784,544	2,647,216,750	81,016,899	2,728,233,649	-63,550,894	102.3%
2029	7.25%	3,500	269,272,742	0	215,760,317	7,272,120	153,468,081	2,293,389,349	733,052,926	3,026,442,275	2,790,444,386	85,400,318	2,875,844,704	-150,597,571	105.2%
2030	7.25%	3,500	282,766,779	0	218,482,946	7,665,578	168,323,140	2,518,330,744	769,656,602	3,287,987,346	2,949,901,869	90,280,444	3,040,182,313	-247,805,033	108.2%
2031	7.25%	3,500	296,865,876	0	228,103,811	8,103,621	184,777,848	2,763,767,036	808,172,951	3,571,939,987	3,120,111,971	95,489,649	3,215,601,620	-356,338,368	111.1%
2032	7.25%	3,500	311,735,118	0	244,221,711	8,571,202	202,509,765	3,025,219,006	848,531,897	3,873,750,903	3,295,503,700	100,857,435	3,396,361,135	-477,389,767	114.1%
2033	7.25%	3,500	327,288,895	0	261,402,661	9,053,017	221,388,582	3,303,440,805	890,947,043	4,194,387,848	3,475,881,952	106,377,832	3,582,259,784	-612,128,064	117.1%
2034	7.25%	3,500	343,654,229	0	279,499,745	9,548,531	241,478,924	3,599,525,682	935,555,718	4,535,081,400	3,661,215,089	112,049,871	3,773,264,960	-761,816,440	120.2%
2035	7.25%	3,500	360,879,183	0	297,703,132	10,057,656	262,891,154	3,915,535,231	982,316,761	4,897,851,992	3,852,217,122	117,895,404	3,970,112,526	-927,739,466	123.4%
2036	7.25%	3,500	378,903,090	0	315,329,843	10,582,354	285,797,224	4,254,323,348	1,031,443,209	5,285,766,557	4,050,490,878	123,963,484	4,174,454,362	-1,111,312,194	126.6%
2037	7.25%	3,500	397,852,585	0	332,921,782	11,127,028	310,388,830	4,618,515,953	1,082,923,115	5,701,439,068	4,257,118,690	130,287,237	4,387,405,927	-1,314,033,141	130.0%

Exhibit IV
Continuing Business Model – Current Year Assumptions – New Contract Sales of 2,500 Per Year

Open Group Projections (Continuing Business Scenario)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
2,500 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions	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
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	2,500	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	158,905,606	1,192,151,367	1,616,825,117	49,482,219	1,666,307,336	474,155,969	71.5%
2014	7.25%	2,500	74,698,380	0	143,817,693	4,441,550	72,243,736	1,031,928,634	183,481,329	1,215,409,963	1,645,247,143	50,352,062	1,695,599,205	480,189,242	71.7%
2015	7.25%	2,500	79,438,394	0	145,980,670	4,519,628	72,238,832	1,033,105,562	209,450,805	1,242,556,367	1,676,462,817	51,307,404	1,727,770,221	485,213,854	71.9%
2016	7.25%	2,500	86,243,361	0	145,526,444	4,605,380	72,584,196	1,041,801,295	235,016,331	1,276,817,626	1,713,545,565	52,442,305	1,765,987,870	489,170,244	72.3%
2017	7.25%	2,500	94,698,742	0	162,568,303	4,707,249	72,899,685	1,042,124,170	258,646,602	1,300,770,772	1,738,942,280	53,219,560	1,792,161,840	491,391,069	72.6%
2018	7.25%	2,500	104,323,683	0	178,841,933	4,777,016	72,679,549	1,035,508,453	279,236,346	1,314,744,799	1,752,774,944	53,642,903	1,806,417,847	491,673,048	72.8%
2019	7.25%	2,500	110,361,119	0	189,472,911	4,815,015	72,032,016	1,023,613,662	300,609,603	1,324,223,265	1,760,273,085	53,872,380	1,814,145,465	489,922,200	73.0%
2020	7.25%	2,500	116,796,150	0	196,148,663	4,835,613	71,160,171	1,010,585,707	322,602,673	1,333,188,380	1,765,203,341	54,023,269	1,819,226,610	486,038,230	73.3%
2021	7.25%	2,500	124,390,013	0	203,169,303	4,849,157	70,235,933	997,193,193	344,413,248	1,341,606,441	1,767,254,762	54,086,051	1,821,340,813	479,734,373	73.7%
2022	7.25%	2,500	132,896,293	0	205,911,299	4,854,793	69,473,726	988,797,120	365,350,486	1,354,147,606	1,770,830,707	54,195,492	1,825,026,199	470,878,593	74.2%
2023	7.25%	2,500	141,777,403	0	207,759,752	4,864,616	69,119,589	987,069,744	385,268,967	1,372,338,711	1,777,171,254	54,389,541	1,831,560,795	459,222,084	74.9%
2024	7.25%	2,500	148,874,347	0	206,895,958	4,882,034	69,282,299	993,448,398	406,313,648	1,399,762,046	1,789,531,687	54,767,827	1,844,299,514	444,537,468	75.9%
2025	7.25%	2,500	156,359,391	0	203,648,459	4,915,989	70,132,576	1,011,375,917	428,464,615	1,439,840,532	1,811,016,467	55,425,359	1,866,441,826	426,601,294	77.1%
2026	7.25%	2,500	164,588,650	0	198,268,948	4,975,010	71,923,499	1,044,644,108	451,436,055	1,496,080,163	1,844,763,679	56,458,178	1,901,221,857	405,141,694	78.7%
2027	7.25%	2,500	173,587,981	0	190,550,496	5,067,716	74,938,102	1,097,551,979	474,951,675	1,572,503,654	1,894,393,636	57,977,081	1,952,370,717	379,867,062	80.5%
2028	7.25%	2,500	183,216,077	0	183,644,020	5,204,053	79,368,359	1,171,288,342	498,605,478	1,669,893,820	1,960,351,029	59,995,677	2,020,346,706	350,452,886	82.7%
2029	7.25%	2,500	192,307,350	0	177,488,301	5,385,244	85,260,380	1,265,982,527	523,592,991	1,789,575,518	2,043,456,575	62,539,086	2,105,995,661	316,420,143	85.0%
2030	7.25%	2,500	201,969,236	0	173,899,358	5,613,542	92,597,775	1,381,036,638	549,731,021	1,930,767,659	2,142,494,444	65,570,096	2,208,064,540	277,296,881	87.4%
2031	7.25%	2,500	212,037,679	0	175,922,048	5,885,607	101,220,995	1,512,487,657	577,275,539	2,089,763,196	2,253,188,784	68,957,848	2,322,146,632	232,383,435	90.0%
2032	7.25%	2,500	222,681,298	0	183,665,384	6,189,693	110,845,306	1,656,159,184	606,085,328	2,262,244,512	2,370,683,620	72,553,725	2,443,237,345	180,992,833	92.6%
2033	7.25%	2,500	233,771,090	0	193,149,950	6,512,461	121,307,980	1,811,575,843	636,457,535	2,448,033,378	2,494,115,386	76,331,300	2,570,446,686	122,413,308	95.2%
2034	7.25%	2,500	245,509,488	0	204,076,763	6,851,538	132,592,817	1,978,749,847	668,223,372	2,646,973,219	2,622,682,244	80,266,032	2,702,948,276	55,975,056	97.9%
2035	7.25%	2,500	257,739,461	0	215,704,436	7,204,722	144,721,962	2,158,302,112	701,683,850	2,859,985,962	2,756,505,713	84,361,640	2,840,867,353	-19,118,609	100.7%
2036	7.25%	2,500	270,664,883	0	227,306,294	7,572,346	157,774,154	2,351,862,509	736,725,933	3,088,588,442	2,896,319,945	88,640,593	2,984,960,538	-103,627,905	103.5%
2037	7.25%	2,500	284,165,432	0	239,174,612	7,956,427	171,852,529	2,560,749,431	773,574,093	3,334,323,524	3,042,754,682	93,122,163	3,135,876,845	-198,446,679	106.3%

Exhibit V
Continuing Business Model – Current Year Assumptions – New Contract Sales of 1,000 Per Year

