

***Audited Financial Statements  
with Other Financial  
Information***

**West Virginia College Prepaid Tuition and  
Savings Program**

Year Ended June 30, 2016

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# West Virginia College Prepaid Tuition and Savings Program

Financial Statements with Other Financial Information as of and for the  
Year Ended June 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

To the West Virginia College Prepaid  
Tuition and Savings Program  
Charleston, West Virginia

We have audited the accompanying financial statements of the business type activities of the enterprise funds and the fiduciary fund of the West Virginia College Prepaid Tuition and Savings Program (the Program), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents. We did not audit the financial statements of the West Virginia College Prepaid Tuition and Savings Program Savings Plan Trust Fund (the Savings Plan Trust Fund), which represents 100% of the statement of fiduciary net position and the statement of changes in fiduciary net position.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Savings Plan Trust Fund, which represents 100% of the statement of fiduciary net position and the statement of changes in fiduciary net position. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Savings Plan Trust Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the enterprise funds and the fiduciary fund of the Program, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Emphasis-of-Matters

As discussed in Notes 3 and 11 to the financial statements, the Program adopted GASB Statement No. 72, *Fair Value Measurement and Application* for the year ended June 30, 2016. This statement requires the expanded disclosure of input levels to fair value measurement of the Program's carrying value of investments at June 30, 2016. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 10 to the financial statements, the Board of the Program voted to close the Prepaid Tuition Plan portion of the Program on June 30, 2022. Management's plans concerning this matter are also discussed in Note 10. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, the Schedule of the Program's Proportionate Share of the Net Pension Liability and Schedule of the Program's Contributions to the West Virginia Public Employees Retirement System on pages 49 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. The other financial information included on pages 55 to 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Program. The other financial information on pages 55 to 58 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other information on pages 55 to 58 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Gibbons &amp; Kawash, A.C." with a stylized flourish at the end.

Charleston, West Virginia  
November 10, 2016

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# West Virginia College Prepaid Tuition and Savings Program

## Management's Discussion and Analysis

June 30, 2016

As management of the West Virginia College Prepaid Tuition and Savings Program (the "Program"), we offer readers of the financial statements of the Program this discussion and analysis of the Program's financial performance for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented in this section in conjunction with the Program's financial statements, including notes to the financial statements, which follow this section.

### **Financial Highlights**

Total net position of the Program's two enterprise funds decreased \$564,422 for the fiscal year ended June 30, 2016. The actuarially funded ratio of the Prepaid Tuition Trust Fund, which is the primary enterprise fund for investing assets and paying benefits, was 81.5%. The actuarially funded ratio represents the ability of assets to fund liabilities and is calculated by dividing assets by liabilities. The ratio was 85.0% for the fiscal year ended June 30, 2015. The decrease in net position of the Prepaid Tuition Trust Fund was driven by less than expected investment returns.

The investment portfolio of the Program's enterprise funds had a 2.1% gain for the fiscal year, which followed on the heels of a 3.0% gain for the prior year and a 13.7% gain for the fiscal year ended June 30, 2014.

Net position of the Program's fiduciary fund decreased \$32,292,243 for the fiscal year ended June 30, 2016. The decrease was driven by a \$26,135,145 net investment loss. Net position of the fiduciary fund represents funds held in trust for individual investors, and, as such, is not available to support operations of the enterprise funds.

### **Overview of the Financial Statements**

This report presents the operating results and financial status of the Program, which is composed of two enterprise funds and a fiduciary fund. The enterprise funds are the Prepaid Tuition Trust Fund (the "Prepaid Tuition Plan") and the College Prepaid Tuition and Savings Program Administrative Account (the "Administrative Account"). The enterprise funds' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") for governmental entities. The Program's Savings Plan Trust Fund (the "Savings Plan"), is a fiduciary fund (private-purpose trust fund) and also is reported using the accrual basis of accounting in accordance with GAAP.

# West Virginia College Prepaid Tuition and Savings Program

## Management's Discussion and Analysis (Continued)

The State of West Virginia reports the combined Prepaid Tuition Plan and Administrative Account as enterprise funds of the Program and the Savings Plan as a fiduciary fund (private-purpose trust fund) of the Program in its Comprehensive Annual Financial Report ("CAFR"). Enterprise fund reporting is used to report the functions of a governmental entity with business-type activities in which a fee is charged to external users for goods or services. Fiduciary fund reporting is used to account for resources held for the benefit of parties outside the governmental entity, and those resources are not available to support operations of that entity.

The Statement of Net (Deficit) Position presents information on the enterprise funds' assets and liabilities, with the difference between the two reported as either net position or net deficit. This statement is categorized into current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date. The plan's net (deficit) position also represents the actuarially funded level of the plan, and, over time, increases or decreases in net (deficit) position may serve as a useful indicator of whether the plan's funded level or financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net (Deficit) Position reflects the operating and non-operating revenues and expenses of the enterprise funds for the operating year. Operating revenues primarily consist of tuition contracts with major sources of operating expenses being tuition contract benefits and expenses and general and administrative expenses. Nonoperating revenues primarily consist of investment earnings/losses and appropriations from the State, which is the primary government.

The Statement of Cash Flows is presented on the direct method of reporting, which reflects the enterprise funds' cash flows from operating, noncapital financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

The Statement of Fiduciary Net Position presents information on the fiduciary fund's assets and liabilities, with the difference between the two reported as net position held in trust for individuals or organizations.

The Statement of Changes in Fiduciary Net Position reports the additions and deductions to the fiduciary fund for the year. Additions are composed of contributions by investors in the Savings Plan and net investment earnings. Deductions represent redemptions by investors and operating expenses of the fund.

## West Virginia College Prepaid Tuition and Savings Program

### Management's Discussion and Analysis (Continued)

#### Financial Analysis of the Prepaid Tuition Plan and Administrative Account

**Net (deficit) position.** The following are combined, condensed Statements of Net (Deficit) Position of the enterprise funds, which are the Prepaid Tuition Plan and the Administrative Account, as of June 30, 2016 and 2015.

	2016	2015
Current assets	\$ 5,050,014	\$ 4,883,539
Noncurrent assets	55,034,496	66,623,016
Total assets	60,084,510	71,506,555
Deferred outflows of resources	104,649	38,263
Current liabilities	16,469,098	16,819,031
Noncurrent liabilities	55,123,260	65,575,658
Total liabilities	71,592,358	82,394,689
Deferred inflows of resources	140,166	129,072
Net position (deficit):		
Restricted	1,528,119	1,283,210
Unrestricted	(13,071,484)	(12,262,153)
Total net deficit	\$ (11,543,365)	\$ (10,978,943)

The net deficit increased 5.1%, or \$564,422. Net position is the excess of total assets and deferred outflows of resources over total liabilities and deferred inflows of resources, and a net deficit occurs when liabilities and deferred inflows exceed assets and deferred outflows. While the actuarially funded status (assets and deferred outflows divided by liabilities and deferred inflows) of total enterprise funds was 83.9% at June 30, 2016 and 86.8% at June 30, 2015, the funded status of the Prepaid Tuition Plan at June 30, 2016 and 2015, was 81.5% and 85.0%, respectively. The actuarially funded status represents the Prepaid Tuition Plan's ability to fund payment of its liabilities as of the date on which the value of the assets and liabilities are measured. Actuarial funding ratios above 100.0% provide financial support during down times in the economy and lower earnings levels from the Prepaid Tuition Plan's investment portfolio, and during brief periods of unexpectedly high increases in tuition costs. As the funding ratio decreases, the funding soundness level decreases, and as the funding ratio increases, the funding soundness level increases.

Current assets represent cash and cash equivalents and short-term receivables. Noncurrent assets represent investments and long-term receivables. See Note 2 for a discussion of investments being reported as noncurrent assets. Deferred outflows of resources relate to pension amounts described in Note 7 during the current fiscal year. Current liabilities represent short-term payables for administrative expenses and contract benefits. Noncurrent liabilities represent long-term payables for administrative expenses and contract benefits. Deferred inflows of resources relate to pension amounts described in Note 7 during the current fiscal year.

## West Virginia College Prepaid Tuition and Savings Program

### Management's Discussion and Analysis (Continued)

The increase in the net deficit was primarily the result of lower than expected investment returns and miscellaneous actuarial losses. Although the Prepaid Tuition Plan had an investment return of 2.1%, the actuarially projected return was 5.3%, resulting in an actuarial loss.

**Changes in net (deficit) position.** The following are condensed Statements of Revenues, Expenses and Changes in Net (Deficit) Position of the enterprise funds for the years ended June 30, 2016 and 2015.

	Year Ended June 30,	
	2016	2015
<b>Revenues</b>		
Operating revenues:		
Tuition contracts <i>(See Note 5)</i>	\$ 103,404	\$ 19,889
Savings Plan administrative fee	1,284,497	1,329,262
	1,387,901	1,349,151
Nonoperating revenues:		
Investment gain	1,019,444	2,043,580
Appropriations from primary government	-	73,207
	1,019,444	2,116,787
Total revenues	2,407,345	3,465,938
<b>Expenses</b>		
Operating expenses:		
Tuition contract benefits and expenses <i>(See Note 5)</i>	1,852,966	6,533,830
General and administrative expenses	1,118,801	1,069,268
Total expenses	2,971,767	7,603,098
Change in net position	(564,422)	(4,137,160)
Net deficit at beginning of year	(10,978,943)	(6,841,783)
Net deficit at end of year	\$ (11,543,365)	\$ (10,978,943)

Operating revenues for the Prepaid Tuition Plan reflect the interest effect of discounting future contract payments receivable and include an administrative fee received from the administrators of the Savings Plan and deposited into the Program's Administrative Account. As discussed in Note 10 to these financial statements, during fiscal year 2003 the West Virginia Legislature closed the Prepaid Tuition Plan to new enrollment. Because of the closure, no new prepaid tuition contracts were sold during fiscal years 2015 and 2016. Nonoperating revenues represent investment earnings, appropriations from the primary government, and payments made by the primary government for other postemployment benefits premiums on behalf of the Prepaid Tuition Plan. Investment gains for fiscal year 2016 were \$1,019,444 and the rate of return was 2.1%. For fiscal year 2015, the rate of return was 3.0%, resulting in an investment gain of \$2,043,580 for that year. The Prepaid Tuition Plan's finances are structured such that investment earnings are an integral component of total revenues, and when the investment portfolio's performance is less than expected, net position can decrease significantly. Operating expenses represent prepaid tuition contract benefits and expenses and general and administrative expenses. Prepaid tuition contract benefits and expenses were \$1,852,966 and \$6,533,830 for 2016 and 2015, respectively. Prepaid tuition contract benefits and expenses are affected by actuarial factors such as the assumed rate of return and tuition growth, which

# West Virginia College Prepaid Tuition and Savings Program

## Management's Discussion and Analysis (Continued)

are discussed in the Economic Factors section later in this discussion and analysis as well as in Note 5 to these financial statements. As noted on the previous page, lower than expected investment returns and miscellaneous actuarial losses increased the net deficit.