Open Group Projections (Continuing Business Scenario)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
1,000 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions[2]	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
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	1,000	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	107,190,151	1,140,435,912	1,582,404,948	48,428,805	1,630,833,753	490,397,841	69.9%
2014	7.25%	1,000	42,879,104	0	143,802,176	4,346,995	71,094,278	999,069,972	106,714,798	1,105,784,770	1,572,203,998	48,116,609	1,620,320,607	514,535,837	68.2%
2015	7.25%	1,000	41,541,345	0	145,522,474	4,318,972	68,506,694	959,276,565	109,407,889	1,068,684,454	1,560,655,659	47,763,177	1,608,418,836	539,734,382	66.4%
2016	7.25%	1,000	42,023,520	0	144,551,503	4,287,248	65,675,499	918,136,833	113,693,301	1,031,830,134	1,550,502,993	47,452,459	1,597,955,452	566,125,318	64.6%
2017	7.25%	1,000	43,875,484	0	160,372,651	4,259,358	62,187,496	859,567,804	118,363,780	977,931,584	1,524,526,170	46,657,450	1,571,183,620	593,252,036	62.2%
2018	7.25%	1,000	46,634,857	0	175,204,662	4,187,997	57,506,195	784,316,197	122,607,547	906,923,744	1,482,679,358	45,376,747	1,528,056,105	621,132,361	59.4%
2019	7.25%	1,000	47,937,357	0	183,936,233	4,073,041	51,785,317	696,029,597	128,006,060	824,035,657	1,430,205,462	43,770,807	1,473,976,269	649,940,612	55.9%
2020	7.25%	1,000	49,377,159	0	188,132,155	3,928,891	45,289,855	598,635,565	134,606,179	733,241,744	1,371,105,815	41,962,088	1,413,067,903	679,826,159	51.9%
2021	7.25%	1,000	51,788,475	0	192,151,196	3,766,539	38,176,393	492,682,698	141,634,741	634,317,439	1,305,179,708	39,944,449	1,345,124,157	710,806,717	47.2%
2022	7.25%	1,000	54,851,891	0	191,364,980	3,585,435	30,640,924	383,225,098	148,534,492	531,759,590	1,236,971,472	37,856,966	1,274,828,438	743,068,847	41.7%
2023	7.25%	1,000	58,034,788	0	189,501,183	3,398,061	22,894,983	271,255,625	155,305,895	426,561,520	1,167,521,525	35,731,481	1,203,253,006	776,691,485	35.5%
2024	7.25%	1,000	60,394,339	0	183,863,626	3,207,277	15,074,007	159,653,068	162,922,141	322,575,209	1,100,737,228	33,687,577	1,134,424,805	811,849,596	28.4%
2025	7.25%	1,000	62,887,703	0	174,984,851	3,023,815	7,401,713	51,933,818	171,469,404	223,403,222	1,040,279,838	31,837,305	1,072,117,143	848,713,921	20.8%
2026	7.25%	1,000	65,922,111	46,326,631	163,141,571	2,857,733	1,816,744	0	180,567,150	180,567,150	989,755,122	30,291,018	1,020,046,140	839,478,990	17.7%
2027	7.25%	1,000	69,430,580	81,932,172	148,643,814	2,718,938	0	0	189,952,192	189,952,192	952,759,953	29,158,798	981,918,751	791,966,559	19.3%
2028	7.25%	1,000	73,270,004	63,786,997	134,439,692	2,617,309	0	0	199,449,987	199,449,987	930,068,124	28,464,324	958,532,448	759,082,461	20.8%
2029	7.25%	1,000	76,932,760	45,700,926	120,078,713	2,554,973	0	0	209,428,396	209,428,396	922,995,463	28,247,869	951,243,332	741,814,935	22.0%
2030	7.25%	1,000	80,783,040	28,775,247	107,022,743	2,535,544	0	0	219,898,575	219,898,575	931,432,818	28,506,090	959,938,908	740,040,333	22.9%
2031	7.25%	1,000	84,820,185	15,385,343	97,646,806	2,558,722	0	0	230,957,041	230,957,041	952,855,387	29,161,718	982,017,105	751,060,065	23.5%
2032	7.25%	1,000	89,100,207	6,347,398	92,830,034	2,617,571	0	0	242,449,610	242,449,610	983,512,250	30,099,958	1,013,612,208	771,162,598	23.9%
2033	7.25%	1,000	93,509,594	0	90,769,236	2,701,788	1,398	39,968	254,604,842	254,644,810	1,021,437,555	31,260,645	1,052,698,200	798,053,391	24.2%
2034	7.25%	1,000	98,210,922	0	90,942,773	2,805,972	164,652	4,666,797	267,233,899	271,900,696	1,064,886,790	32,590,390	1,097,477,180	825,576,484	24.8%
2035	7.25%	1,000	103,056,302	0	92,704,760	2,925,331	607,543	12,700,551	280,717,776	293,418,327	1,112,945,054	34,061,192	1,147,006,246	853,587,919	25.6%
2036	7.25%	1,000	108,302,029	0	95,273,866	3,057,351	1,282,232	23,953,595	294,701,300	318,654,895	1,165,109,696	35,657,668	1,200,767,364	882,112,469	26.5%
2037	7.25%	1,000	113,667,647	0	98,556,786	3,200,651	2,168,381	38,032,186	309,350,340	347,382,526	1,221,108,007	37,371,471	1,258,479,478	911,096,953	27.6%

[1] *Additional contributions in the amount of $288,254,714 are needed over the years 2026 through 2032 to maintain solvency.*

Exhibit VI
Continuing Business Model – Current Year Assumptions – New Contract Sales of 500 Per Year

Open Group Projections (Continuing Business Scenario)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
500 New Contracts Per Year

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions[2]	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
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	500	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	89,951,666	1,123,197,427	1,570,931,558	48,077,667	1,619,009,225	495,811,798	69.4%
2014	7.25%	500	32,272,678	0	143,797,003	4,315,477	70,711,125	988,117,084	81,101,821	1,069,218,905	1,547,840,220	47,370,966	1,595,211,186	525,992,282	67.0%
2015	7.25%	500	28,894,146	0	145,369,735	4,252,043	67,262,112	934,651,564	76,074,770	1,010,726,334	1,522,052,694	46,581,750	1,568,634,444	557,908,111	64.4%
2016	7.25%	500	27,296,862	0	144,226,324	4,181,203	63,371,977	876,912,876	73,267,380	950,180,256	1,496,163,909	45,789,436	1,541,953,345	591,773,089	61.6%
2017	7.25%	500	26,942,683	0	159,640,755	4,110,084	58,616,888	798,721,608	71,582,680	870,304,288	1,453,044,729	44,469,792	1,497,514,521	627,210,233	58.1%
2018	7.25%	500	27,389,427	0	173,992,036	3,991,632	52,448,275	700,575,642	70,376,671	770,952,313	1,392,626,928	42,620,732	1,435,247,660	664,295,347	53.7%
2019	7.25%	500	27,118,382	0	182,090,504	3,825,660	45,035,314	586,813,174	70,506,394	657,319,568	1,320,191,788	40,403,887	1,360,595,675	703,276,106	48.3%
2020	7.25%	500	26,931,171	0	185,459,742	3,626,674	36,665,827	461,323,756	71,950,602	533,274,358	1,239,750,113	37,942,005	1,277,692,118	744,417,759	41.7%
2021	7.25%	500	27,589,740	0	188,478,252	3,405,694	27,490,307	324,519,857	74,032,670	398,552,527	1,151,153,813	35,230,554	1,186,384,367	787,831,840	33.6%
2022	7.25%	500	28,826,834	0	186,515,862	3,162,313	17,696,829	181,365,345	76,262,457	257,627,802	1,059,017,299	32,410,757	1,091,428,056	833,800,254	23.6%
2023	7.25%	500	30,120,676	0	183,414,991	2,909,207	7,486,610	32,648,433	78,652,522	111,300,955	964,304,522	29,512,114	993,816,636	882,515,681	11.2%
2024	7.25%	500	30,902,939	114,141,753	176,186,206	2,649,023	1,142,104	0	81,790,749	81,790,749	871,138,634	26,660,813	897,799,447	816,008,698	9.1%
2025	7.25%	500	31,730,244	136,092,630	165,429,785	2,393,089	0	0	85,822,939	85,822,939	783,380,565	23,975,016	807,355,581	721,532,642	10.6%
2026	7.25%	500	33,044,279	120,539,837	151,432,106	2,152,010	0	0	90,308,664	90,308,664	704,781,552	21,569,528	726,351,080	636,042,416	12.4%
2027	7.25%	500	34,726,708	101,884,515	134,675,131	1,936,092	0	0	94,993,784	94,993,784	638,929,113	19,554,143	658,483,256	563,489,472	14.4%
2028	7.25%	500	36,639,962	83,154,028	118,038,800	1,755,190	0	0	99,709,561	99,709,561	586,659,089	17,954,442	604,613,531	504,903,970	16.5%
2029	7.25%	500	38,451,964	64,102,152	100,942,516	1,611,600	0	0	104,706,512	104,706,512	549,527,839	16,818,057	566,345,896	461,639,384	18.5%
2030	7.25%	500	40,388,805	45,851,656	84,730,863	1,509,598	0	0	109,981,020	109,981,020	527,784,847	16,152,622	543,937,469	433,956,450	20.2%
2031	7.25%	500	42,431,813	30,574,232	71,556,177	1,449,868	0	0	115,448,850	115,448,850	519,399,192	15,895,983	535,295,175	419,846,324	21.6%
2032	7.25%	500	44,526,298	19,453,232	62,552,698	1,426,832	0	0	121,212,553	121,212,553	521,107,986	15,948,280	537,056,266	415,843,712	22.6%
2033	7.25%	500	46,749,803	11,325,005	56,643,282	1,431,526	0	0	127,301,585	127,301,585	530,530,331	16,236,646	546,766,977	419,465,392	23.3%
2034	7.25%	500	49,109,004	5,582,057	53,233,651	1,457,410	0	0	133,589,563	133,589,563	545,628,129	16,698,708	562,326,837	428,737,274	23.8%
2035	7.25%	500	51,514,098	1,690,290	51,705,503	1,498,885	0	0	140,393,309	140,393,309	565,095,757	17,294,506	582,390,263	441,996,954	24.1%
2036	7.25%	500	54,176,876	0	51,263,629	1,552,364	49,332	1,410,215	147,290,125	148,700,340	587,996,084	17,995,360	605,991,444	457,291,104	24.5%
2037	7.25%	500	56,791,950	0	51,686,103	1,615,273	228,774	5,129,563	154,766,858	159,896,421	613,968,716	18,790,241	632,758,957	472,862,536	25.3%

[1] *Additional contributions in the amount of $734,391,387 are needed over the years 2024 through 2035 to maintain solvency.*

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

Closed Group Projections (No New Contracts)
Projection Based on Data as of June 30, 2012
Assumptions Based on Those Used in Actuarial Valuation as of June 30, 2012
7.25% Assumed Net Investment Return
0 New Contracts Per Year
Tuition and Fee Assumptions - Baseline

			Assets								Liabilities				
Year Ending 6/30	Assumed Net Rate of Return	Annual New Contracts	Contributions	Additional Required Solvency Contributions[2]	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
2012			45,986,068	0	132,947,671	4,978,014	30,594,058	1,070,929,809	105,125,958	1,176,055,767	1,594,656,591	48,803,761	1,643,460,352	467,404,585	71.6%
2013	7.25%	0	38,671,380	0	145,582,848	4,380,651	73,608,072	1,033,245,761	72,698,900	1,105,944,661	1,559,448,664	47,805,362	1,607,254,026	501,309,365	68.8%
2014	7.25%	0	21,657,467	0	143,791,826	4,533,974	70,318,591	976,896,019	55,540,756	1,032,436,775	1,523,504,933	46,575,795	1,570,080,728	537,643,953	65.8%
2015	7.25%	0	16,281,466	0	145,216,891	4,692,663	65,980,943	909,248,874	42,706,119	951,954,993	1,483,443,518	45,092,744	1,528,536,262	576,581,270	62.3%
2016	7.25%	0	12,539,932	0	143,901,488	4,856,907	60,982,624	834,013,035	32,815,761	866,828,796	1,441,805,165	43,332,079	1,485,137,244	618,308,448	58.4%
2017	7.25%	0	9,997,162	0	158,908,610	5,026,898	54,885,680	734,960,369	24,841,685	759,802,054	1,381,578,717	41,267,720	1,422,846,437	663,044,383	53.4%
2018	7.25%	0	8,174,845	0	172,779,684	5,202,840	47,129,098	612,281,788	18,176,708	630,458,496	1,302,604,004	38,871,487	1,341,475,491	711,016,994	47.0%
2019	7.25%	0	6,314,406	0	180,244,832	5,384,939	37,890,248	470,856,671	12,955,221	483,811,892	1,210,163,707	36,112,942	1,246,276,649	762,464,756	38.8%
2020	7.25%	0	4,444,389	0	182,787,462	5,460,902	27,474,215	314,526,911	9,291,795	323,818,706	1,108,385,272	33,075,734	1,141,461,006	817,642,300	28.4%
2021	7.25%	0	3,395,283	0	184,805,572	5,521,194	16,026,935	143,622,363	6,449,242	150,071,605	997,135,510	29,755,889	1,026,891,399	876,819,794	14.6%
2022	7.25%	0	2,818,173	35,629,850	181,667,138	5,427,431	5,024,184	1	3,998,268	3,998,269	881,074,091	26,292,457	907,366,548	903,368,280	0.4%
2023	7.25%	0	2,209,362	180,417,260	177,328,802	5,297,821	0	0	2,000,092	2,000,092	761,096,235	22,712,154	783,808,389	781,808,296	0.3%
2024	7.25%	0	1,408,365	172,134,591	168,508,644	5,034,312	0	0	686,574	686,574	641,564,786	19,145,172	660,709,958	660,023,383	0.1%
2025	7.25%	0	587,999	159,944,582	155,875,687	4,656,894	0	0	127,409	127,409	526,465,244	15,710,444	542,175,688	542,048,278	0.0%
2026	7.25%	0	131,947	143,765,884	139,723,495	4,174,336	0	0	0	0	419,767,689	12,526,443	432,294,132	432,294,132	0.0%
2027	7.25%	0	0	124,312,486	120,706,302	3,606,184	0	0	0	0	325,051,719	9,699,988	334,751,707	334,751,707	0.0%
2028	7.25%	0	0	104,674,111	101,637,617	3,036,494	0	0	0	0	243,239,385	7,258,596	250,497,981	250,497,981	0.0%
2029	7.25%	0	0	84,250,364	81,806,343	2,444,021	0	0	0	0	176,056,858	5,253,778	181,310,636	181,310,636	0.0%
2030	7.25%	0	0	64,304,461	62,439,051	1,865,410	0	0	0	0	124,083,741	3,702,829	127,786,570	127,786,570	0.0%
2031	7.25%	0	0	46,823,075	45,464,783	1,358,292	0	0	0	0	85,941,611	2,564,615	88,506,226	88,506,226	0.0%
2032	7.25%	0	0	33,238,679	32,274,457	964,222	0	0	0	0	58,709,997	1,751,987	60,461,984	60,461,984	0.0%
2033	7.25%	0	0	23,189,820	22,517,106	672,714	0	0	0	0	39,620,581	1,182,332	40,802,913	40,802,913	0.0%
2034	7.25%	0	0	15,985,422	15,521,700	463,722	0	0	0	0	26,400,068	787,814	27,187,882	27,187,882	0.0%
2035	7.25%	0	0	11,026,338	10,706,475	319,863	0	0	0	0	17,213,526	513,675	17,727,201	17,727,201	0.0%
2036	7.25%	0	0	7,471,283	7,254,548	216,735	0	0	0	0	10,939,941	326,463	11,266,404	11,266,404	0.0%
2037	7.25%	0	0	4,956,649	4,812,861	143,788	0	0	0	0	6,743,079	201,223	6,944,302	6,944,302	0.0%

[1] *Additional contributions in the amount of $1,212,124,855 are needed over the years 2021 through 2037 to maintain solvency.*