### Financial Analysis of the Savings Plan

**Net position.** The following are condensed Statements of Fiduciary Net Position of the Savings Plan as of June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Assets	\$ 2,249,239,786	\$ 2,268,418,824
Liabilities	<u>16,699,057</u>	<u>3,585,852</u>
Net position	<u>\$ 2,232,540,729</u>	<u>\$ 2,264,832,972</u>

Net position decreased 1.4% or \$32,292,243 during the current fiscal year. Net position is the excess of total assets over total liabilities. The decrease was driven by a net investment loss of \$26,135,145. The net investment loss was primarily the result of a \$136,309,184 unrealized net decrease in the fair value of investments, which surpassed the \$115,945,512 total realized net increase from dividends, capital gains and gains from sales of investments. Investment expenses of \$5,771,473 added to the excess of the unrealized decrease to create the net investment loss.

Investments make up 99.3% of total assets, and the remaining assets includes receivables for units and securities sold, and dividends receivable. Approximately 94.0% of liabilities consists of payables for securities purchased and units redeemed, and the remaining amount represents accrued fees.

## West Virginia College Prepaid Tuition and Savings Program

### Management's Discussion and Analysis (Continued)

**Changes in net position.** The following are condensed Statements of Changes in Fiduciary Net Position of the Savings Plan for the years ended June 30, 2016 and 2015.

	Year Ended June 30,	
	2016	2015
<b>Additions</b>		
Contributions	\$ 187,384,693	\$ 203,787,404
Net investment gain (loss)	(26,135,145)	17,187,375
Total additions	161,249,548	220,974,779
<b>Deductions</b>		
Redemptions	187,295,938	181,828,669
Administrative expenses	6,245,853	6,401,168
Total deductions	193,541,791	188,229,837
Increase in net position	(32,292,243)	32,744,942
Net position at beginning of year	2,264,832,972	2,232,088,030
Net position at end of year	\$ 2,232,540,729	\$ 2,264,832,972

Contributions for the current fiscal year were down, decreasing 8.1% from those of the prior year. Redemptions increased 3.0% from the prior year. Overall investment performance was weak for the current fiscal year. Half of the various investment portfolios and funds that make up the Savings Plan had positive rates of return, ranging to a high of 7.6%, and half of the portfolios and funds had negative rates of return, ranging to a low of (18.6)%.

Administrative expenses for the Savings Plan represent charges related to investment management expenses; sales, marketing and distribution expenses; and other administration expenses.

### **Economic Factors**

**Prepaid Tuition Plan.** The actuarial valuation of tuition contracts receivable and accrued contract benefits liability as of June 30, 2016 is based on various actuarial assumptions. A key assumption is average tuition inflation of 8.5% for school years 2017-18 through 2021-22, corresponding to the closure of the Prepaid Tuition Plan June 30, 2022.

The actual weighted average tuition for in-state, full-time students increased 5.7% from school years 2015-16 to 2016-17, and increased 7.8% from school years 2014-15 to 2015-16. Another key assumption is a 5.3% rate of return on Prepaid Tuition Plan investments for the upcoming fiscal year 2017, and declining returns each year to 2022 when the assumption is 2.3%. The plan's actual rate of return on its investments was 2.1% for fiscal year 2016 and 3.0% for 2015.

Long-term variances in the assumptions can affect the Prepaid Tuition Plan's financial position. Program management, together with actuarial and investing consultants and the Program's Board of Trustees (the "Board"), review the assumptions annually. Prepaid Tuition Plan management and its advisors believe that

# West Virginia College Prepaid Tuition and Savings Program

## Management's Discussion and Analysis (Continued)

the key assumptions, while subject to sudden and unexpected changes in the future, were reasonable for the fiscal years ended June 30, 2016 and 2015.

As discussed in Note 10 to these financial statements, during fiscal year 2003 the West Virginia Legislature closed the Prepaid Tuition Plan to new enrollment. No new contracts were sold in fiscal years 2015 and 2016. The Prepaid Tuition Plan will continue in existence to service existing contracts and no current contracts will be affected by the closure.

Also during fiscal year 2003, as discussed in Note 10 to these financial statements, the Legislature created the Prepaid Tuition Trust Escrow Account to guarantee payment of Prepaid Tuition Plan contracts. The Escrow Account will receive transfers of up to \$1,000,000 from the State Unclaimed Property Trust Fund each year there is an actuarially determined unfunded liability of the Prepaid Tuition Plan. If the Prepaid Tuition Plan is unable to pay current tuition benefits, funds may be withdrawn from the Escrow Account to meet those payments. At June 30, 2016, there was \$19,818,812 in the Escrow Account, which consisted of \$18,254,008 in total transfers from the Unclaimed Property Trust Fund and net investment gains of \$1,564,804. There was a \$1,000,000 transfer in fiscal year 2016 because of the actuarial unfunded liability at the end of fiscal year 2015. Because there is an actuarially determined unfunded liability of \$13,071,484 in the Prepaid Tuition Plan at June 30, 2016, \$1,000,000 is expected to be transferred from the Unclaimed Property Trust Fund to the Escrow Account on or before December 15, 2016, in accordance with the provisions enacted by the Legislature. While the Board controls the Escrow Account, funds in the Escrow Account are not assets of either the Prepaid Tuition Plan or the Program and accordingly are not included in the basic financial statements included herein. The Escrow Account is reported in the general fund of the State's financial statements as unrestricted cash.

Also discussed in Note 10 to these financial statements, the board voted in fiscal year 2015 to close the Prepaid Tuition Plan on June 30, 2022. All funds remaining at that time will be distributed either to account holders or to the West Virginia Unclaimed Property Division where account holders can claim their rightful funds at any time. All funds remaining in the Prepaid Tuition Escrow Account will be transferred to the state.

**Savings Plan.** As an investment fund, the Savings Plan is subject to the same risks and consequent gains and losses as all publicly and privately offered investment funds. The Savings Plan is directly affected by all factors that affect the economic and investment arenas. Program management continuously monitors activity in the stock market as well as consulting regularly with its various investment advisors and analysts.

### **Requests for Information**

This financial report is designed to provide a general overview of the Program's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Director's Office, West Virginia College Prepaid Tuition and Savings Program, 1900 Kanawha Boulevard East, Charleston, WV 25305.

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Enterprise Funds of the  
West Virginia College Prepaid Tuition and Savings Program

Statement of Net (Deficit) Position

June 30, 2016

	Prepaid Tuition Trust Fund	College Prepaid Tuition and Savings Program Administrative Account	Total Enterprise Funds
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,561,939	\$ 2,289,805	\$ 4,851,744
Tuition contracts receivable	90,715	-	90,715
Other receivables	-	107,555	107,555
Total current assets	2,652,654	2,397,360	5,050,014
Noncurrent assets:			
Tuition contracts receivable	86,556	-	86,556
Investments	54,947,940	-	54,947,940
Total noncurrent assets	55,034,496	-	55,034,496
Total assets	57,687,150	2,397,360	60,084,510
<b>Deferred outflows of resources</b>			
Deferred outflows related to pensions	-	104,649	104,649
Total deferred outflows of resources	-	104,649	104,649
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	-	110,212	110,212
Accrued contract benefits liability	16,199,520	-	16,199,520
Accrued contract expense liability	-	94,011	94,011
Compensated absences	-	65,355	65,355
Total current liabilities	16,199,520	269,578	16,469,098
Noncurrent liabilities:			
Accrued contract benefits liability	54,559,114	-	54,559,114
Accrued contract expense liability	-	221,850	221,850
Other postemployment benefits	-	229,759	229,759
Net pension liability	-	112,537	112,537
Total noncurrent liabilities	54,559,114	564,146	55,123,260
Total liabilities	70,758,634	833,724	71,592,358
<b>Deferred inflows of resources</b>			
Deferred inflows related to pensions	-	140,166	140,166
Total deferred inflows of resources	-	140,166	140,166
<b>Net (deficit) position</b>			
Restricted for payment of general and administrative expenses	-	1,528,119	1,528,119
Unrestricted	(13,071,484)	-	(13,071,484)
Total net (deficit) position	\$ (13,071,484)	\$ 1,528,119	\$ (11,543,365)

*The accompanying notes are an integral part of these financial statements.*

Enterprise Funds of the  
West Virginia College Prepaid Tuition and Savings Program  
Statement of Revenues, Expenses and Changes in Net (Deficit) Position  
June 30, 2016

	Prepaid Tuition Trust Fund	College Prepaid Tuition and Savings Program Administrative Account	Total Enterprise Funds
<b>Operating revenues</b>			
Tuition contracts <i>(See Note 5)</i>	\$ 24,191	\$ 79,213	\$ 103,404
Savings Plan administrative fee	-	1,284,497	1,284,497
Total operating revenues	<u>24,191</u>	<u>1,363,710</u>	<u>1,387,901</u>
<b>Operating expenses</b>			
Tuition contract benefits <i>(See Note 5)</i>	1,852,966	-	1,852,966
General and administrative expenses	-	1,118,801	1,118,801
Total operating expenses	<u>1,852,966</u>	<u>1,118,801</u>	<u>2,971,767</u>
Operating (loss) gain	<u>(1,828,775)</u>	<u>244,909</u>	<u>(1,583,866)</u>
<b>Nonoperating revenues</b>			
Investment gain	1,019,444	-	1,019,444
Total nonoperating revenues	<u>1,019,444</u>	<u>-</u>	<u>1,019,444</u>
Change in net position	(809,331)	244,909	(564,422)
Net (deficit) position at beginning of year	<u>(12,262,153)</u>	<u>1,283,210</u>	<u>(10,978,943)</u>
Net (deficit) position at end of year	<u>\$ (13,071,484)</u>	<u>\$ 1,528,119</u>	<u>\$ (11,543,365)</u>

*The accompanying notes are an integral part of these financial statements.*

Enterprise Funds of the  
West Virginia College Prepaid Tuition and Savings Program  
Statement of Cash Flows  
For the Year Ended June 30, 2016

	Prepaid Tuition Trust Fund	College Prepaid Tuition and Savings Program Administrative Account	Total Enterprise Funds
<b>Cash flows from operating activities</b>			
Cash received from contract purchasers	\$ 177,440	\$ -	\$ 177,440
Cash received from Savings Plan administrator	-	1,289,128	1,289,128
Tuition benefit payments	(12,624,139)	-	(12,624,139)
Payments to employees	-	(584,576)	(584,576)
Payments to suppliers	-	(541,463)	(541,463)
Net cash (used in) provided by operating activities	(12,446,699)	163,089	(12,283,610)
<b>Cash flows provided by noncapital financing activities</b>			
Appropriations from primary government	-	23,375	23,375
<b>Cash flows from investing activities</b>			
Investment earnings	917,103	-	917,103
Purchase of investments	(906,076)	-	(906,076)
Proceeds from sale of investments	12,500,000	-	12,500,000
Net cash provided by investing activities	12,511,027	-	12,511,027
Net increase in cash and cash equivalents	64,328	186,464	250,792
Cash and cash equivalents at beginning of year	2,497,611	2,103,341	4,600,952
Cash and cash equivalents at end of year	\$ 2,561,939	\$ 2,289,805	\$ 4,851,744