Exhibit VIII
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 the 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 7.25 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 VIII
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)	$1,070.9	$1,070.9	$1,070.9	$1,070.9	$1,070.9	$1,070.9	$1,070.9
	b. PV Future Member Contributions	105.1	105.1	105.1	105.1	105.1	103.9	106.4
	c. Unrecognized Gains and (Losses)	-35.9	-35.9	-35.9	-35.9	-35.9	-35.9	-35.9
	d. Total Actuarial Value of Assets (AVA) (2a + 2b - 2c)	$1,211.9	$1,211.9	$1,211.9	$1,211.9	$1,211.9	$1,210.7	$1,213.2
2	Actuarial Results							
	Liabilities							
	a. Not yet Matriculating - Tuition and Fees	$1,396.4	$1,463.9	$1,334.3	$1,420.0	$1,374.8	$1,346.1	$1,449.5
	b. Matriculating - Tuition and Fees	198.2	198.3	198.2	198.6	197.9	197.2	199.3
	c. Present Value of Future Administrative Expenses	48.8	48.8	48.8	48.8	48.8	45.8	52.2
	d. Total	$1,643.4	$1,711.0	$1,581.3	$1,667.4	$1,621.5	$1,589.1	$1,701.0
	Unfunded Liability (Based on AVA)	$431.5	$499.1	$369.4	$455.5	$409.6	$378.4	$487.8
	Funded Ratio							
	Market Value of Assets	71.6%	68.7%	74.4%	70.5%	72.5%	73.9%	69.2%
	Actuarial Value of Assets	73.7%	70.8%	76.6%	72.7%	74.7%	76.2%	71.3%
	Difference From Current Assumptions							
	Unfunded Liability (Based on AVA)	$0.0	$67.6	-$62.1	$24.0	-$21.9	-$53.1	$56.3
	Funded Ratio (Based on AVA)	0.0%	-2.9%	2.9%	-1.0%	1.0%	2.5%	-2.4%

SECTION C

FUND ASSETS

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

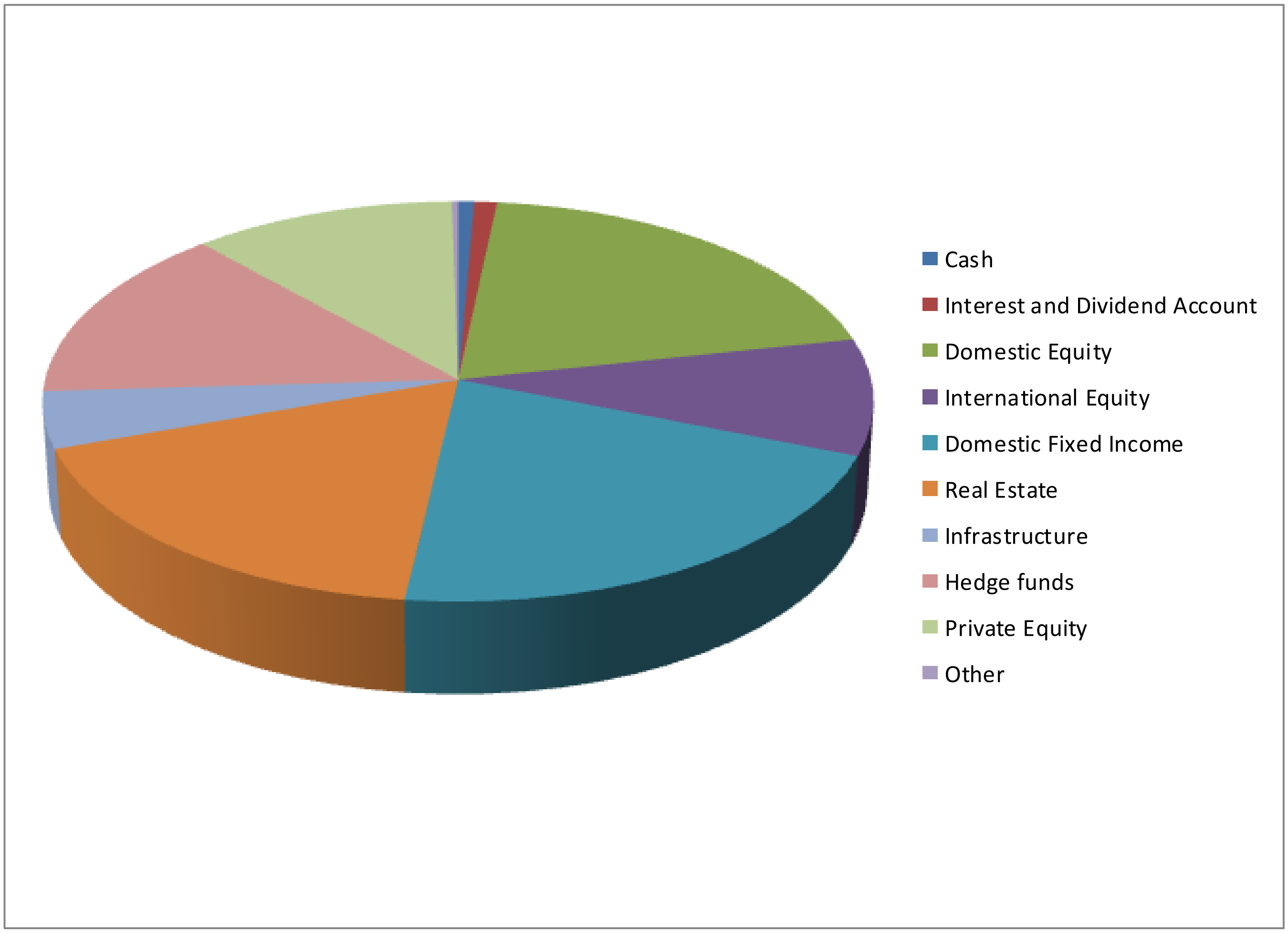
College Illinois!® Prepaid Tuition Program

Statement of Plan Net Assets

Year ended June 30, 2012

Cash	$	7,417,280
Interest and Dividend Account	$	10,433,068
Investments		
Domestic Equity	$	214,132,884
International Equity		100,789,887
Domestic Fixed Income		222,450,501
Real Estate		188,896,198
Infrastructure		49,217,006
Hedge funds		152,511,150
Private Equity		122,203,797
Total Investments	$	1,050,201,423
Other		2,878,038
Total Assets	$	1,070,929,809

ALLOCATION OF ASSETS AT JUNE 30, 2012



RECONCILIATION OF PLAN ASSETS

College Illinois!® Prepaid Tuition Program

Statement of Changes in Plan Net Assets

Twelve Month Period ended June 30, 2012

Beginning of Period		7/1/2011
End of Period		6/30/2012
Additions:		
Contributions received	$	45,986,068
Gross investment income		29,178,425
Realized/Unrealized investment gains/(losses)		5,505,941
Total Additions	$	80,670,435
Deductions:		
Tuition payments	$	92,786,383
Refunds to Purchasers		40,161,289
Investment expenses & advisory fees		4,090,309
Administrative expenses		4,978,014
Total Deductions	$	142,015,994
Net increase	$	(61,345,559)
Market Value of Assets:		
Beginning of period	$	1,132,275,368
End of period (6/30/2012)	$	1,070,929,809
Present Value of Future Contributions by Current Contract Holders		105,125,958
Value of Total Fund Assets	$	1,176,055,767