(Continued on next page)

*The accompanying notes are an integral part of these financial statements.*

Enterprise Funds of the  
West Virginia College Prepaid Tuition and Savings Program

Statement of Cash Flows (Continued)

June 30, 2016

	Prepaid Tuition Trust Fund	College Prepaid Tuition and Savings Program Administrative Account	Total Enterprise Funds
<b>Reconciliation of operating (loss) gain to net cash (used in) provided by operating activities</b>			
Operating (loss) gain	\$ (1,828,775)	\$ 244,909	\$ (1,583,866)
Adjustments to reconcile operating (loss) gain to net cash (used in) provided by operating activities:			
Pension expense	-	10,750	10,750
Changes in assets, liabilities and deferred items:			
Tuition contracts receivable	153,249	-	153,249
Other receivables	-	4,630	4,630
Accounts payable	-	7,743	7,743
Accrued contract benefits liability	(10,771,173)	-	(10,771,173)
Accrued contract expense liability	-	(79,213)	(79,213)
Compensated absences	-	1,604	1,604
Other postemployment benefits	-	19,964	19,964
Deferred outflows of resources	-	(47,298)	(47,298)
Net cash (used in) provided by operating activities	\$ (12,446,699)	\$ 163,089	\$ (12,283,610)
<b>Noncash activities</b>			
Unrealized gain in investments	\$ 102,341	\$ -	\$ 102,341

(Concluded)

*The accompanying notes are an integral part of these financial statements.*

**Fiduciary Fund of the**  
**West Virginia College Prepaid Tuition and Savings Program**  
**Savings Plan Trust Fund**  
**Statement of Fiduciary Net position**  
 June 30, 2016

<b>Assets</b>	
Investments	\$ 2,232,967,521
Receivables for units and securities sold	16,052,589
Dividends receivable	<u>219,676</u>
Total assets	<u>2,249,239,786</u>
 <b>Liabilities</b>	
Payables for units redeemed and securities purchased	15,695,657
Accrued fees	<u>1,003,400</u>
Total liabilities	<u>16,699,057</u>
 <b>Net Position</b>	
Held in trust for individuals and organizations	<u>2,232,540,729</u>
Total net position	<u>\$ 2,232,540,729</u>

*The accompanying notes are an integral part of these financial statements.*

Fiduciary Fund of the  
West Virginia College Prepaid Tuition and Savings Program  
Savings Plan Trust Fund  
Statement of Changes in Fiduciary Net Position  
June 30, 2016

<b>Additions</b>	
Contributions:	
Account holders	\$ 187,384,693
Total contributions	<u>187,384,693</u>
Investment earnings:	
Net decrease in fair value of investments	(136,309,184)
Dividends, capital gains and net realized gains	<u>115,945,512</u>
Total investment loss	(20,363,672)
Investment expense	<u>5,771,473</u>
Net investment loss	<u>(26,135,145)</u>
<b>Total additions</b>	<u>161,249,548</u>
<b>Deductions</b>	
Redemptions:	
Payments in accordance with trust agreements	<u>187,295,938</u>
Total redemptions	<u>187,295,938</u>
Administrative expense	<u>6,245,853</u>
<b>Total deductions</b>	<u>193,541,791</u>
Change in net position held in trust for individuals and organizations	(32,292,243)
Net position at beginning of year	<u>2,264,832,972</u>
<b>Net position at end of year</b>	<u><u>\$ 2,232,540,729</u></u>

*The accompanying notes are an integral part of these financial statements.*

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements

June 30, 2016

### **1. Organization and Operations**

The West Virginia College Prepaid Tuition and Savings Program (the “Program”) operates under the West Virginia State Code Chapter 18, Article 30, West Virginia College Prepaid Tuition and Savings Act (the “Act”). The Act was adopted by the West Virginia State Legislature in 1997. The Act was amended April 12, 2001, to continue the Prepaid Tuition Trust Fund (the “Prepaid Tuition Plan”), which operates as a plan, not a trust fund, and to enhance and complement the Prepaid Tuition Plan by authorizing the creation of the Savings Plan Trust Fund (the “Savings Plan”), which operates as a plan, not a trust fund.

The Program is administered by the Office of the State Treasurer on behalf of the Program’s nine-member Board of Trustees (the “Board”). The purpose of the Program is to provide individuals and organizations the opportunity to prepay future college tuition and mandatory fees at West Virginia public and private colleges and universities and to offer a comprehensive state-sponsored college savings plan. Collectively, the Prepaid Tuition Plan and the Savings Plan are marketed as SMART529™ The College Savings Solution. The Board selected Hartford Life Insurance Company (“Hartford Life”) to provide records administration, cash management, and customer service for both the Prepaid Tuition Plan and the Savings Plan. Hartford Life also provides investment management services for the Savings Plan.

All funds paid into or invested through the Program in the Prepaid Tuition Plan and the Savings Plan will be available for use at any post-secondary program or two- or four-year college or university in the country, with refund and transfer options available. West Virginia state income tax deductions are available to state residents for contributions to the Program. Since the Program is an Internal Revenue Service Section 529 Qualified Tuition Program, earnings on the funds are federally tax deferred until used for college. Additionally, benefits of the Prepaid Tuition and Savings plans are exempt from federal income tax for qualified payouts.

The accompanying financial statements include business-type activities of the Program reported as enterprise funds, and a private-purpose trust fund reported as a fiduciary fund.

### **Enterprise Funds: Prepaid Tuition Plan and Administrative Account**

Operations of the Prepaid Tuition Plan began in July 1997 with the initial enrollment period commencing on October 1, 1998, and ending January 31, 1999. The Prepaid Tuition Plan has sold approximately 9,730 prepaid tuition contracts since inception. As mentioned earlier in this note, the Prepaid Tuition Plan is administered by the Office of the State Treasurer under the direction of the Program’s Board. Hartford Life provides records administration, cash management, and customer service for the Prepaid Tuition Plan, and provides investment management services for the Savings Plan.

Effective March 8, 2003, the West Virginia Legislature closed the Prepaid Tuition Plan to new contracts until the Legislature authorizes the Prepaid Tuition Plan to reopen. According to State Code (§18-30-6

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

(g)), closing the Prepaid Tuition Plan to new contracts shall not mean that the Prepaid Tuition Plan is closed and shall not affect any contracts in effect on March 8, 2003. All contract holders will continue to pay any amounts due, including monthly installments, penalties and fees, and the Prepaid Tuition Plan will continue to pay all benefits due. No contracts were sold in fiscal year 2016.

During fiscal year 2015, the board voted to close the Prepaid Tuition Plan on June 30, 2022. Any funds not distributed to account holders or beneficiaries who cannot be located at that time will be transferred to the West Virginia Unclaimed Property Division where the rightful owner can claim the funds at any time. The unclaimed funds will cease to be the responsibility of the Program.

Contract payments of all Prepaid Tuition Plan participants are combined into a single investment fund in order to maximize benefits. The fund is invested in a professionally managed portfolio of stocks, bonds, and other types of investments through the West Virginia Investment Management Board (the "IMB"). Under State Code, the investments must be made with the care, skill, and prudence and diligence under the circumstances prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Prepaid Tuition Plan investments shall be diversified to the extent permitted by law so as to minimize the risk of a large loss. Monies from the investment fund are used to pay Prepaid Tuition Plan benefits and expenses.

When the beneficiary is accepted to an eligible college or university, the contract becomes redeemable.

Benefits can be transferred to any fully accredited private or out-of-state college or university within the United States in an amount based on the weighted average cost of tuition and fees then charged by West Virginia public colleges and universities. However, there is no guarantee that the tuition benefit available will cover the actual cost of tuition and fees charged by the private or out-of-state institution.

Under current policy, the beneficiary has up to three years in addition to the years purchased to use his or her Prepaid Tuition Plan benefit. For example, if a beneficiary has a plan for four years of benefits, he or she has seven years to exercise the benefits once the account matures. If the plan is for two years of benefits, they must be exercised within five years once the account matures. The other options available are: 1) at any time four years or more after the beneficiary's expected college entrance date, the purchaser may request a refund of the contract benefit value, less a termination fee and an earnings penalty required by federal law; 2) at any time, the purchaser may cancel the contract and receive a refund of the contract value, less administrative fees and any benefits already paid; or 3) the purchaser may transfer the prepaid contract cancellation value at the time of transfer to the Program's Savings Plan in accordance with state and federal regulations. Any funds not claimed before the exercise period ends will be transferred to the West Virginia Unclaimed Property Division where the rightful owner can claim the funds at any time.

If the beneficiary is awarded a scholarship for tuition and fees, the benefit value of the contract will be paid in accordance with state and federal regulations.

The College Prepaid Tuition and Savings Program Administrative Account (the "Administrative Account") was created by State Code to implement, operate and maintain the Prepaid Tuition and Savings Plans and



# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

the overall Program. Sources of funds for the Administrative Account come from fees charged to participants in both the Prepaid Tuition Plan and Savings Plan and from appropriations from the State, which is the primary government. Expenses of the Administrative Account cover administrative operations of the overall Program such as wages and benefits, consulting services, and office supplies.

The accompanying financial statements report the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2016, of the Program's enterprise funds, which includes the Prepaid Tuition Plan and the Administrative Account. The Program's enterprise funds are enterprise funds of the primary government of the State of West Virginia.

### **Fiduciary Fund: Savings Plan**

Beginning March 1, 2002, the Savings Plan has been available in conjunction with the Program's Prepaid Tuition Plan. Investment options have been developed in partnership with Hartford Life. As mentioned earlier in this note, the Savings Plan is administered by the Office of the State Treasurer under the direction of the Program's Board. Hartford Life provides records administration, cash management, investment management and customer service for the Savings Plan.

The Savings Plan currently is composed of 53 different investment portfolios and individual funds. These financial statements report on the total of all portfolios and individual funds.

The Savings Plan is a fiduciary fund (private-purpose trust fund) of the primary government of the State of West Virginia.

## **2. Significant Accounting Policies – Enterprise Funds**

### **Basis of Accounting**

As enterprise funds, the financial statements of the Prepaid Tuition Plan and Administrative Account are presented on the flow of economic resources measurement focus and accrual basis accounting in conformity with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public and others on a continuing basis be financed or recovered primarily through user charges.

The enterprise funds distinguish operating revenues and expenses from nonoperating. Operating revenues and expenses generally result from providing services in connection with the enterprise funds' principal ongoing operations. The principal operating revenues and expenses relate to tuition contract revenues, tuition contract benefits and expenses, and general and administrative expenses. Net investment earnings and appropriations from the State, which is the primary government, are reported as nonoperating revenues.

It is the Program's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

As a private-purpose trust fund, which is a type of fiduciary fund, assets of the Savings Plan are held in a trustee capacity for individuals and entities invested in the plan, and those assets cannot be used to support the Program. Because the Savings Plan assets are not available to support the Program's operations, the Savings Plan is discussed separately in Note 11 to these financial statements. Assets of the Program's enterprise funds (the "Prepaid Tuition Plan" and the "Administrative Account") are available to support the Program's operations.

Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The significant estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred outflows/inflows of resources at the statement of net position date and revenues and expenses for the years then ended are those required in the estimation of tuition contracts receivable, accrued contract benefits liability, accrued contract expense liability, net pension liability, deferred outflows and inflows related to pensions, tuition contract revenues, and tuition contract benefits expenses. Actual results in the near-term could differ from the estimates used to prepare these financial statements.

### **Budgetary Information**

The Office of the State Treasurer submits a detailed budgetary schedule of administrative expenses to the Budget Director of the West Virginia Department of Revenue prior to the beginning of each fiscal year. The budgetary schedule is prepared on the cash basis of accounting. Appropriation requests for the Program are included in the Treasurer's schedule. The budgetary schedule is subject to the annual budget review and approval process of the West Virginia State Legislature. In accordance with GAAP, budgetary financial schedules or statements are not required to be presented in the Program's basic financial statements.

### **Cash and Cash Equivalents**

Cash equivalents are short-term investments with maturities when acquired of 90 days or less. Cash and cash equivalents of the enterprise funds principally consist of interest-earning deposits in certain investment pools maintained by the IMB. Such funds are available to the Program with overnight notice. Earnings from these investments are distributed to investment pool participants based on their pro rata participation in the pools.

### **Investments**

Investments are funds invested with the IMB. The invested funds are used to pay contract benefits liabilities as they become due. The intent of the investment allocation is to invest funds in the longest terms possible. The current maturity dates of such investments require that the investments be reported as noncurrent assets. However, investments will be liquidated, as needed, to cover current liabilities.

### **Revenue Recognition**

The Plan recognizes revenue for tuition contracts in the year the contracts are entered into with the purchaser, with future contract payments being recognized at their present value. The Plan uses its expected return on investments as the discount rate in calculating such present value. A rate of 5.3% is assumed for

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

the upcoming fiscal year 2017. Declining rates are then assumed for each year through 2022 when the rate is assumed to be 2.3%. Contracts receivable are reduced by the annual amounts of contract payments received, and the remaining contracts receivable is recorded at present value. Changes in the present value of the remaining contracts receivable are recognized in revenue in the year of the change. The Administrative Account records Savings Plan administrative fee revenue from Hartford Life in the period that administrative services are provided.

### **Tuition Contracts Receivable**

Tuition contracts receivable of the Prepaid Tuition Plan at the statement of net (deficit) position date represents Program management's best estimate of the present value of future contract payments using the discount rates discussed above.

### **Accrued Contract Benefits Liability**

Accrued contract benefits liability of the Prepaid Tuition Plan is recorded at the actuarial present value of future tuition obligations. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition and fee increases and termination of contracts.

### **Compensated Absences, Including Other Postretirement Benefits**

Employees fully vest in all earned but unused annual leave to maximum amounts ranging from 240 to 320 hours depending on years of service, and the Program accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with personnel policies of the State, employees vest in any remaining unused sick leave only upon retirement, at which time any unused sick and annual leave time either can be converted into employer-paid premiums for post-retirement health care coverage through the West Virginia Public Employees Insurance Agency (the "PEIA"), or can be converted into a greater retirement benefit under the State of West Virginia Public Employees Retirement System (the "PERS"). The Program accrues for other postretirement benefits that may arise in connection with unused sick leave that may be converted to employer-paid premiums for post-retirement health care coverage, and for the employer portion of all post-retirement health care coverage regardless of whether the retiree has unused sick leave.

### **Net Pension Liability, Deferred Outflows of Resources, and Deferred Inflows of Resources**

Net pension liability represents the Program's proportionate share of the net pension liability of the PERS as of the measurement date of June 30, 2015. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from the PERS's fiduciary net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

### **Restricted Assets and Net Position**

Restricted assets are subject to constraints imposed by creditors or by law. The Act restricts the Prepaid Tuition Plan's assets to be used specifically for the Prepaid Tuition Plan's obligations; however, the Prepaid Tuition Plan has a deficiency in net position as of June 30, 2016. Accordingly, such deficiency is included in the unrestricted net (deficit) position. Assets of the Administrative Account are restricted for the purposes of implementing, operating and maintaining the Program.

### **Federal Income Taxes**

The Program has been designed to comply with the requirements for treatment as a qualified tuition program under Section 529 of the Internal Revenue Code. Therefore, no federal income tax provision is required.

### **Effect of New Accounting Pronouncements**

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions of this statement are effective for periods beginning after June 15, 2017. Program management has not determined the effect, if any, this statement will have on its financial statements.

### **3. Investments and Cash and Cash Equivalents**

The Program invests its enterprise funds in investment pools maintained by the IMB. The funds are invested in longer term securities and subject to market fluctuations. Investments are reported by the IMB at fair value, which is the same as the value of the pool shares, and are accounted for by the Program accordingly, with changes in the fair value included in investment earnings. The earnings from these pooled investments are distributed to investment pool participants based on their pro rata participation in the pools.

The Program has adopted an investment policy for the Prepaid Tuition Plan that mandates that investments shall be diversified so as to minimize the risk of large losses. Under the investment policy, a long-term focus on investment results as well as prudent diversification across public security markets will be the primary risk control mechanisms. A prudently allocated investment program possesses a significant level of diversification, which results in risk reduction. Diversification is considered in regard to asset classes, geography/country, industry, and maturity. In order to preserve risk control, the Program has adopted a formal review schedule in which investment performance is reviewed at least quarterly, broad asset allocation and within-class asset allocation are reviewed every three years, and the Program's investment policy is reviewed every year.

The investment policy establishes that the Program's enterprise funds are to be allocated 50.0% to fixed income securities, 27.5% to U.S. equities, and 22.5% to international equities for the fiscal year ended June 30, 2017. The allocation will shift each year after that toward more fixed income securities to a total of 100% in fiscal year 2022. At June 30, 2016, the Program's enterprise funds were invested in the following pools at the IMB:

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

IMB Investment Pools	Fair Value of Program's Enterprise Fund Investments	Percent of Total Program's Enterprise Fund Investments
Large Cap Domestic Equity	\$ 12,168,814	22.1%
Non-Large Cap Domestic Equity	3,012,616	5.5
Core Fixed Income	13,425,305	24.4
Total Return Fixed Income	12,676,086	23.1
Short-Term Fixed Income	1,003,164	1.8
Opportunistic Debt	635,061	1.2
International Equity	8,990,133	16.4
International Nonqualified	3,036,761	5.5
Total	\$ 54,947,940	100.0%

#### ***Investments Measured at Fair Value***

The IMB considers investment pools in which the Program's enterprise funds are invested as investment companies in accordance with GAAP, and the IMB follows the accounting and reporting guidance applicable to investment companies as defined by the Financial Accounting Standards Board *Accounting Standards Codification 946 – Financial Services – Investment Companies*, which is a comprehensive basis of accounting other than GAAP for state and local governments established by the GASB. There are no material differences in the reported amounts in the IMB pools of assets, liabilities, net assets, investment operations, distributions, or unit transactions between GAAP for investment companies and GAAP for state and local governments.

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. The Program categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America in accordance with GASB Statement No. 72. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs – Inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs – Unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

The following table summarizes the ratio of recurring fair value measurements of the investment securities in the IMB pools in which the Program's enterprise fund holds shares as of June 30, 2016:

IMB Investment Pools	Fair Value Measurement as Percent of the Program's Enterprise Fund Total			
	Level 1	Level 2	Level 3	Total
Large Cap Domestic Equity	88.7%	11.3%	0.0%	100.0%
Non-Large Cap Domestic Equity	74.4%	25.6%	0.0%	100.0%
Core Fixed Income	3.3%	96.7%	0.0%	100.0%
Total Return Fixed Income - Assets	4.6%	95.4%	0.0%	100.0%
Total Return Fixed Income - Liabilities	(23.5)%	(76.5)%	0.0%	(100.0)%
Short-Term Fixed Income	23.3%	76.7%	0.0%	100.0%
Opportunistic Debt *	0.1%	0.0%	0.0%	0.1%
International Equity - Assets	95.0%	5.0%	0.0%	100.0%
International Equity - Liabilities	0.0%	(100.0)%	0.0%	(100.0)%
International Nonqualified *	N/A	N/A	N/A	N/A

\* The Opportunistic Debt Pool and International Nonqualified Pool investments are measured using net asset value per share. GASB Statement No. 72 does not require categorization of investments for which fair value is measured using net asset value per share. In addition to securities measured at net asset value per share, the Opportunistic Debt Pool holds shares in a money market mutual fund.

The following represents a calculation of the net change in the carrying value of investments during the year ended June 30, 2016:

Carrying value at end of year	\$ 54,947,940
Less cost of investments purchased during year	(906,076)
Plus cost of investments redeemed during year	12,500,000
Less carrying value at beginning of year	(66,439,523)
Change in carrying value of investments during year	<u>\$ 102,341</u>

#### ***Investment and Deposit Risk Disclosures***

Although the Program's investment policy does not specifically address custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, the various investment pools at the IMB can be exposed to these investment risks.

#### **Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Program will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The IMB investment pools in which the Program invests its enterprise funds were exposed to no or minimal custodial credit risk at June 30, 2016.

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the IMB nor its investment pools have been rated for credit risk by any organization. The credit risks of the IMB investment pools in which the Program invests its enterprise funds are described as follows.

Large Cap Domestic Equity Pool – This pool is exposed to credit risk from investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody’s or Standard & Poor’s at the time of purchase. Short-term debt instruments must be rated P-1 by Moody’s or A-1 by Standard & Poor’s at the time of purchase. At June 30, 2016, total rated investments exposed to credit risk made up only 10.7% of the pool, while unrated investments in common stock, which are not exposed to credit risk, made up 89.3%.

Non-Large Cap Domestic Equity Pool – This pool is exposed to credit risk from investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody’s or Standard & Poor’s at the time of purchase. Short-term debt instruments must be rated P-1 by Moody’s or A-1 by Standard & Poor’s at the time of purchase. At June 30, 2016, total rated investments exposed to credit risk made up only 23.7% of the pool, while unrated investments in common stock, which are not exposed to credit risk, made up 76.3%.