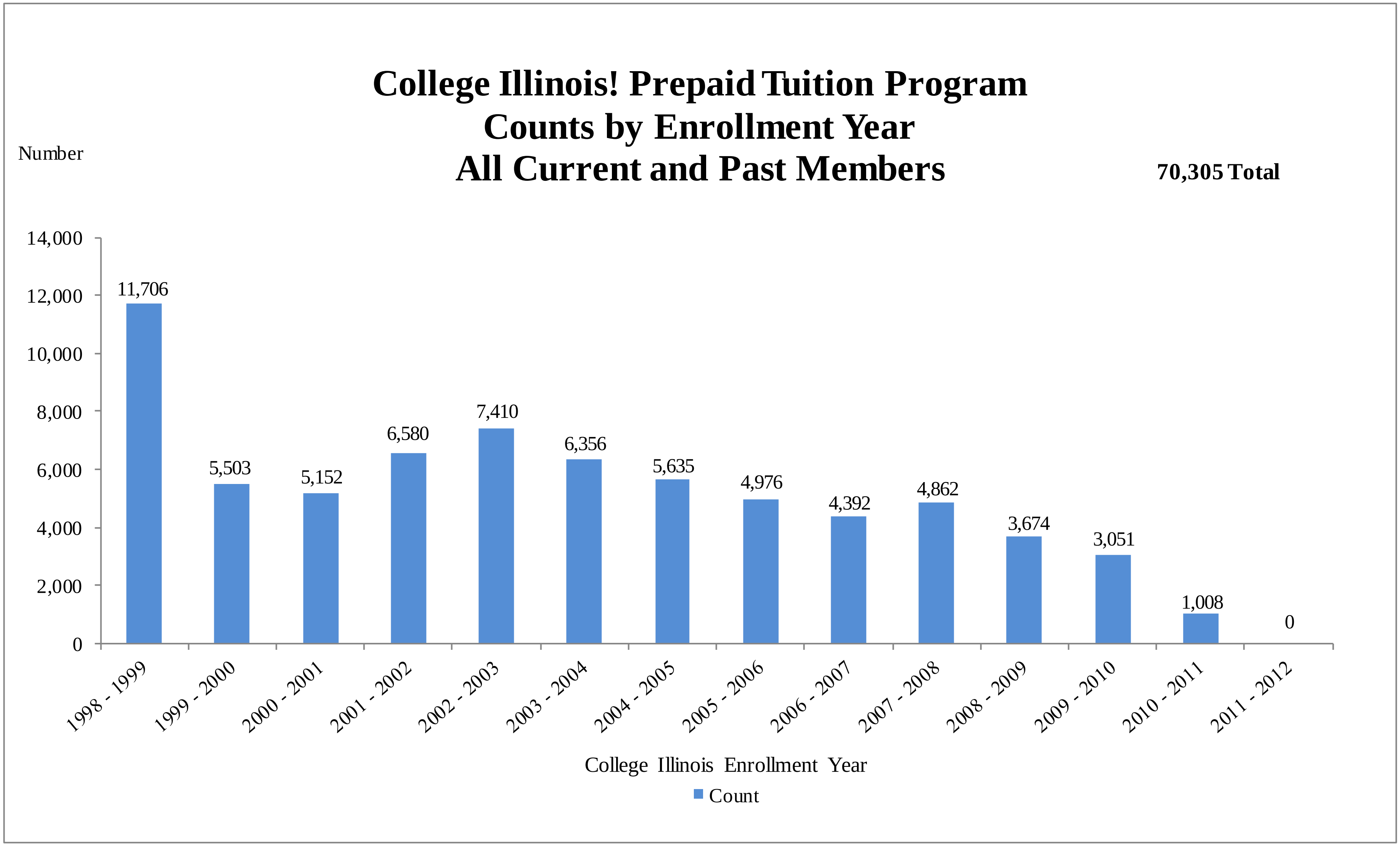
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

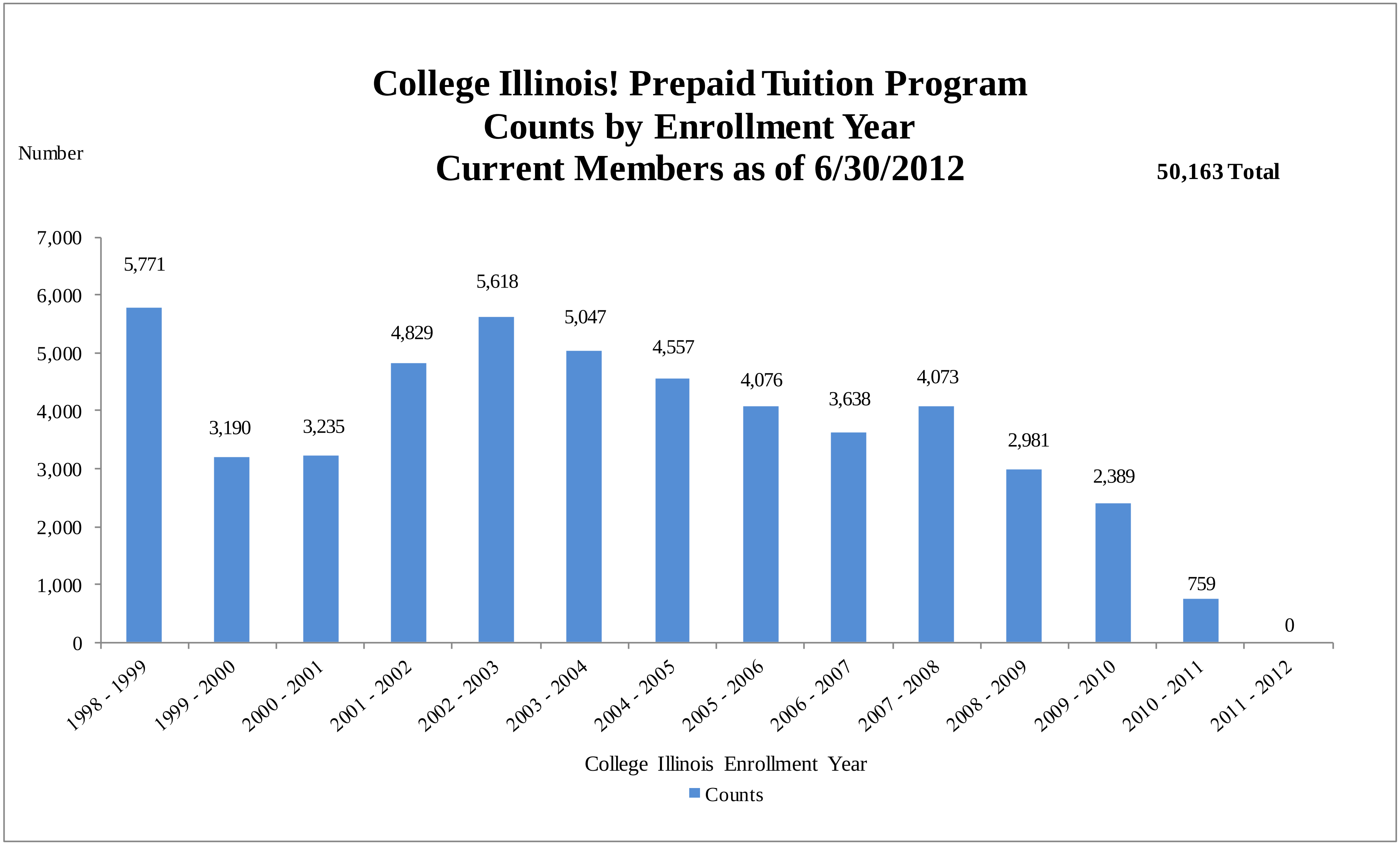
Year Ending June 30	2012	2013	2014	2015	2016
Beginning of Year:					
(1) Market Value of Assets	$ 1,132,275,368				
(2) Adjustment to the Market Value of Assets	0				
(3) Revised Market Value of Assets	1,132,275,368				
(4) Actuarial Value of Assets	1,189,923,829				
End of Year:					
(5) Market Value of Assets	1,070,929,809				
(6) Contributions and Disbursements					
(6a) Actual Contributions	45,986,068				
(6b) Tuition Payments and Refunds	(132,947,671)				
(6c) Administrative Expenses	(4,978,014)				
(6d) Net of Contributions and Disbursements	(91,939,617)				
(7) Total Investment Income					
=(5)-(3)-(6d)	30,594,058				
(8) Projected Rate of Return	7.50%				
(9) Projected Investment Income					
=(3)x([1+(8)]^1.00-1)+([1+(8)]^.50-1)x(6d)	81,535,246				
(10) Investment Income in					
Excess of Projected Income	(50,941,188)				
(11) Excess Investment Income Recognized					
This Year (5-year recognition)					
(11a) From This Year	(10,188,238)				
(11b) From One Year Ago	16,562,252	$ (10,188,238)			
(11c) From Two Years Ago	1,300,844	16,562,252	$ (10,188,238)		
(11d) From Three Years Ago	(47,400,000)	1,300,844	16,562,252	$ (10,188,238)	
(11e) From Four Years Ago	(33,000,000)	(47,400,000)	1,300,843	16,562,251	$ (10,188,236)
(11f) Total Recognized Investment Gain	(72,725,142)	(39,725,142)	7,674,857	6,374,013	(10,188,236)
(12) Change in Actuarial Value of Assets					
=(2)+(6d)+(9)+(11f)	(83,129,513)				
End of Year:					
(5) Market Value of Assets	**1,070,929,809**				
(13) Actuarial Value of Assets					
=(4)+(12)	**1,106,794,316**				
(14) Present Value of Future Expected Contributions	105,125,958				
(15) Final Actuarial Value of Assets = (13) + (14)	**1,211,920,274**				

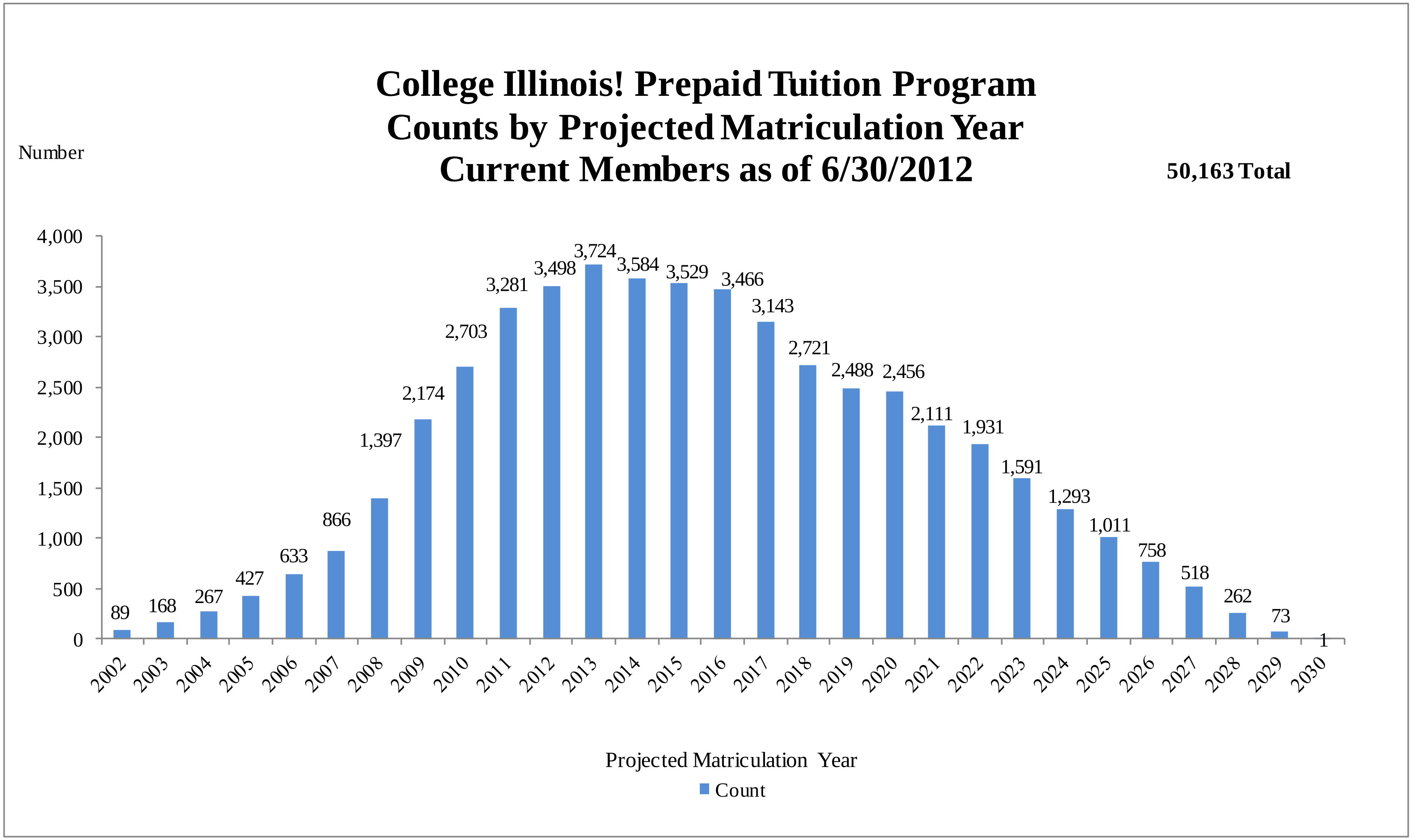
The Actuarial Value of Assets recognizes assumed investment return (line 9) fully each year. Differences between actual and assumed investment income (Line 10) are phased-in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will 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 become equal to Market Value.