International Nonqualified Pool – This pool invests in a collective trust fund that invests in equities denominated in foreign currencies. This pool is not exposed to credit risk.

International Equity Pool – This pool is exposed to credit risk from investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody’s or Standard & Poor’s at the time of purchase. Short-term debt instruments must be rated P-1 by Moody’s or A-1 by Standard & Poor’s at the time of purchase. At June 30, 2016, total rated investments exposed to credit risk made up only 5.4% of the pool, while unrated investments in common and preferred stock, which are not exposed to credit risk, made up 94.6%.

Short-Term Fixed Income Pool – The IMB limits the exposure to credit risk in the Short-Term Fixed Income Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor’s and P-1 by Moody’s. Additionally, the pool must have at least 15% of its assets in United States Treasury issues. The following table provides information on the weighted average credit ratings of the pool’s investments at June 30, 2016. The table includes U.S. Treasury notes received as collateral for a repurchase agreement.

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

Security Type	Moody's	S&P	Percent of Pool Assets
Commercial paper	P-1	A-1	14.9%
Money market mutual fund	Aaa	AAA	23.2
U.S. Treasury bonds *	Aaa	AA	24.9
U.S. government agency bonds *	P-1	A-1	37.0
Total rated investments			<u>100.0%</u>

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The ratings are shown for the reader's information.

Core Fixed Income Pool – The IMB limits the exposure to credit risk in the Core Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides information on the weighted average credit ratings of the pool's asset types at June 30, 2016. The table includes investments received as collateral for repurchase agreements.

Security Type	Moody's	S&P	Percent of Pool Assets
Corporate asset backed issues	Aa	AA	6.7%
Corporate CMO	A	A	5.5
Corporate CMO interest-only	Ba	AAA	0.1
Corporate CMO principal-only	B	AA	0.0
Foreign asset backed issues	Aa	AA	0.2
Foreign corporate bonds	A	A	4.2
Foreign government bonds	Aa	A	0.7
Money market mutual funds	Aa	AAA	3.3
Municipal bonds	Aa	AA	0.9
Time deposits	P-1	A-1	1.2
U.S. corporate bonds	A	A	21.1
U.S. government agency bonds *	Aaa	AA	2.2
U.S. government agency CMO *	Aaa	AA	12.3
U.S. government agency CMO interest-only *	Aaa	AA	0.5
U.S. government agency CMO principal-only *	Aaa	AA	0.8
U.S. government agency MBS *	Aaa	AA	19.0
U.S. Treasury bonds *	Aaa	AA	19.3
U.S. Treasury inflation protected security *	Aaa	AA	0.0
Total rated investments			<u>98.0%</u>

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The ratings are shown for the reader's information.

Unrated securities include common stock valued at 2.0% of the fair value of the Pool's investments.



## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

Total Return Fixed Income Pool – The IMB limits the exposure to credit risk in the Total Return Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides information on the weighted average credit ratings of the pool’s asset types at June 30, 2016. The table includes investments received as collateral for repurchase agreements.

Security Type	Moody’s	S&P	Percent of Pool Assets
Bank loan	B	B	0.0%
Corporate asset backed issues	A	A	1.7
Corporate CMO	Ba	BB	1.3
Corporate preferred securities	Ba	BB	0.5
Foreign asset backed issues	A	A	0.5
Foreign corporate bonds	Baa	BBB	13.6
Foreign government bonds	Ba	BB	10.1
Money market mutual funds	Aaa	AAA	3.1
Municipal bonds	A	A	1.9
Time deposits	P-1	A-1	0.9
U.S. corporate bonds	Baa	BBB	25.2
U.S. government agency bonds *	Aaa	AA	0.2
U.S. government agency CMO *	Aaa	AA	3.0
U.S. government agency CMO interest-only *	Aaa	AA	0.3
U.S. government agency MBS *	Aaa	AA	12.8
U.S. government TBA	Aaa	AA	0.0
U.S. Treasury bonds *	Aaa	AA	5.0
U.S. Treasury inflation protected security *	Aaa	AA	1.2
Total rated investments			81.3%

Unrated securities include common stock, corporate ABS residual, investments in other funds, and options contracts purchased valued at 18.7% of the fair value of the Pool’s investments.

Opportunistic Debt Pool – This pool is exposed to credit risk from investments in unrated direct lending funds. This risk is limited by requiring that underlying fund holdings are at least 90% collateralized by one or more assets of the issuer. The pool also holds shares of a money market mutual fund with the highest credit rating.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Program’s investment in a single corporate issuer. Except for the Opportunistic Debt Pool, none of the IMB pools in which the Program participates held securities of any one issuer in excess of 5% of the value of the pools in accordance with West Virginia statutes and are not exposed to concentration of credit risk. Due to being in the infancy stage of the lending program, the Opportunistic Debt Pool is exposed to concentration of credit risk. Approximately 32% of committed capital has been called. As the lending program becomes fully funded,

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

the concentration of credit risk will be mitigated. Each asset manager is restricted from investing more than 10% of the capital commitment in a single issuer for investments that are expected to be held longer than one year. At June 30, 2016, the pool was in compliance with this restriction.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The International Nonqualified Pool is not exposed to interest rate risk. The following pools are exposed to interest rate risk.

Large Cap Domestic Equity Pool – This pool is exposed to interest rate risk from investments made with cash collateral for securities loaned. The weighted average maturity (the “WAM”) for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the WAM for the investments made with cash collateral for securities loaned as of June 30, 2016.

<u>Security Type</u>	<u>Percent of Pool Assets</u>	<u>WAM (Days)</u>
Repurchase agreements	8.5%	2
Time deposits	2.8	1
	<u>11.3%</u>	1

Non-Large Cap Domestic Equity Pool – This pool is exposed to interest rate risk from investments made with cash collateral for securities loaned. The weighted average maturity WAM for investments made with cash collateral for securities loaned is not to exceed 90 days. The maturity of floating rate notes is assumed to be the next interest reset date. The following table provides the WAM for the investments made with cash collateral for securities loaned as of June 30, 2016.

<u>Security Type</u>	<u>Percent of Pool Assets</u>	<u>WAM (Days)</u>
Repurchase agreements	19.2%	2
Time deposits	6.4	1
	<u>25.6%</u>	1

International Equity Pool – This pool is exposed to interest rate risk from investments made with cash collateral for securities loaned. The weighted average maturity WAM for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the WAM for the investments made with cash collateral for securities loaned as of June 30, 2016.

<u>Security Type</u>	<u>Percent of Pool Assets</u>	<u>WAM (Days)</u>
Repurchase agreements	3.7%	2
Time deposits	1.3	1
	<u>5.0%</u>	1

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

Short-Term Fixed Income Pool – The WAM of the investments in this pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the WAM for the various asset types in the Short-Term Pool as of June 30, 2016.

Security Type	Percent of Pool Assets	WAM (Days)
Repurchase agreements	3.7%	1
Commercial paper	14.9	22
Money market mutual fund	23.3	N/A
U.S. government agency bonds	36.9	55
U.S. Treasury bond	21.2	28
	100.0%	39

Core Fixed Income Pool – The IMB monitors interest rate risk of this pool by evaluating the effective duration of the investments in the pool. The following table provides the weighted average effective duration for the various asset types in the pool as of June 30, 2016.

Security Type	Percent of Pool Assets	Effective Duration (Years)
Corporate asset backed issues	6.7%	2.1
Corporate CMO	5.5	2.5
Corporate CMO interest-only	0.1	(17.4)
Corporate CMO principal-only	0.0	4.2
Foreign asset backed issues	0.2	0.1
Foreign corporate bonds	4.2	5.7
Foreign government bonds	0.7	9.0
Money market mutual funds	3.3	N/A
Municipal bonds	0.9	14.4
Repurchase agreements	3.7	0.0
Time deposits	1.2	0.0
U.S. corporate bonds	20.9	6.3
U.S. government agency bonds	2.2	3.8
U.S. government agency CMO	12.3	3.0
U.S. government agency CMO interest-only	0.5	5.9
U.S. government agency CMO principal-only	0.8	7.2
U.S. government agency MBS	17.7	4.4
U.S. Treasury bonds	19.0	8.5
U.S. Treasury inflation protected security	0.1	3.4
	100.0%	4.9

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

The Core Fixed Income Pool invests in commercial and residential mortgage-backed and asset-backed securities and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2016, these securities were approximately 44.0% of the value of the Core Fixed Income Pool.

Total Return Fixed Income Pool – The IMB monitors interest rate risk of this pool by evaluating the effective duration of the investments in the pool. The following table provides the weighted average effective duration for the various asset types in the pool as of June 30, 2016.

Security Type	Percent of Pool Assets	Effective Duration (Years)
Bank loan	0.0%	0.1
Corporate ABS residual	0.3	N/A
Corporate asset backed issues	1.7	1.8
Corporate CMO	1.3	1.9
Corporate preferred securities	0.5	0.1
Foreign asset backed issues	0.6	2.4
Foreign corporate bonds	13.6	6.6
Foreign government bonds	10.1	6.0
Investment in other funds	16.8	2.9
Money market mutual funds	3.1	N/A
Municipal bonds	1.9	10.4
Options contracts purchased	0.1	N/A
Repurchase agreements	2.8	0.0
Time deposits	0.9	0.0
U.S. corporate bonds	25.1	8.3
U.S. government agency bonds	0.1	3.3
U.S. government agency CMO	3.0	0.9
U.S. government agency CMO interest-only	0.3	34.0
U.S. government agency MBS	11.9	1.7
U.S. government agency TBA	0.0	0.0
U.S. Treasury bonds	4.7	3.0
U.S. Treasury inflation protected security	1.2	19.5
	100.0%	5.1

Opportunistic Debt Pool – This pool is exposed to interest rate risk from investments in direct lending funds. The IMB manages interest rate risk of the pool by requiring at least 80% of the fund holdings that mature in more than one year to have variable or floating interest rate structures.

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following IMB pools in which the Program participates are exposed to no or minimal foreign currency risk: Large Cap Domestic Equity Pool, Non-Large Cap Domestic Equity Pool, Short-Term Fixed Income Pool, Core Fixed Income Pool and Total Return Fixed Income Pool. The following pools are exposed to foreign currency risk.

International Nonqualified Pool – This pool invests in a collective trust fund that invests in equities denominated in foreign currencies. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments.

International Equity Pool – This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks.

Opportunistic Debt Pool – The investments in direct lending funds in this pool might be indirectly exposed to foreign currency risk.

### Deposit Risk

The carrying value in the Administrative Account of cash on deposit with the State Treasurer's Office was \$2,289,805 at June 30, 2016. The cash is pooled with other deposits from the State's agencies, departments, boards and commissions and is subject to coverage by the Federal Deposit Insurance Corporation (the "FDIC") or collateralized by securities held by the State or its agents in the State's name. Other cash deposits held in outside bank accounts were \$2,561,939. Such deposits are insured by the FDIC or collateralized by the State or its agents in the State's name. Custodial credit risk in regard to deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Program does not have a deposit policy for custodial credit risk. Program management does not believe any of its deposits are exposed to custodial credit risk.

### ***Derivative Financial Instruments***

The Program indirectly holds derivative financial instruments by its participation in two investment pools at the IMB. In the Large Cap Domestic Equity Pool, futures contracts are the only derivative financial instrument held and represent less than 0.1% of the pool's total assets as of June 30, 2016. In the Total Return Fixed Income Pool, derivative financial instruments may include foreign exchange contracts, futures, options, credit default swaps, interest rate swaps, and currency swaps. Derivative instruments represent less than 0.4% of total assets and less than 19.3% of total liabilities in the Total Return Fixed Income Pool. As the Program does not hold any direct investments in derivative financial instruments, no further disclosure or consideration of their impact on the Program's financial position and results of operations is required.

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

### 4. Accrued Contract Benefits Liability

The total actuarial present value of accrued contract benefits liability of \$70,758,634 as of June 30, 2016, was based on the provision for contract benefits since inception of the Prepaid Tuition Plan. Current liabilities of \$16,199,520 represent obligations that will become due within a year from June 30, 2016. Noncurrent liabilities of \$54,559,114 represent obligations that will become due more than a year after June 30, 2016.

Under the actuarial evaluation, tuition and fees are assumed to increase an average of 8.5% for the 2017-18 school year and each year thereafter to the end of the Prepaid Tuition Plan on June 30, 2022. Investments are assumed to earn 5.3% for the year ending June 30, 2017. Declining rates are assumed for each year thereafter through 2022 when the rate is assumed to be 2.3%.

The accrued contract benefits liability at June 30, 2016, and changes for the fiscal year then ended are as follows:

Beginning balance, June 30, 2015	\$ 81,529,807
Interest cost	3,986,540
Actuarial gain	(2,023,275)
Miscellaneous factors	(110,299)
Tuition benefit payments and refunds	(12,624,139)
Ending balance, June 30, 2016	<u>\$ 70,758,634</u>

The actuarial gain was the result of tuition increases for the 2016-17 school year being less than expected. Weighted average tuition had been assumed to increase 8.5% but instead increased 5.7%.

### 5. Tuition Contract Benefits and Expenses

The tuition contract benefits and expenses represent current expenses of the Prepaid Tuition Plan. Such amounts are determined by the time value of money as a result of changes in actuarial assumptions year over year. Because the Prepaid Tuition Plan is closed to new enrollments, the revenues and expenses related to such accounts are determined directly and solely by actuarial assumptions, estimations, and economic factors, such as the actuarial interest rate, tuition growth projections, account cancellations, economic inflation, beneficiaries' choices of schools, and actual experience versus actuarial expectations. In any given year, fluctuations in actuarial assumptions and/or actual experience can significantly change revenues and expenses, and, under certain circumstances, create negative revenues and expenses. An actuarial gain in the accrued contract expense liability in the Administrative Account at June 30, 2016 created a negative tuition contract expense, which is reported as a gain, or operating revenue, of \$79,213 for the year ended June 30, 2016.

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

The following represents components of tuition contract benefits and expenses reported on the Statement of Revenues, Expenses and Changes in Net (Deficit) Position for the Year Ended June 30, 2016:

#### Tuition contract benefits

Interest growth in actuarially estimated tuition contract benefits for the year ended June 30, 2016	\$ 3,986,540
Decrease in accrued contract benefits liability due to lower tuition growth than estimated for the 2016-17 school year	(2,023,275)
Decrease in accrued contract benefits liability due to miscellaneous factors	<u>(110,299)</u>
Tuition contract benefits for the year ended June 30, 2016 (an actuarial loss on accrued contract benefits liability)	<u><u>\$ 1,852,966</u></u>

#### Tuition contract expenses

Interest growth in actuarially estimated tuition contract expenses for the year ended June 30, 2016	\$ 17,932
Decrease in accrued contract expense liability due to assumed actuarial payments during the year ended June 30, 2016	(113,478)
Increase in accrued contract benefits liability due to changes in Prepaid Tuition Plan provisions and miscellaneous factors	<u>16,333</u>
Tuition contract expenses for the year ended June 30, 2016 (an actuarial gain on accrued contract benefits liability and reported as operating revenue)	<u><u>\$ (79,213)</u></u>

### **6. Compensated Absences and Other Postemployment Benefits**

#### **Compensated Absences**

The accruals for compensated absences represent obligations that may arise for earned but unused annual leave as of June 30, 2016. Current liabilities of \$63,355 represent obligations for compensated absences that can become due within a year from June 30, 2016.

The accrued compensated absences liability at June 30, 2016, and changes for the fiscal year then ended are as follows:

Beginning balance, June 30, 2015	\$ 63,751
Addition: Annual leave earned	33,659
Reduction: Annual leave used	(31,236)
Reduction: Decrease in employer contribution for the year ended June 30, 2017	<u>(819)</u>
Ending balance, June 30, 2016	<u><u>\$ 65,355</u></u>

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

### **Other Postemployment Benefits Plan Description**

The State of West Virginia sponsors the West Virginia Other Postemployment Benefits Plan (the “OPEB Plan”), a cost-sharing multiple-employer defined benefit postemployment plan administered by the West Virginia Public Employees Insurance Agency (the “PEIA”), to provide medical benefits to retired state and local government employees. Chapter 5, Article 16D of the West Virginia Code created the West Virginia Retiree Health Benefits Trust Fund (the “RHBT”) and assigns the authority to administer the plan to PEIA. The PEIA issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report can be obtained by writing to PEIA, 1900 Kanawha Boulevard East, Charleston, WV 25305, or by calling (304) 558-7850.

### **Other Postemployment Benefits Plan Funding Policy**

The State Code requires the OPEB Plan to bill the participating employers 100.0% of the Annual Required Contribution (“ARC”), an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month. The latest OPEB actuarial valuation was performed as of June 30, 2015, and the ARC amounts were applied prospectively to the fiscal year beginning July 1, 2015.

The Program’s ARC to the OPEB Plan was \$30,888, \$23,340, and \$22,680, and the Program paid premiums of \$10,925, \$12,236, and \$11,792, which represented 35.4%, 52.4%, and 52.0%, of the ARC, respectively, for the years ending June 30, 2016, 2015, and 2014. As of June 30, 2016 the Program has recorded an OPEB liability of \$229,759.

## **7. Retirement Benefits**

### ***General Information about the Retirement Plan***

#### *Retirement Plan Description*

The Program contributes to the Public Employees Retirement System (the “PERS”), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (the “CPRB”) pursuant to Chapter 5, Article 10D of the West Virginia Code. The CPRB issues a publicly available financial report that includes financial statements and required supplementary information for the PERS. That report can be obtained at the CPRB’s internet address <http://www.wvretirement.com/> or by writing to CPRB, 4101 MacCorkle Avenue Southeast, Charleston, WV 25304.

#### *Benefits Provided*

The PERS provides retirement, disability and death benefits to plan members and beneficiaries.



## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For all employees hired July 1, 2015 and later, qualification for normal retirement is age 62 with 10 years of service or at least age 55 with age and service equal to 80 or greater. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the highest annual compensation during any period of three consecutive years within the last fifteen years of earnings. For all employees hired July 1, 2015 and later, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired July 1, 2015 and later, this age increases to 64.

Disability benefits shall not be less than 50% of a member's FAS. At age 65 the benefit is calculated on actual years of service and may be reduced, but the straight life benefit or equivalent may not be less than 20% of FAS.

For death benefits, the PERS members may select beneficiary options based only upon the specific category that describes his or her particular circumstance at the time a beneficiary form is completed (i.e., date of hire, years of service and marital status).

#### *Contributions*

The PERS is funded by employee or member contributions and employer contributions. Although contributions are not actuarially determined, actuarial valuations are performed to assist the Legislature in establishing appropriate contribution rates. Current funding policy requires contributions, consisting of member contributions of 4.5% of covered payroll and employer contributions of 13.5%, 14.0%, and 14.5% for the years ended June 30, 2016, 2015, and 2014, respectively. All members hired July 1, 2015 and later, will contribute 6% of annual earnings. Effective July 1, 2016 employer contributions will be 12%. The Program's contribution to the PERS was \$47,298, \$38,263 and \$49,346 for the years ended June 30, 2016, 2015 and 2014, respectively.

#### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016, the Program reported a liability of \$112,537 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The Program's proportion of the net pension liability was based on a projection of the Program's long-term share of contributions to the PERS relative to the projected contributions of all participating employers in the PERS. At June 30, 2015, the Program's proportion was 0.0249%, which was a decrease from its proportion of 0.0254% as of June 30, 2014.

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

For the year ended June 30, 2016, the Program recognized pension expense of \$10,750. At June 30, 2016, the Program reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,016	\$ -
Changes of assumptions	-	13,536
Net difference between projected and actual earnings on pension plan investments	34,335	59,012
Changes in proportion and differences between Program contributions and proportionate share of contributions	-	67,618
Program contributions subsequent to the measurement date	47,298	-
Total	\$ 104,649	\$ 140,166

The \$47,298 reported as deferred outflows of resources related to pensions resulting from Program contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

#### Year ended June 30:

2017	\$ (30,725)
2018	(30,725)
2019	(29,950)
2020	8,585

#### *Actuarial Assumptions*

The total pension liabilities in the June 30, 2015 and 2014 actuarial valuations were determined using the following assumptions, applied to all periods included in the measurement:

	<u>2015</u>	<u>2014</u>
Inflation	1.9%	2.2%
Salary increases	3.0 – 6.0%	4.25 – 6.0%
Investment rate of return	7.5%	7.5%

Mortality rates in the June 30, 2015 and 2014 actuarial valuations were determined using the following assumptions:

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

	<u>2015</u>	<u>2014</u>
Healthy males	110% of RP-2000 Non-Annuitant, Scale AA	1983 GAM male
Healthy females	101% of RP-2000 Non-Annuitant, Scale AA	1971 GAM female, set back 1 year
Disabled males	96% of RP-2000 Disabled Annuitant, Scale AA	1971 GAM male, set forward 8 years
Disabled females	107% of RP-2000 Disabled Annuitant, Scale AA	Revenue Ruling 96-7 disabled female table

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014, while the assumptions for the June 30, 2014 valuation were based on the period July 1, 2004 through June 20, 2009.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity	27.5%	7.6%
International equity	27.5	8.5%
Fixed income	15.0	2.9% - 4.8%
Real estate	10.0	6.8%
Private equity	10.0	9.9%
Hedge funds	10.0	5.0%
Total	100.0%	

#### *Discount Rate*

The discount rate used to measure the total pension liability was 7.5%. The projections of cash flows used to determine the discount rates assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the fiduciary net position of the pension plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liabilities. There were no changes in the discount rates between measurement dates.