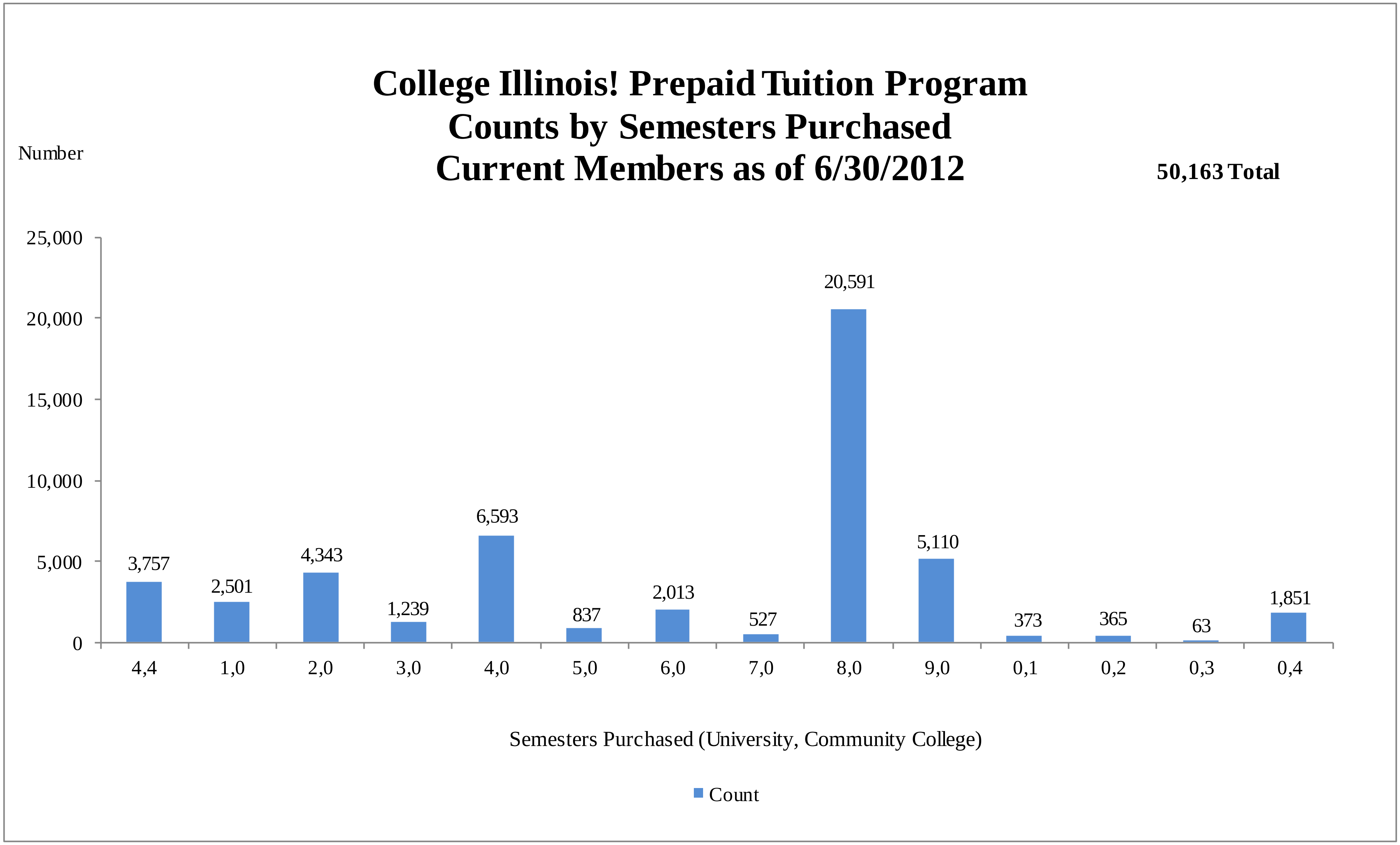
SECTION D

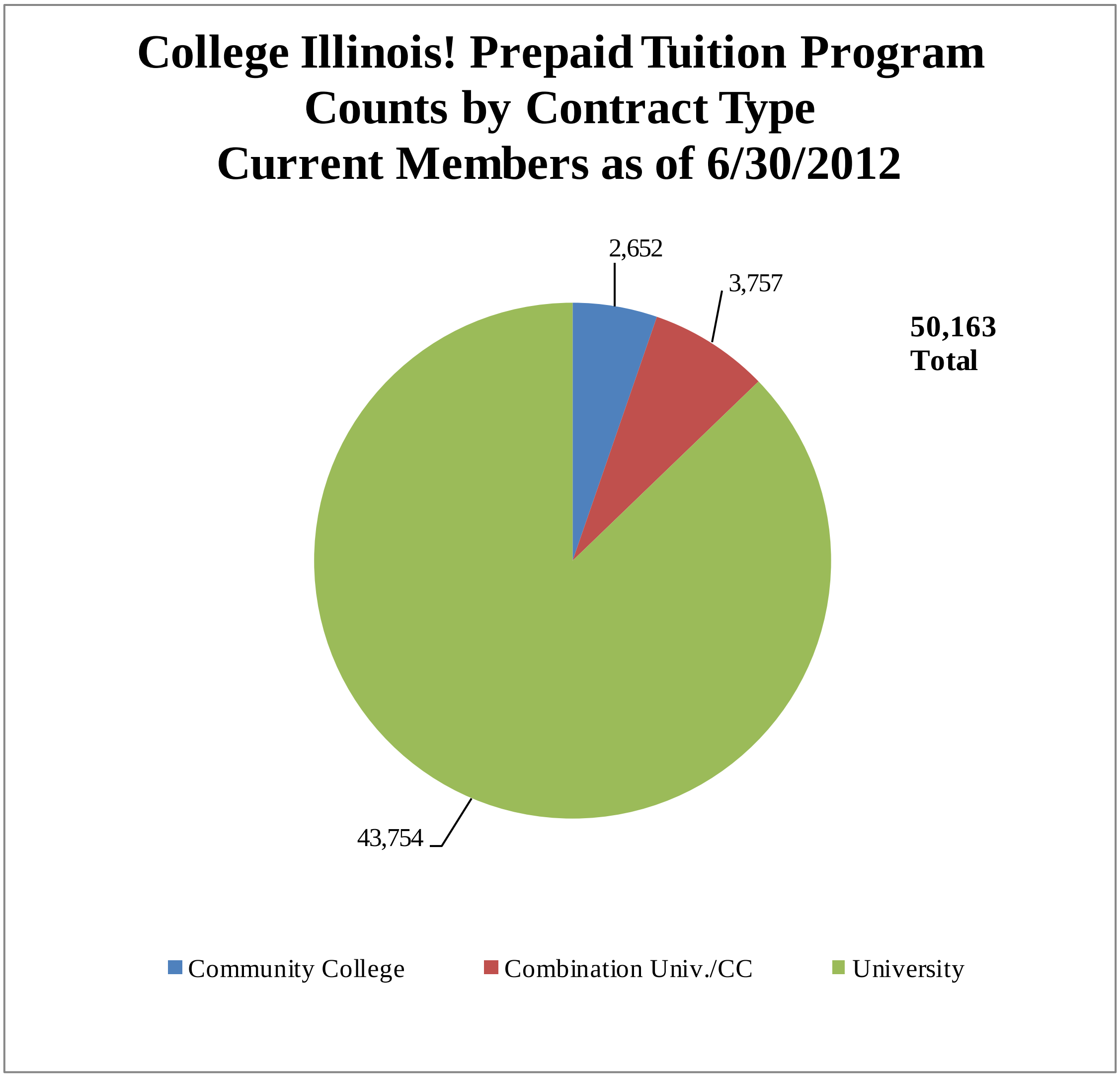
PARTICIPANT DATA

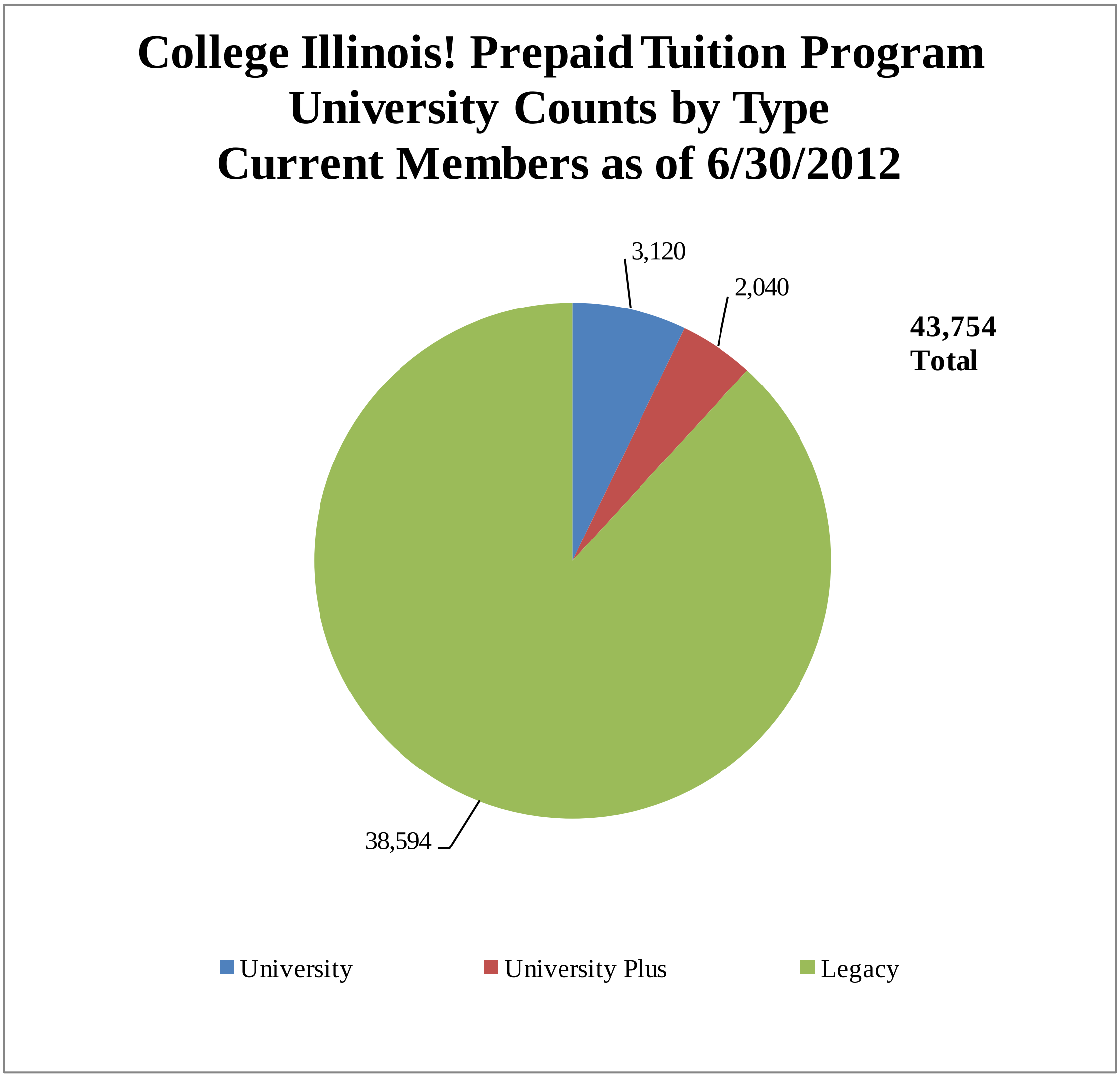

College Illinois! Prepaid Tuition Program
Counts by Enrollment Year
All Current and Past Members
70,305 Total
Number
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
11,706
5,503
5,152
6,580
7,410
6,356
5,635
4,976
4,392
4,862
3,674
3,051
1,008
0
1998 - 1999
1999 - 2000
2000 - 2001
2001 - 2002
2002 - 2003
2003 - 2004
2004 - 2005
2005 - 2006
2006 - 2007
2007 - 2008
2008 - 2009
2009 - 2010
2010 - 2011
2011 - 2012
College Illinois Enrollment Year
Count


College Illinois! Prepaid Tuition Program
Counts by Enrollment Year
Current Members as of 6/30/2012
Number
50,163 Total
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
5,771
3,190
3,235
4,829
5,618
5,047
4,557
4,076
3,638
4,073
2,981
2,389
759
0
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
College Illinois Enrollment Year
Counts


College Illinois! Prepaid Tuition Program
Counts by Projected Matriculation Year
Current Members as of 6/30/2012
50,163 Total
Number
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
89
168
267
427
633
866
1,397
2,174
2,703
3,281
3,498
3,724
3,584
3,529
3,466
3,143
2,721
2,488
2,456
2,111
1,931
1,591
1,293
1,011
758
518
262
73
1
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
Projected Matriculation Year
Count