### *Sensitivity of the Program's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Program's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Program's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Program's proportionate share of the net pension liability (asset)	\$ 259,539	\$ 112,537	\$ (11,658)

### **8. Transactions with State Treasurer's Office**

The State Treasurer's Office provides various administrative services at no cost to the Program and pays certain administrative costs on behalf of the Program. Such administrative services and costs were not determinable for the year ended June 30, 2016 because they were blended in with the overall operations of the State Treasurer's Office.

### **9. Risk Management**

The Program is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

The Program has obtained health coverage for its employees through PEIA. PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active and retired employees of the State of West Virginia and various related State and non-State agencies. Additionally, the Program has obtained coverage for job-related injuries through its participation in the private, employer-owned mutual insurance company BrickStreet Insurance. There have been no workers' compensation claims since the inception of the Program.

Furthermore, the Program uses the West Virginia State Board of Risk and Insurance Management, which provides a public entity risk pool, to obtain coverage in the amount of \$1,000,000 per occurrence for general liability and property damage. There have been no claims since the inception of the Program.

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

### 10. Net Position Deficiency

The Prepaid Tuition Plan has a net position deficiency of approximately \$13,071,484 as of June 30, 2016. This deficiency was largely caused by investment losses in fiscal years 2002, 2008 and 2009, unexpected tuition increases in the 2002-2003 and 2004-2005 school years, changes in prior years of estimates of future investment rate of return and tuition growth, and significant adjustments in actuarial assumptions in fiscal year 2008. Although the Prepaid Tuition Plan was on the road to recovery from the impact of those past economic events, the deficit grew in fiscal years 2015 and 2016 primarily because of actuarial losses related to investment performance being less than projected, and because of changes in actuarial assumptions in fiscal year 2015 related to projected high tuition increases for the next seven years.

The Program's ability to pay obligations of the Prepaid Tuition Plan is dependent on long-term investment programs and adequate levels of future cash flows. Management sought and received support from the State Legislature in the form of a pledge of assets from the State Unclaimed Property Trust Fund to support payment of Prepaid Tuition Plan benefits. In March 2003, the Legislature created the Prepaid Tuition Trust Escrow Account to guarantee payment of Prepaid Tuition Plan contracts. Under the legislation, the Escrow Account will receive transfers of \$1,000,000 from the State Unclaimed Property Trust Fund each year there is an actuarially determined unfunded liability of the Prepaid Tuition Plan. An additional one-time transfer of \$8,000,000 from the Unclaimed Property Trust Fund was authorized for July 2009. All earnings on the transferred funds will remain in the Escrow Account. In the event the Prepaid Tuition Plan is unable to cover the amount of money needed to meet its current obligations, funds may be withdrawn from the Escrow Account to meet those obligations. The independent actuarial valuation as of June 30, 2016 estimates that the Prepaid Tuition Plan will exhaust its investment funds during fiscal year 2021 and will then need to begin drawing from the Escrow Account to pay its obligations.

Beginning in December 2003, funds totaling \$18,254,008 have been transferred to the Escrow Account because the Prepaid Tuition Plan had actuarial deficits in fiscal years 2003-15. The funds were invested and have had a net investment gain of \$1,564,804 for the thirteen years ended June 30, 2016, leaving the account with a balance of \$19,818,812 at June 30, 2016. There was \$1,000,000 transferred in fiscal year 2016 because of the actuarial unfunded liability at the end of fiscal year 2015. Because there was an actuarially determined unfunded liability of \$13,071,552 in the Prepaid Tuition Plan as of June 30, 2016, an additional \$1,000,000 is expected to be transferred from the Unclaimed Property Trust Fund to the Escrow Account on or before December 15, 2016, in accordance with the provisions enacted by the Legislature. Funds transferred or to be transferred into the Escrow Account do not affect the actuarial valuation of the Prepaid Tuition Plan and are not included in the Prepaid Tuition Plan's basic financial statements. The State reports the Escrow Account in the general fund in its financial statements as unrestricted cash.

Effective March 8, 2003, the West Virginia Legislature closed the Prepaid Tuition Plan to new contracts. According to State Code (§18-30-6 (g)), closing the plan to new contracts shall not mean that the Prepaid Tuition Plan is closed and shall not affect any contracts in effect on March 8, 2003. Contract holders will continue to pay any amounts due, and the Prepaid Tuition Plan will continue to pay all benefits due.

During fiscal year 2015, the board voted to close the Prepaid Tuition Plan on June 30, 2022. Any funds not distributed to account holders or beneficiaries who cannot be located at that time will be transferred to the

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

West Virginia Unclaimed Property Division where the rightful owner can claim the funds at any time. The unclaimed funds will cease to be the responsibility of the Program. If at any time on or before June 30, 2022, the Prepaid Tuition Plan should exhaust its funds, any funds needed to pay benefits and terminations will be drawn from the Escrow Account. Once the Prepaid Tuition Plan is terminated and all rightful unclaimed funds are transferred out of the Program, the Escrow Account will be dissolved and all remaining funds in the account will be transferred to the State.

Management believes that the Prepaid Tuition Plan will continue to have sufficient liquid resources to meet its obligations as they become due through June 30, 2017. The accompanying financial statements do not reflect any adjustments that might result should management's actions to eliminate the net position deficiency fail to be successful.

### **11. Significant Accounting Policies - Savings Plan**

#### **Basis of Accounting**

As a fiduciary fund, the Savings Plan's financial statements are presented on the flow of economic resources measurement focus and the accrual basis of accounting. As mentioned in Note 2, the Savings Plan is a private-purpose trust fund, which is a type of fiduciary fund. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support a government's own programs. A private-purpose trust fund is a fiduciary fund used to report all trust arrangements, other than pension (and other employee benefit) trust funds and investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. Revenues mainly are derived from investment income. Expenses consist primarily of investment expenses and administrative costs associated with the Savings Plan.

#### **Security Transactions and Investment Income**

Security transactions of the Savings Plan are recorded on the trade date (date the order to buy or sell is executed). Dividend income and capital gain distribution from the underlying funds, if any, are recorded on the ex-dividend date. Realized gains and losses on securities transactions are computed on the basis of identified cost.

Investments in the underlying funds are carried at the closing net asset value per share of each underlying fund on the day of valuation.

The Savings Plan contains a guaranteed investment contract named the SMART529 Stable Value Fund. This fund is managed by INVESCO International. The contract has a guaranteed interest rate that resets quarterly. Following the guidance and provisions of GAAP, the guaranteed investment contract is a nonparticipating contract in which the redemption terms of the contract do not consider current market rates. The nonparticipating guaranteed investment contract is valued at contract value (i.e., cost plus accrued interest) as required under the current governmental accounting standards.

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Financial Statements (Continued)

### Units

Contributions by a participant are evidenced through the issuance of units in the particular portfolio or fund. Contributions and withdrawals are subject to terms and limitations defined in the participation agreement between the participant and the Savings Plan. Contributions are invested in units of the assigned portfolio or fund on the same day as the credit of the contribution to the participant's account. Withdrawals are based on the unit value calculated for such portfolio or fund on the day that the withdrawal request is accepted. The earnings portion of non-qualified withdrawals, in addition to applicable federal and state income tax, may be subject to a 10% non-qualified withdrawal penalty to be withheld from the withdrawal.

### Expenses

Expenses in the Savings Plan financial statements reflect investment management fees, and distribution and administrative charges.

### Fair Value Measurement

Hartford Life invests and manages the Savings Plan investments in 53 different portfolios for the Program. Each portfolio, in turn, is either a mutual fund or contains multiple mutual funds. Except for the SMART529 Stable Value Fund, as discussed below, investments are reported at fair value, which is the same as the value of the pool shares, and are accounted for by the Savings Plan accordingly, with changes in the fair value included in investment earnings.

As discussed in Note 3, GASB Statement No. 72 establishes classification of fair value measurements of investments within a fair value hierarchy, which categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs – Inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs – Unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As of the year ended June 30, 2016, all investment securities within the portfolios, except for the SMART529 Stable Value Fund, were measured at fair value using Level 1 inputs.

The SMART529 Stable Value Fund is a synthetic guaranteed investment contract, which is a form of derivative instrument, and accordingly is reported at contract value in accordance with GAAP. Changes in contract value are included in investment earnings. The fair value and the contract value of the SMART529 Stable Value Fund as of June 30, 2016 are as follows:

## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

	Fair Value	Contract Value
Underlying investments	\$ 363,436,933	\$ 351,474,805
Wrap contract	-	-
Total SMART529 Stable Value Fund	\$ 363,436,933	\$ 351,474,805

Various portfolios include the SMART529 Stable Value Fund as part of their families of underlying investments. Additionally, the SMART529 Direct Stable Value Fund and The Hartford SMART529 Stable Value Fund are standalone investment options that contain only the SMART529 Stable Value Fund.

The following represents a calculation of the net change in the carrying value of investments during the year ended June 30, 2016:

Carrying value at end of year	\$ 2,232,967,521
Less cost of investments purchased during year	(604,220,276)
Plus cost of investments redeemed during year	500,230,945
Less carrying value at beginning of year	(2,265,287,374)
Change in carrying value of investments during year	\$ (136,309,184)

The Program has adopted an investment policy for the Savings Plan that requires blended benchmarks for the various funds and portfolios. While the diversified benchmarks represent the diversification of the funds and portfolios – and diversification in general results in risk reduction – the investment policy does not specifically address custodial credit risk, credit risk, concentration credit risk, interest rate risk or foreign currency risk. Investments in the Savings Plan represent units of mutual funds rather than specific securities, and as such are not exposed to those risks. Neither the Program, the Savings Plan, nor the funds and portfolios have been rated for credit risk by any organization.

#### **Related Parties and Fund Managers and Advisors**

**SMART529 WV Direct College Savings Plan** The Vanguard Group, Inc. (“Vanguard”), through its Equity Investment Group, serves as the investment adviser to all of the underlying funds, except for the SMART529 Stable Value Fund, which is managed by Invesco Advisers, Inc. (“Invesco”). Hartford Funds Management Company, LLC (“HFMC”), which is a wholly owned indirect subsidiary of The Hartford, is the principal underwriter and distributor for the plan.

**The Hartford SMART529 College Savings Plan** All of the underlying funds except the SMART529 Stable Value Portfolio and the MFS Global Equity Fund are managed by HFMC. The SMART529 Stable Value portfolio is managed by Invesco. Massachusetts Financial Services Company is the investment advisor for the MFS Global Equity Fund.