College Illinois! Prepaid Tuition Program
Counts by Semesters Purchased
Current Members as of 6/30/2012
50,163 Total
Number
25,000
20,000
15,000
10,000
5,000
0
3,757
2,501
4,343
1,239
6,593
837
2,013
527
20,591
5,110
373
365
63
1,851
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 6/30/2012
2,652
3,757
50,163
Total
43,754
Community College
Combination Univ./CC
University


College Illinois! Prepaid Tuition Program
University Counts by Type
Current Members as of 6/30/2012
3,120
2,040
43,754
Total
38,594
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, 2012

The net investment return rate 7.25 percent per annum, compounded annually

Weighted Average Tuition and Increases by Contract Type

	Contract Type			
	Legacy	University	University Plus	Community College
2012-2013 Tuition WAT	$ 10,375	$ 9,403	$ 13,689	$ 3,166
2012-2013 Fee	$ 3,159	$ 3,111	$ 3,324	$ 440
2012-2013 Total WAT	$ 13,534	$ 12,514	$ 17,013	$ 3,606

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 the ISAC and consider historical Illinois public tuition and fee inflation, typically over a 20-year horizon, as well as current economic and political conditions. The "University Plus" contract has separate assumptions due to the belief that UIUC has more pricing power than other Illinois public universities.

	Contract Type			
	Legacy	University	University Plus	Community College
2012-2013 Total Tuition/Fee WAT	$ 13,534	$ 12,514	$ 17,013	$ 3,606
2011-2012 Total Tuition/Fee WAT	$ 13,007	$ 12,025	$ 16,264	$ 3,397
WAT Increase	4.05%	4.07%	4.61%	6.15%

Tuition and Fee Increase Assumption - June 30, 2012, Actuarial Valuation				
Effective Date	**Legacy**	**University**	**University Plus**	**Community College**
6/30/2013 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%

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. It was assumed that if the beneficiary has enrolled in school prior to the fall of 2004, they would not be covered under the Truth in Tuition law. Furthermore, the Truth in Tuition law does not apply to community colleges.

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. It was assumed that the present value of future administrative expenses will be equal to approximately 3.00 percent of the present value of future benefits.

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 2012-2013 WAT. 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.

Future Contract Sales

We assumed different numbers of future contract sales per year for the purpose of projecting the future solvency of the program under a continuing business model.

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 2010 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.

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

Two types of contract are available for purchase: public university or community college.

In the event that a public university 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 benefit payment are available as follows:

- Lump Sum
- Monthly installments with terms of 60 months/ 120 months/ 180 months
- Annual installments with terms of 5 years/ 10 years/ 15years
- 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 Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

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

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois Prepaid Tuition Program Fund of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2012, and have issued our report thereon dated February 7, 2013. That report contains emphasis of matter paragraphs which state "As discussed in Note 7, the Illinois Prepaid Tuition Program Fund has adopted a change in its methodology for estimating contracts receivable, tuition obligation and related revenues and expenses", and "As further discussed in Note 10, the Illinois Prepaid Tuition Program Fund has a deficit as of June 30, 2012 of $420 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 obligation." 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.

<u>Internal Control Over Financial Reporting</u>

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

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a certain deficiency described in the accompanying schedule of findings as item 12-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency or 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.

Compliance and Other Matters

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

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Commission's response and, accordingly, we express no opinion on the response.

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

McGladrey LLP

Schaumburg, Illinois
February 7, 2013

Current Findings – *Government Auditing Standards*

Finding 12-1 Budget Not Properly Approved

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

The Illinois Student Assistance Commission (Commission) did not approve the fiscal year 2012 budget relating to the Commission's non-appropriated funds and did not deliberate and vote on budget requests submitted to the General Assembly for appropriations relating to the appropriated funds of the Commission.

During our audit, we noted that the annual operating budgets for fiscal year 2012 for the Commission's non-appropriated funds, the Illinois Prepaid Tuition Program (IPTP) and the Illinois Designated Account Purchase Program (IDAPP), were not approved by the Board of Commissioners. In addition, budget requests that were submitted to the General Assembly for appropriation for fiscal year 2012 were not deliberated and voted on by the Board of Commissioners.

The Illinois Administrative Code (2 Ill. Adm. Code 5375.210j) requires the Board of Commissioners to deliberate and vote on the operating budgets for IPTP and IDAPP. In addition, the Illinois Administrative Code requires that budget requests for appropriations submitted to the General Assembly are deliberated and voted on by the Board of Commissioners.

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal controls include a formal and effective budgeting process to ensure an entity's objectives and goals are met.

According to Commission management, effective July 2011, ISAC's Commission members were all newly appointed. The fiscal year 2012 budget was presented to the Commission at its meeting on July 8, 2011. Since the members were all new, the budget was treated as an information item and action was not taken to approve the budget.

The ability to budget effectively is very critical for any entity. A budget can be useful in setting standards of performance, motivating board members and employees, and providing a tool to measure results of the different operations of the Commission. Preparing, approving and monitoring budgets will better enable the Commission to monitor its operations to ensure expenditures are in accordance with the Commission's mission and purpose. (Finding Code No. 12-1)

Recommendation

We recommend the Commission approve the annual budget for non-appropriated funds and the budget request to be submitted to the General Assembly for appropriated funds that are prepared by management.

Current Findings – *Government Auditing Standards* (Continued)

Finding 12-1 Budget Not Properly Approved (Continued)

Commission Response

ISAC agrees with the recommendation.

The budget for 2012 was not approved by the Commission because the Commission members were newly appointed. The budget was presented but was treated as an information item and no action was taken to approve the budget.

ISAC has already implemented the recommended corrective action. The fiscal year 2013 budget for the agency, including the budgets for IPTP and IDAPP were approved by the Commission at its meeting on June 25, 2012. The budget request to be submitted to the General Assembly for appropriation for fiscal year 2014 was presented as an information item at the November Commission Meeting and will be presented to the Board of Commissioners at the January 2013 meeting as an action item for their approval.

Prior Findings Not Repeated

(Note: These prior findings not repeated are also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

A Procurement Law Not Followed

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) did not comply with the competitive procurement requirements of the Illinois Procurement Code. (Finding Code Nos. 11-1, 10-1)

The Commission has strengthened its procurement process by adding additional levels of review, as well as filling key management positions. No exceptions were noted regarding noncompliance with procurement laws during fiscal year 2012 sample audit testing.

B Noncompliance with Investment Policy

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) did not fully comply with the guidelines established in its investment policy. (Finding Code No. 11-2)

The Commission conducted a formal review of its investment policy and adopted a new investment policy in fiscal year 2012. We also noted several changes made to the management and administration of the Program, including the hiring of a new Chief Investment Officer in December 2011 and a new Executive Director in February 2012. In addition, procedures were put in place to ensure the investment committee and investment advisory panel performed their duties as stated in the existing investment policy. No noncompliance with the investment policy was noted during fiscal year 2012 sample audit testing.

C Financial Statement Preparation

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) does not have sufficient control over its financial statement preparation. Errors in reporting investment credit ratings were discovered by auditors. (Finding Code No. 11-3)

The Commission has worked closely with the custodian to provide accurate investment ratings at year end. No exceptions were noted in the investment ratings disclosures during fiscal year 2012 sample audit testing.

D Alternative Investment Oversight and Manager Fees

The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (the Commission) has not established policies and procedures to monitor and value its alternative investments for financial reporting purposes. Additionally, review of fees paid to investment managers was not adequately documented. (Finding Code No. 11-4)

The Commission has hired a new Chief Investment Officer, who works closely with the investment managers to ensure that investment values are properly recorded each month as well as perform a review of fees paid to investment managers. We noted that our recommendations for oversight of alternative investments and management fees had been implemented during fiscal year 2012 sample audit testing.

Prior Findings Not Repeated (Continued)

E Timeliness of Actuarial Valuation Report

The Illinois Student Assistance Commission (Commission) did not obtain a final actuarial valuation report pertaining to the soundness of the College Illinois Program, in a timely fashion. (Finding Code No. 11-5)

The Commission hired a new actuary in fiscal year 2012. We noted the actuarial valuation report for fiscal year 2012 was received in a timely manner.