Wellington Management Company, LLP (“Wellington Management”) is investment sub-advisor to The Hartford Total Return Bond Fund, The Hartford Inflation Plus Fund, The Hartford High Yield Fund, The Hartford Capital Appreciation Fund, The Hartford Small Cap Growth Fund, The Hartford MidCap Fund, The Hartford MidCap Value Fund, The Hartford Dividend and Growth Fund, The Hartford Growth Opportunities Fund, The Hartford Small Company Fund, The Hartford Equity Income Fund, The Hartford



## West Virginia College Prepaid Tuition and Savings Program

### Notes to Financial Statements (Continued)

International Opportunities Fund, The Hartford International Small Company Fund, The Hartford Global Real Asset Fund, The Hartford Global All Asset Fund, The Hartford Emerging Markets Research Fund, The Hartford Balanced Income Fund, The Hartford Strategic Income Fund, The Hartford Unconstrained Bond Fund, and The Hartford World Bond Fund.

**SMART529 Select College Savings Plan** Dimensional Fund Advisors is investment advisor to the underlying DFA portfolios in the SMART529 Select College Savings Plan.

Hartford Life and the West Virginia State Treasurer's Office provide administrative services.

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## Required Supplementary Information

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Schedule of the West Virginia College Prepaid Tuition and Savings Program's  
Proportionate Share of the Net Pension Liability

	Fiscal Year Ended June 30	
	2016	2015
Program's proportion of the net pension liability	0.0202%	0.0254%
Program's proportionate share of the net pension liability	\$ 112,537	\$ 93,793
Program's covered-employee payroll	\$ 415,043	\$ 428,032
Program's proportionate share of net pension liability as a percentage of its covered-employee payroll	27.11%	21.91%
Public Employees Retirement System net position as a percentage of the total pension liability	91.29%	93.98%

All amounts reported are presented as of the measurement date, which is one year prior to the fiscal year dates indicated.

*See Independent Auditor's Report and Notes to Required Supplementary Information*

Schedule of the West Virginia College Prepaid Tuition and Savings Program's Contributions to  
the West Virginia Public Employees Retirement System

	Fiscal Year Ended June 30			
	2016	2015	2014	2013
Contractually required contribution	\$ 47,298	\$ 38,263	\$ 49,346	\$ 54,023
Contributions in relation to the contractually required contribution	(47,298)	(38,263)	(49,346)	(54,023)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
 Program's covered-employee payroll	 \$ 353,317	 \$ 375,043	 \$ 408,032	 \$ 450,816
Contributions as a percentage of covered-employee payroll	13.39%	10.20%	12.09%	11.98%

*See Independent Auditor's Report and Notes to Required Supplementary Information*

# West Virginia College Prepaid Tuition and Savings Program

## Notes to Required Supplementary Information

### **1. Trend Information Presented**

The accompanying schedules of the Program's proportionate share of the net pension liability and contributions to PERS are required supplementary information to be presented for 10 years. However, until a full 10-year trend is compiled, information is presented in the schedules for those years for which information is available.

### **2. Plan Amendment**

The PERS was amended to make changes which apply to new employees hired after July 1, 2015 as follows:

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For employees hired after July 1, 2015, qualification for normal retirement is 62 with 10 years of service or at least age 55 with age and service equal to 80 or greater.
- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired after July 1, 2015 average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired after July 1, 2015, this age increases to 64.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired after July 1, 2015, are required to contribute 6% of annual earnings.

*See Independent Auditor's Report*

### 3. Changes in Assumptions

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, several assumptions were changed for the actuarial valuation for the year ending June 30, 2015 as follows:

	2015	2014
Projected salary increases:		
State	3.0 – 4.6%	4.25 – 6.0%
Nonstate	3.35 – 6.0%	4.25 – 6.0%
Inflation rate	1.9%	2.2%
Mortality rates:		
Healthy males	110% of RP-2000 Non-Annuitant, Scale AA	1983 GAM male
Healthy females	101% of RP-2000 Non-Annuitant, Scale AA	1971 GAM female, set back 1 year
Disabled males	96% of RP-2000 Disabled Annuitant, Scale AA	1971 GAM male, set forward 8 years
Disabled females	107% of RP-2000 Disabled Annuitant, Scale AA	Revenue Ruling 96-7 disabled female table
Withdrawal rates:		
State	1.75 – 35.1%	1.0 – 26.0%
Nonstate	2.0 – 35.8%	2.0 – 31.2%
Disability rates	0.0 – 0.675%	0.0 – 0.8%

*See Independent Auditor's Report*



## Other Financial Information

The following information is presented for the purpose of additional analysis and is not a required part of the financial statements of the Program. This section shows selected financial information of the Program required by the State of West Virginia's Financial Accounting and Reporting Section for use in preparing the State's comprehensive annual financial report.

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Enterprise Funds of the  
West Virginia College Prepaid Tuition and Savings Program

Deposits Disclosure

Form 7

June 30, 2016

	<b>Carrying Amount</b>	<b>Restricted Carrying Amount</b>	<b>Total Carrying Amount</b>	<b>Bank Balance</b>	<b>Insured Amount</b>	<b>Collateralized Amount</b>	<b>Uncollateralized Amount</b>
Cash with Treasurer	\$2,289,805	\$ -	\$2,289,805	\$ -	\$ -	\$ -	\$ -
Cash in outside bank account	-	-	-	2,561,939	2,561,939	-	-
<b>Total</b>	<b>\$2,289,805</b>	<b>\$ -</b>	<b>\$2,289,805 (1)</b>	<b>\$2,561,939 (1)</b>	<b>\$2,561,939</b>	<b>\$ -</b>	<b>\$ -</b>

(1) Agrees to audited statement of net (deficit) position as follows:

Cash with Treasurer	\$ 2,289,805
Cash in outside bank account managed by Hartford Life	<u>2,561,939</u>
	<u>\$ 4,851,744</u>

*See Independent Auditor's Report*

Enterprise Funds of the  
West Virginia College Prepaid Tuition and Savings Program

Investments Disclosure

Form 8

June 30, 2016

	Reported Amount Unrestricted	Reported Amount Restricted	Fair Value Measurements Using					Total Reported Value
			Level 1	Level 2	Level 3	Fair Value	Cost Value	
Investments with Investment Mgmt Board (IMB) <b>Per wvOASIS Opening Balance Report</b>	\$ 54,693,436 *	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Earnings not Posted to wvOASIS As of 6/30/16	254,434							
Investments with Board of Treasury Investments (BTI) <b>Per Opening Balance Report</b>								
Investment Earnings not Posted to wvOASIS As of 6/30/16								
<b>Investments Outside IMB:</b>								
U.S. Treasury Obligations								
U.S. Government Agencies								
Other Government Bonds								
Corporate Bonds								
Corporate Stocks								
Mutual Bond Funds								
Mutual Stock Funds								
Mutual Money Market Funds								
Commercial Paper								
Bank Investment Contract								
Guaranteed Investment Contract								
Repurchase Agreements								
State/Local Gov't Securities								
Certificates of Deposit (Negotiable)								
Other Investments (describe):								
<b>Total Outside Investments</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

An additional \$11,027 is reported as investment earnings from an outside bank account in the financial statements, but are not included in the amounts above.

\* The Program does not own individual securities or funds. The Program owns shares in investment pools at the West Virginia Investment Management Board (the "IMB"), and the values of those shares are measured according to the total values of the pools. Within those pools, the IMB measures the fair values of the securities and categorizes them by the fair value hierarchy required by GAAP. See Note 3 to these financial statements for a discussion of the IMB fair value measurement of the pools in which the Program is invested.

*See Independent Auditor's Report*

Enterprise Funds of the  
West Virginia College Prepaid Tuition and Savings Program

Deposits and Investments Disclosure

Form 8A

June 30, 2016

Reconciliation of cash, cash equivalents, and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits

Cash and cash equivalents as reported on statement of net (deficit) position	\$ 4,851,744 (1)
Less cash equivalents disclosed as investments	<u>-</u>
Carrying amount of deposits as disclosed on Form 7	<u>\$ 4,851,744</u>

Investments

Investments as reported on statement of net (deficit) position	\$ 54,947,940 (1)
Add cash equivalents disclosed as investments	<u>-</u>
Reported amount of investments as disclosed on Form 8	<u>\$ 54,947,940</u>

(1) Agrees to the audited statement of net (deficit) position.

*See Independent Auditor's Report*

Fiduciary (Private-Purpose Trust) Fund of the  
West Virginia College Prepaid Tuition and Savings Program

Investments Disclosure

Form 8

June 30, 2016

	Reported Amount Unrestricted	Reported Amount Restricted	Fair Value Measurements Using					Total Reported Value	Credit Ratings		
			Level 1	Level 2	Level 3	Fair Value	Cost Value		Standard & Poor's	Moody's	Fitch
Investments with Investment Mgmt Board (IMB) <b>Per wvOASIS Opening Balance Report</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Investment Earnings not Posted to wvOASIS As of 6/30/16											
Investments with Board of Treasury Investments (BTI) <b>Per Opening Balance Report</b>											
Investment Earnings not Posted to wvOASIS As of 6/30/16											
<b>Investments Outside IMB:</b>											
U.S. Treasury Obligations											
U.S. Government Agencies											
Other Government Bonds											
Corporate Bonds											
Corporate Stocks											
Mutual Bond Funds											
Mutual Stock Funds											
Mutual Money Market Funds											
Commercial Paper											
Bank Investment Contract											
Guaranteed Investment Contract											
Repurchase Agreements											
State/Local Gov't Securities											
Certificates of Deposit (Negotiable)											
Other Investments (describe):											
SMART529 Investment Portfolios *		2,232,967,521	1,881,492,716			1,881,492,716	351,474,805	2,232,967,521			
<b>Total Outside Investments</b>	\$ -	\$2,232,967,521	\$1,881,492,716	\$ -	\$ -	\$1,881,492,716	\$351,474,805	\$2,232,967,521	N/A	N/A	N/A

Investments of the Fiduciary Fund represent shares of mutual funds rather than specific securities and are not rated, and they are not exposed to interest rate risk or foreign currency risk.

\* As of the year ended June 30, 2016, all investment securities within the Program's Fiduciary Fund were measured at fair value using Level 1 inputs, except for the SMART529 Stable Value Fund, which is measured at contract value of \$351,474,805. See Note 11 to these financial statements for a discussion of the fund.

*See Independent Auditor's Report*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the West Virginia College Prepaid  
Tuition and Savings Program  
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the West Virginia College Prepaid Tuition and Savings Program (the Program), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated November 10, 2016. Our report includes reference to other auditors who audited the financial statements of the West Virginia College Prepaid Tuition and Savings Program Savings Plan Trust Fund as described in our report on the Program's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

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

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

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

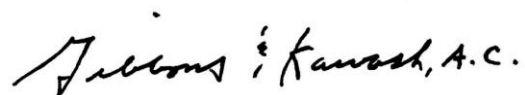


## Compliance and Other Matters

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

## Purpose of this Report

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



Charleston, West Virginia  
November 10, 2016